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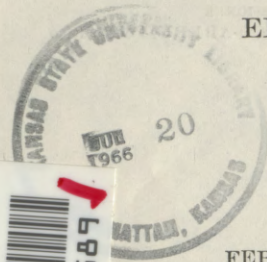
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PROHIBIT TRADING IN IRISH POTATO FUTURES ON COMMODITY EXCHANGES

GOVERNMENT
Storage

HEARINGS BEFORE THE SUBCOMMITTEE ON DOMESTIC MARKETING AND CONSUMER RELATIONS OF THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES EIGHTY-NINTH CONGRESS



SECOND SESSION
ON

H.R. 6006

FEBRUARY 3, 4, MAY 16 AND 17, 1966

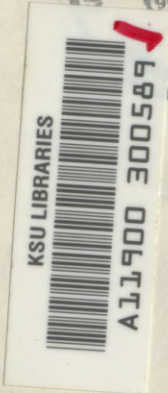
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U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1966



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PROHIBIT TRADING IN IRISH POTATO FUTURES

THURSDAY, FEBRUARY 3, 1966

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

The subcommittee met, at 10:10 a.m., pursuant to notice, in room 1302, Longworth House Office Building, Washington, D.C., Hon. Spark M. Matsunaga (chairman of the subcommittee) presiding.

Present: Representatives Matsunaga, Foley, Greigg, Mrs. May, and Burton of Utah.

Also present: Martha Hannah, staff; John J. Heimburger, general counsel; Hyde H. Murray, assistant clerk; and Fowler C. West, staff.

Mr. MATSUNAGA. The meeting of the Subcommittee on Domestic Marketing and Consumer Relations will now come to order.

We do not have a quorum present at the moment, and I am sure that the other members will be in soon, but we do have the minority represented.

I want to introduce the members of the subcommittee, this being the first public meeting of this subcommittee for this session.

We have two of our members present and I would like to present them at this time: To my left is Mrs. May of Washington and Mr. Burton of Utah.

Mr. Purcell is out of town, I understand. Mr. Teague is tied up in another executive meeting. The others, no doubt, have been delayed by the snow. It took me an hour and 15 minutes this morning to come in, where normally it takes me about a half an hour.

In order that we may be oriented toward a better understanding of the business at hand, permit me now to make a brief opening statement.

In 1958, Congress passed H.R. 376, prohibiting trading in onion futures.

During the same Congress, the House Committee on Agriculture had before it, but did not take action on, a bill to prohibit futures trading in potatoes. There is some difference of opinion as to whether or not the law prohibiting trading in onion futures has improved the lot of onion producers.

Be that as it may, there have been introduced in each Congress since 1958 one or more bills to prohibit trading in potato futures.

In 1961 a bill to prohibit trading in potato futures was the subject of an informal hearing by the Domestic Marketing Subcommittee but was not acted upon by the committee.

In the 88th Congress, a similar bill was introduced on the first day of the session and was the subject of extensive hearings in April of 1963.

I see the author of that bill here this morning, my former colleague, Congressman McIntire of Maine.

The bill, H.R. 904, was reported favorably to the House by the full Committee on Agriculture on September 24, 1963, but was not brought to a vote in the House because of the failure of the Rules Committee to grant a rule on the bill.

So here we are again to consider the subject of trading in potato futures, specifically, the bill H.R. 6006, introduced by our distinguished colleague from Maine, Mr. William Hathaway. Potato futures are traded primarily in the New York Commodity Exchange and involve almost exclusively Maine potatoes, so it is appropriate that this matter has been pressed upon this subcommittee by the gentlemen from Maine.

The 2 days of hearings scheduled at this time have been set up at this particular date in order to accommodate potato producers from many parts of the country who are here to attend another meeting.

It is my understanding that those desiring to be heard favor controls. Accordingly, the scheduled 2 days of hearings are being limited to those who favor enactment of this bill. Those who oppose the bill will be heard at a later date.

Before we proceed any further, I would like to present to you the Congressman from the State of Washington, Mr. Tom Foley.

Our first action this morning is to file, of course, the bill in the record introduced by Mr. Hathaway, H.R. 6006, and a report from the Department of Agriculture dated August 4, 1965, and signed by the Secretary of Agriculture, Mr. Orville Freeman.

(H.R. 6006, introduced by Mr. Hathaway, and the Department report dated August 4, 1965, follow:)

[H.R. 6006, 89th 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. Notwithstanding the foregoing, such futures trading shall be permitted in the case of any future in which trading has been initiated on or before the date of enactment of this Act, but in no event shall such trading be permitted in the case of any future which would mature more than twelve calendar months after the calendar month in which this Act is enacted. 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.

DEPARTMENT OF AGRICULTURE,
Washington, D.C., August 4, 1965.

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 H.R. 6006.

The bill seeks to prohibit trading in futures contracts for Irish potatoes. In effect, this relates to futures calling for delivery of Maine-grown potatoes, since futures trading in potatoes of other origins is negligible.

A futures market exists to provide services for persons engaged in the production, distribution, and marketing of a given commodity. Those services include the channeling into one place, the market, of the many factors of supply and demand; evaluation of these factors; and wide dissemination of the resulting futures prices. The futures market also, through the participation of speculators, provides persons

handling the actual commodity an opportunity through hedging to decrease the price risks which are inherent to the ownership of the commodity.

Studies and surveys made by the Department indicate that the futures market in Maine-grown Irish potatoes, conducted by the New York Mercantile Exchange, provides these services satisfactorily. The potato futures market is sufficiently large and broad based to constitute a representative market. Available data indicate that persons engaged in growing, financing, and handling the Maine crop make considerable use of the futures market, and volume of trading has increased over the years. The volume of trading and level of open contracts in the past year were of record size, and traders in Maine making use of the market increased.

The following table shows the composition of the market on the dates of the two most recent surveys made by the Department:

Area and date	Speculative			Hedging		
	Number of traders	Positions (in carlots)		Number of traders	Positions (in carlots)	
		Long	Short		Long	Short
Total market:						
Oct. 31, 1963	747	4, 229	2, 315	178	1, 932	3, 846
Dec. 31, 1964	2, 332	13, 114	7, 338	723	6, 168	11, 944
Maine:						
Oct. 31, 1963	61	350	170	91	589	2, 870
Dec. 31, 1964	67	464	145	592	1, 285	9, 178

Beginning with the January 1964 future, the Maine potato contract has provided for delivery in carlots at Maine shipping points. This has improved the contract for Maine growers and shippers, and provides a conveniently positioned source of supply for processors and dealers. In May 1964, a record number of cars were delivered, mostly by small traders; and 88 percent of the persons making delivery were located in Maine.

As already noted, the exchange appears to perform satisfactorily in crystallizing market information and in disseminating futures price quotations which furnish a basis for cash trading. But it is also true that operation of spot potato markets in other producing areas, less affected by futures trading, and dealings in spot markets for commodities in which there is no future trading, indicates that this function of crystallizing market information in these other areas is being performed satisfactorily between buyers and sellers. On the question of Maine potato prices, although it appears that futures trading does not greatly alter longrun prices, in some circumstances, the prices established on the exchange are temporarily distorted away from freely competitive values, with possible short-time benefits or losses to growers and others.

The Maine Potato Council surveyed about 3,200 potato growers in 1962 and about 2,300 growers in December 1964. In both surveys the council reported that replies were received from about 55 percent of the growers; and in both surveys about 90 percent of those replying were opposed to futures trading in potatoes. The opposition vote indicates substantial objection among growers, who retain ownership of the bulk of potatoes until they are sold into distribution channels, and consequently assume most of the price risks involved. To our knowledge no survey has been conducted to determine the views of potato processors and merchandisers in Maine and elsewhere who also assume substantial price risks in handling Maine potatoes, and who have been found to be substantial users of the futures market.

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. MATSUNAGA. Our first witness at this time will be the Honorable William D. Hathaway, the author of H.R. 6006.

STATEMENT OF HON. WILLIAM D. HATHAWAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

Mr. HATHAWAY. Mr. Chairman, it is a pleasure to appear before the committee this morning in support of my bill designed to abolish the trading of futures in Irish potatoes on the New York Mercantile Exchange.

With your permission, Mr. Chairman, I have a written statement which has been distributed to all of the members of the subcommittee and I would like that entered into the record at this point, if I may.

Mr. MATSUNAGA. Without objection, it is so ordered. It will be made a part of the record at this point.

(The prepared statement of Hon. William D. Hathaway follows:)

STATEMENT OF HON. WILLIAM D. HATHAWAY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

Mr. Chairman, members of the subcommittee, I appreciate this opportunity to present a statement in support of my bill, H.R. 6006. The purpose of this bill is to prohibit futures trading in Irish potatoes. Maine potatoes are the only perishable vegetable with respect to which futures trading is now permitted on commodity exchanges.

I feel strongly that this legislation is needed to remove Maine potatoes from speculation on the futures markets as was done in the case of onions in 1958. After 15 years or more of actual experience with the operations of the potato futures market, it has become apparent to the great majority of the industry, from growers to retail outlets, that this perishable product is not adaptable to futures trading. Initially, many had hoped that futures trading would become a useful part of the marketing system as is true of the storable commodities such as grain and cotton.

However, instead of promoting orderly marketing, increasing futures activity has been accompanied by increasing demoralization of the Maine potato industry, erratic price movements unrelated to supply and demand, and a drastic deterioration of Maine's position as compared to the producing areas not involved in the futures market on the New York Mercantile Exchange.

I would like to discuss several of the ill effects that futures trading has had on the Maine potato industry.

First, futures trading in the past decade and a half has reversed the optimistic attitude which Maine growers initially held toward futures.

Despite the highly profitable year which Maine growers enjoyed in 1964-65 the overwhelming majority of potato growers are still strongly opposed to futures trading and advocate its immediate abolishment. Thirteen months ago, in a poll on this issue, 9 out of 10 Maine growers were against futures trading. I wish to stress again that this overwhelming response occurred at a time when Maine farmers were receiving the highest prices for their potatoes in over 10 years.

It is important to note that Maine's high potato prices in 1964-65 were caused in no way by futures trading. Rather, a completely unpredictable natural catastrophe, a severe frost in Idaho, accounted for a much greater demand for Maine potatoes than in the past. It is highly unlikely that this phenomenon will occur again in the near future, and it would be unfair to require Maine farmers to continue to depend on such occurrences for their livelihood.

Second, I find it strange that futures trading is limited to Maine potatoes. Why is it that the other 85 percent of the potato-producing areas in the United States do not use futures trading? If futures is an attractive method of marketing potatoes, why has every other major producing area shied away from it? It is significant to note that Maine potato prices this winter have returned to their average low range.

Obviously, these areas have found cash contracts to be a more suitable means of assuring orderly marketing and of maintaining a more stable price. I would add that the elimination of futures will have no unfavorable impact on any area.

Third, actual prices for Maine potatoes have steadily deteriorated in relation to competitive areas as futures trading has increased in Maine potatoes.

Except for the past year, Maine potato farmers have lost \$15 million each year since 1951-52 when Maine potatoes were first subjected to futures trading.

Many of the growers have become so discouraged by the futures market that they have abandoned their farms. Fourteen hundred gave up their farms in the years between 1957-64.

Growers in other areas of the country where there is no futures trading have consistently fared better than Maine growers. Before futures, the price of potatoes in Maine was approximately 88 percent of that of Idaho. As futures trading gained momentum in Maine, this relationship changed until Maine growers were receiving only 59 percent of the Idaho price. While this general price discrepancy probably reflects a usually higher price for Idaho russets as compared with Maine Katahdins, the striking increase in this discrepancy in the past 17 years has created an economic crisis which is forcing Maine potato growers out of business.

Until the 1964-65 season with its exceptional circumstances, the total debt of Maine potato farmers had been estimated at \$60 million which comes out to a \$400 debt for every acre of potatoes grown. In effect, under the present domination of futures trading, Maine potato farmers face widespread financial liquidation.

Fourth, perishable commodities such as potatoes and onions are ill suited for the mechanics of futures trading unlike more storable commodities such as grain and cotton. The perishable nature of potatoes invites price sensitivity and speculation in the marketplace. Because of this perishability, potato futures contracts are often traded several times before actual, final delivery, thus causing marked price instability. This price volatility only serves to attract reckless speculation. Therefore, most buyers are afraid to take delivery of potatoes and attempt to sell them before the delivery date.

The potato futures market has a history of price movements which cannot possibly reflect supply and demand. Changes of 40 cents per 100 pounds in one trading season or 15 cents in a few minutes can only be the result of speculators trying to outguess each other.

Fifth, futures trading inhibits orderly marketing and merchandising. One result of futures trading has been the poor quality of Maine potatoes delivered to meet the contract requirements. As the delivery date for a futures contract approaches, those traders who do not want to, or are unable to, make or receive delivery of the commodity must act quickly. As a result, traders who are short must cover by buying in their short positions and traders who are long must liquidate by selling out their long positions. The urgency of such trading to get out of the futures market often results in price movements not reflected in the cash market.

Another factor affecting potato prices as the futures contract delivery date approaches is the knowledge that deliveries will usually approach the minimum quality that meets the specifications of the contract. In futures trading, premium potatoes are seldom delivered. Consequently, as the delivery period nears, the futures price usually reflects the value of potatoes meeting the minimum delivery requirements.

I feel there is an unmistakable connection between increased price fluctuations and the expansion of futures trading. In short, the use of futures trading has tended to distort the orderly marketing of Maine potatoes. Too often the grower has hedged his potatoes on the Mercantile hoping to increase his profits. In his desire to speculate, the grower often loses sight of the factors which make up an orderly production and marketing system.

Sixth, this bill does not establish a precedent. Legislation abolishing onions futures trading was enacted by Congress in 1958.

In conclusion, I believe that legislation is the only remedy for this serious malady. It is essential that the price of Maine potatoes be established through interaction of supply and demand rather than through the cold and unrelated device of a ticker tape. The eradication of futures trading is necessary so that cash prices will no longer be tied to Mercantile prices and so that prices will no longer fluctuate from hour to hour and from minute to minute. It is time that we have an orderly flow of Maine potatoes to market which the elimination of futures will assure.

Mr. HATHAWAY. You are going to hear many witnesses testify this morning, men who have been associated with the potato industry for many years, men who have been closely associated with this particular problem for many years.

As the chairman mentioned in his introductory remarks, this is, essentially, a local problem. The only potatoes that are traded on the New York Mercantile Exchange are Maine potatoes. The vast majority, about 99 percent of Maine potatoes, are grown in the Second District, in the district which I represent in Maine and, approximately, over 90 percent of those are grown in one county, one of the nine counties in that district; namely, Aroostook County.

The gentlemen who will testify here this morning will indicate that the vast majority, over 90 percent, of the growers of potatoes in Maine want this bill enacted. They want futures trading in Maine potatoes abolished. They have felt, and they have the facts and the figures to show, that over the years, the past 15 years, such trading has been detrimental to the Maine potato farmers.

This is a matter that crosses party lines. It has bipartisan support in the State of Maine. As the chairman mentioned, my predecessor in office, the Honorable Clifford McIntire, introduced a bill similar to H.R. 6006 previously and was successful in having it reported favorably out of the committee, in the 88th Congress, only to be pigeonholed by the Rules Committee. And I am now as a member of the other party introducing and supporting the same bill. So that there is no question of partisan politics involved.

In the 88th Congress I would like to call attention of the committee to the fact that this bill did pass the other body with very little opposition.

I want, before closing my opening remarks, to thank the chairman as well as Chairman Cooley for their indulgence in allowing us to present our case this early in the session. I am in hopes that the subcommittee will be able to hear the opponents of this bill in the not too distant future, so that optimistically we may have a favorable report on this bill fairly early this session.

At this time, Mr. Chairman, with your permission, I have a written statement from Senator Muskie of Maine, which I would like to place into the record.

I understand that the members of the committee have copies of it. If they have not, I shall leave some here with you.

Mr. MATSUNAGA. Without objection, Senator Muskie's prepared statement will be made a part of the record at this point.

(The prepared statement of Senator Edmund S. Muskie follows:)

STATEMENT OF HON. EDMUND S. MUSKIE, A U.S. SENATOR FROM THE STATE OF MAINE

Mr. Chairman, thank you for the opportunity to testify in support of legislation, introduced by my able colleague from Maine, Representative Hathaway, which would bar the trading of potato futures on the mercantile exchange. I have introduced a companion measure in the Senate, S. 1477.

The same facts which led the Senate to approve this legislation in the 88th Congress are as true today as they were in 1964.

These facts are:

(1) The mechanics of futures trading have discouraged Maine potato farmers from establishing an orderly marketing program. Lack of such a program has resulted in rapid price fluctuations which often do not accurately reflect true supply and demand.

(2) Since potatoes are a perishable commodity, the temptation to encourage farmers to "roll back" their shipment to markets has resulted in the delivery of poor quality potatoes.

(3) Only Maine potato farmers are affected. Futures trading of potatoes is not in operation anywhere else in the country.

(4) Maine potato farmers have consistently voted to end the trading of potato futures. (The last vote was taken in December 1964, when 89 percent of farmers who participated in a Maine Potato Council-sponsored poll opposed the continuation of futures trading.)

(5) All major farm organizations, including the National Potato Council, are recorded in support of legislation to end the trading of potato futures.

I hope that the subcommittee will reaffirm the decision taken by the House Agriculture Committee in the 88th Congress by supporting passage of this bill. The need today is more urgent than in 1964. Each year that potato futures trading remains in effect, Maine farmers are further penalized.

Since Maine is the only State affected and since Maine farmers have repeatedly spoken in opposition to futures trading, I urge the subcommittee to approve the pending legislation. Thank you for your courtesy in permitting me to testify.

Mr. HATHAWAY. That is all I have to say at this time.

There are several witnesses here from the State of Maine and elsewhere who will give you a detailed analysis of how this futures market has adversely affected the price of Maine potatoes over the years.

Mr. MATSUNAGA. Thank you.

Are there any questions of Congressman Hathaway?

Mr. BURTON. Yes, Mr. Chairman. I would like to ask a couple of questions.

First of all, I want to compliment our colleague on his statement that he has presented, and also to express on behalf of our former colleague, Mr. McIntire, I am sure, his appreciation for your generous comments of his efforts previously on this subject.

Could you explain to me exactly how this futures business works, why it applies only to the State of Maine—why the other areas are not involved?

I read in your statement here that this would affect largely the New York Mercantile Exchange, which deals almost exclusively in Maine potatoes, and it is not quite clear to me why the New York Mercantile Exchange does not deal in Idaho potatoes, for example.

Mr. HATHAWAY. The other areas of the country simply do not use the Mercantile Exchange to market their potatoes. They use other avenues to market their potatoes. It was thought 15 years ago, when the Mercantile Exchange was first initiated, that it would be helpful to Maine potatoes. Maine potato growers got into the habit of using the board and over the years it has become a fixation in the marketing of Maine potatoes which they have not been able to break away from. Understandably so, because it is an easier market for brokers in that area and they simply have not been able to break away from it over this period of years.

Mr. BURTON. And the trading in futures causes speculation that works to the detriment of the grower, is that not right?

Mr. HATHAWAY. Yes. We feel that it does. Witnesses will present figures which will show that it is a very volatile market, that prices vary rapidly on the New York Mercantile Exchange, and that such variations do not reflect the actual supply and demand variations for potatoes.

Mr. BURTON. Thank you. That is all.

Mr. MATSUNAGA. Mrs. May, any questions?

Mrs. MAY. No questions.

Mr. MATSUNAGA. Mr. Foley?

Mr. FOLEY. I think it is a very, very helpful statement that you have presented, Mr. Hathaway.

Let me say, Mr. Chairman, that as a Member of Congress Mr. Hathaway has developed a considerable reputation for succeeding in

legislative endeavors, and sometimes against almost overwhelming odds.

I think that we should join in giving him very favorable consideration on his measure, that this committee and the Congress should, believing that it will help towards his success in achieving this measure, based on previous experience.

Mr. MATSUNAGA. He is an expert. However, I would like to keep an open mind at this time.

[Laughter.]

Mr. HATHAWAY. I would like to say that the reason that I have been successful is only because such people as Mr. Foley and others have been very helpful to me in the other legislation which Mr. Foley has in mind.

Mr. BURTON. I just want to make a comment on your statement, if I may, Mr. Chairman. That is, you mentioned that there had been enacted a bill to prevent trading in onion futures. And you make the comment here that there is some difference of opinion as to whether or not the law prohibiting trading in onion futures has improved the lot of the onion producers.

I wonder if your colleague would like to comment on that statement?

Mr. MATSUNAGA. I had hoped that someone, an expert, unlike myself, would comment on that point. That is the reason I made the statement. I am sure that we will have statements on that point. Of course, on that point there will be differences of opinion, as stated, because that is a statement made by the Secretary of Agriculture.

Mr. BURTON. There seems to be almost unanimous agreement that this would help, among the potato growers, but there is some difference of opinion among the onion growers.

Mr. MATSUNAGA. We will get some testimony here on that.

Mr. HATHAWAY. I understand from the witnesses who are going to testify that onions have fared better since the futures market on onions has been removed. There are witnesses who will testify in detail on that.

Mr. MATSUNAGA. I want to commend the gentleman from Maine for his perseverance in getting this measure before this committee. He approached me 100 times if he approached me once, and the hearing is the result of his perseverance.

There is one thing that bothers me a little bit: 90 percent of the futures deal with Maine potatoes and the report of the Department of Agriculture indicates that there has been an increase in futures trading by Maine potato growers in the last 2 years and yet you say that the majority of the Maine potato growers are against potato futures.

The point is that a voluntary withdrawal from the futures trading market should take care of this—if the overwhelming majority of the growers are against trading in futures, that could be done that way, could it not?

Mr. HATHAWAY. It is very difficult to organize individuals into a voluntary withdrawal from the mercantile exchange.

Mr. BURTON. Especially Maine individuals.

[Laughter.]

Mr. MATSUNAGA. And it is your position that they would prefer an imposition of the law to do what they want to do?

Mr. HATHAWAY. Yes; I think that you are helping them to help themselves in enacting this legislation.

Mr. MATSUNAGA. That is rather difficult to understand. It appears to me that most independent groups of people that I have come to know since coming to Congress, seem to want something else. They do not want this imposition of the law against this exchange.

Mrs. May, any questions?

Mrs. MAY. Mr. Chairman, I do want to express my compliments on your statement. I recall that our committee passed this bill on a vote of 23 to 8 when Mr. McIntire introduced it, and then it did not pass the Rules Committee.

Mr. Hathaway, you do not have to identify by individual name but I know that you are familiar with the opposition to this bill. And where the opposition came from at that time. Do you think that the situation will be any different in the Rules Committee where, again, I think that you have the biggest hurdle to overcome?

Mr. HATHAWAY. Yes, Mrs. May, I know where the opposition came from and I have good reason to believe that we will not have the opposition this time.

Mrs. MAY. Would you state the basis of that opposition when the bill did not pass the Rules Committee, just generally—would you state that?

Mr. HATHAWAY. I believe that the opposition was based upon the protection of individuals who were using the exchange at that time for speculative purposes.

Mrs. MAY. You are referring, of course, to your opposition from other States outside of the State of Maine?

Mr. HATHAWAY. Yes.

Mrs. MAY. Are you not?

Mr. HATHAWAY. Yes. I am.

Mrs. MAY. That is all I have to ask. Thank you.

Mr. HATHAWAY. You are welcome.

Mr. MATSUNAGA. Thank you, Mr. Hathaway.

Mr. HATHAWAY. Thank you.

Mr. MATSUNAGA. The next witness is Mr. Harold E. Bryant, who is the executive vice president, Maine Potato Council, and consultant to the Maine Potato Commission.

Mr. Bryant.

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

Mr. BRYANT. Mr. Chairman, on behalf of the Maine Potato Council and the growers in Maine, I want to express our appreciation for this committee holding the hearings at this time. It has made it very convenient for the industry, and we appreciate it.

I have a prepared statement which has been submitted to the committee, but with the chairman's permission I would rather speak from notes. I will not follow my paper in detail, but I hope that I can from the notes give you a little bit better impression.

Mr. MATSUNAGA. You have requested that your prepared statement be included in the record?

Mr. BRYANT. Yes, to be included in the record. We would appreciate it if you would do that, but I would like to speak from notes.

Mr. MATSUNAGA. Without objection it is so ordered, and your statement will be made a part of the record at this point.

(The prepared statement of Harold E. Bryant follows:)

TESTIMONY OF HAROLD E. BRYANT, EXECUTIVE VICE PRESIDENT, MAINE POTATO COUNCIL, AND CONSULTANT, MAINE POTATO COMMISSION

My name is Harold E. Bryant, I serve the Maine potato industry in a dual capacity as executive vice president of the Maine Potato Council and as consultant to the Maine Potato Commission.

The Maine Potato Council is a trade association representing all potato growers in the State of Maine. At present our membership is approximately 2,200 growers.

The Maine Potato Commission is a five-man commission appointed by the commissioner of agriculture of the State of Maine to administer funds collected by a self-imposed tax on potato growers to provide the industry with funds to do research, advertising, and promotion on Maine potatoes. As consultant I serve as the manager for this program. I have been serving in this capacity for approximately 4 years.

For 14 years I served as general manager of Maine Potato Growers, Inc., a cooperative sales agency that was shipping annually approximately 10,000 cars of potatoes.

More recently, during the past 10 years, I have served as vice president for a large concern on the west coast shipping all types of fresh fruits and vegetables, including potatoes from California, Florida, Idaho, and Texas.

Much of the subject matter that we will present today will be practically identical to that presented in support of H.R. 904 on April 8, 9, and 10, 1963, and in support of S. 332 on September 30, 1963. At times, in order to avoid too much repetition, we may refer to the reports of those two hearings and ask that parts of the information documented in those reports be introduced as evidence in this hearing.

However we recognize that not all the members of this subcommittee heard the testimony on the above legislation in the 88th Congress. Therefore we will review some of the more important points as well as to bring out any recent developments.

Apparently the facts previously presented were considered sound by the committees as evidenced by favorable committee reports and passage of S. 332 in the Senate and the reporting out on a favorable basis of H.R. 904.

The most important thing that has happened since I appeared before the committee approximately 2 years ago, is another poll of growers which the council took in December of 1964. We have made, over a period of years, three polls of our growers, and in each and every case by an overwhelming majority of 90 percent, the growers have asked for the abolishment of futures trading on Maine potatoes. In view of the fact that the potato industry has suffered a series of disastrous years prior to the 1964-65 shipping season, these former polls were all taken during periods of low prices.

Advocates of futures trading have maintained that the opposition of growers to this activity was merely a case of the exchange being used as the "whipping boy" because growers were suffering from low prices. We were told that if these polls were taken during periods of high prices the great majority of growers would support futures trading.

Due to an extreme shortage of potatoes, potato growers throughout the United States, including Maine, enjoyed during the 1964-65 shipping season the highest prices in a decade. During December of 1964, when prices were very high, we conducted another poll of our growers. To the surprise of some, but not to the surprise of those of us who have lived with these growers over a period of years, we found that results of this poll were practically identical to the results found in all previous polls. Actual figures were as follows: we sent out ballots to 2,292 growers, of this amount nearly 60 percent or 1,263 growers returned their ballots. Of the 1,263 ballots returned, 1,108 or approximately 90 percent of the growers replying voted that the council should continue its efforts to eliminate futures trading of potatoes and only 129 were opposed.

Bear in mind that in addition to polling the growers we asked that each and every grower give his name and address on the ballot. This may not be the most democratic manner for conducting a poll, but I believe it amply demonstrates the sincerity and seriousness with which growers consider this question.

I would like to introduce into evidence a sworn affidavit of the person who conducted this poll, reporting the manner in which the poll was conducted and the actual record of ballots received. In addition to this, I would like to submit for the record the names and addresses of all 1,263 growers who returned their ballots showing how they voted on this question.

If the committee should care to examine the record of these ballots, you will note that out of the 1,263 ballots cast, 1,108 people voted in favor of elimination of futures trading on Maine potatoes. Thus in considering our testimony we ask the committee to bear in mind that we are speaking for 90 percent of the potato growers in the State of Maine as well as 90 percent of the voting delegates to the National Potato Council's annual meeting. If conditions would permit we could have in attendance here today 1,108 potato growers from Maine who would ask this committee to relieve them of a burden that has plagued them for the past 15 years; namely, the elimination of futures trading on Maine potatoes.

When speaking of the desires of our growers in the State of Maine, may we point out that at the last regular session of the Maine State Legislature both the house and senate passed unanimously (may we underline "unanimously") a memorial petitioning the Congress of the United States to pass legislation to prohibit futures trading on Maine potatoes, which represents one of Maine's leading industries. At this time, with your permission, I would like to submit to the committee and introduce into the record this memorial.

Since we last presented information to the Congress, perhaps the most spectacular of the many spectacular performances occurring on the New York Mercantile Exchange occurred when in May 1964, one operator took delivery of all the potatoes delivered on the May contract. This involved 1,939 cars with a valuation of more than \$4 million. It was approximately twice the previous high delivery in the history of any market and attracted attention throughout the whole potato industry.

This action triggered a terrific advance in price to the profit of this one operator, but with very little value to the average grower because his crop was then sold out. Naturally growers favor an action that brings about high prices, but if one man can take action that would spectacularly drive prices up, then it is equally true that one man or a combination of men working together can take action to drive prices through the floor and this has happened in the past.

For some time prior to May 11 when this delivery took place, the futures market had been relatively quiet with prices ranging between \$2.60 and \$3 per hundred. The usual gossip and rumors were going around by short sellers in Maine, Boston, and New York, indicating that the market was expected to close out at \$2 a hundred. This figure would have resulted in a spectacular profit for those purely speculative operators who had sold short.

The Fort Fairfield (Maine) Review in its June 3, 1964, issue stated, "previously there had been pressure put on most small farmers by credit agencies and fertilizer companies to move their potatoes." This pressure was being exerted while prices were in the neighborhood of \$2.50 per hundred.

When control of the market was taken over by the single operator who took all the deliveries, the prices reflected this operation, and during the 6 trading days in May, 1964, prices advanced from a low of \$3.15 to a high of \$4.49. This compares to a figure of \$2, which the shorts had predicted would be the closing figure and which probably would have been true had it not been for the activities of this one man. However, as I have indicated, this advance followed the classic futures market pattern of being too late to do most farmers any good. What it did do, however, was to graphically demonstrate again the utter lack of basic stability in a market which at a critical time was found to be completely controlled by one man. This is a far cry from the contentions of the exchange that it provides a broad open market which reflects true supply and demand. No one with any knowledge of the subject would contend that potatoes which brought \$4.49 on May 8 were worth only \$3.15 on May 1.

Actually, what this clearly showed was that the market had been unduly depressed prior to the activities of this one individual.

While, as I have indicated, nothing to equal this has happened recently, there have been many instances where price movement has been so erratic as to make it clear that factors other than supply and demand were present in the futures market. On March 15, 1965, for example, the April contract fell 38 cents per hundred, with a 12 cents further decline the following day and a recovery of 16 cents on March 17. On April 5 the contract closed up 50 cents at \$5.45. Again, it will be noted that the high quotation came too late to do the farmers any good; again, the producers wonder why potatoes were worth only \$4.45 per hundred at

the end of March but were worth, 5 days later, \$5.60. The balance of supply and demand in the potato industry doesn't change that fast.

Futures brokers are interested entirely in the volume of trading. It makes not the slightest difference to them whether prices are high or low—they profit by situations where potential speculators are brought into the market by rumors and indications of speculative activity.

For the 12-month period ending in June 1965, the volume of trading on the New York Mercantile Exchange reached approximately 600,000 cars. The commissions on a volume of 600,000 cars would run to something in excess of \$12 million at full rates for outside traders. Actually the commissions earned would be considerably less than this figure because trading by members is at a lower rate, and trading by floor brokers operating among themselves costs even less. It would not, however, be unreasonable to estimate that commissions on the 1964-65 business would run in the neighborhood of \$6 million. No wonder the brokers and the exchange want to continue this profitable operation, but we submit that these tremendous profits for a few brokers should not overshadow the needs of 2,000 potato growers who, until the 1964-65 season suffered approximately 10 years of extremely low prices.

We believe, as do growers, that the only permanent solution to their problems is a program of orderly marketing of potatoes to the large chains, wholesalers and to the legitimate operators who are actually using potatoes. By the same token, those of us close to the marketing of the Maine potato crop know that we never can develop a satisfactory orderly marketing program as long as we have these fantastic gyrations in prices with its attending demoralization of the entire potato market.

Like some other agricultural commodities, the potato industry in Maine has suffered for many years with low net returns and the attending lack of prosperity. In an attempt to solve their economic problems the potato industry in Maine has organized a program known as "Operation Bootstrap," which is a self-help program enlisting the support of not only potato growers in the State but professional men, businessmen, newspapers, radio, TV, the Governor and the Maine State Legislature. The industry, with the support of civic groups, business and professional men, has organized committees designed to study and help correct some of the problems of the industry.

For the benefit of the committee I would like to introduce into the record the printed copy of a free ad carried by all of the local newspapers in the potato producing areas of Maine. You will note that by graphic means this ad pictures the work of these various committees that have been formed by growers and public-spirited citizens. You will note that the committees are working on such things as automation, research, orderly marketing, and a strong industry advertising and merchandising program.

All of these things our growers and other citizens of Maine can work on and we believe make changes and corrections that will help to bring our industry back to a state of prosperity. There is, however, one thing that the growers in Maine and the citizens of Maine generally are unable to do themselves, and that is to do away with the speculation and manipulation that goes on in our potato industry as a result of futures trading on the New York Mercantile Exchange.

Only the Congress of the United States can give us this relief. We urge this committee to assist us by recommending such relief to the Congress.

I stated that part of my work was that of consultant to the Maine Potato Commission. This commission supervises the expenditure of over \$300,000 being used to conduct research, advertising, and promotion on Maine potatoes. This \$300,000 comes about as a result of growers taxing themselves to provide funds for this self-help program. Approximately \$250,000 of this money is spent on industry improvement and market promotion. We have a staff of nine men traveling in the markets working with the large chains and wholesalers attempting to promote the use of Maine potatoes. Their study reveals that the large users of potatoes are not interested in speculation. Nor do they use the future market for hedging. They are interested in being provided a steady source of quality merchandise at reasonable prices based on the law of true supply and demand. These chains and other merchandisers have to plan their requirements in advance. They are kept in a continual state of confusion when confronted with a situation where the market jumps up or down as much as 35 cents in any one day. These retail establishments have to be reasonably competitive with their neighbors and yet the man who buys potatoes at 9 o'clock in the morning is at an extreme disadvantage when he finds that his neighbor who bought at 1 o'clock paid 35 cents less. Thus the self-help efforts of growers who

are taxing themselves are made ineffective and inoperative because of the activities of speculators on the New York Mercantile Exchange.

H.R. 6006, as will be brought out by testimony and statements, has the overwhelming support of the leading farm and marketing organizations across this country on both a national and regional basis. This legislation, as will be brought out in testimony and statements, has the support of the National Potato Council, American Farm Bureau Federation, the National Grange, the National Council of Farmer Cooperatives, the Farmers Union, and the United Fresh Fruit and Vegetable Association.

As will be brought out in the testimony of the executive director of the National Potato Council, at the last annual meeting of that organization 90 percent of the voting delegates from across the entire United States requested that organization to support H.R. 6006 to prohibit futures trading on Maine potatoes not only because they wanted to help Maine, but because futures trading on Maine potatoes brings about chaotic conditions in all of the other major potato producing States.

During this hearing representatives from practically all of the major potato producing States of the Union will appear in support of this legislation. When the time comes for hearings from the opponents of this legislation, I have no doubt that they will attempt to have individuals appear in opposition from some, if not all, of these major potato producing States. However, in evaluating our testimony and comparing it with the testimony of the opponents to this legislation, may we point out that most of the people appearing in favor of this legislation are representing organized groups on a State, regional, and national basis.

To show the support given this legislation by individuals and organized groups, generally, I would like, with the permission of this committee, at this time to introduce statements, letters, and petitions in support of this legislation as follows:

STATEMENTS SUBMITTED FOR THE RECORD BY H. E. BRYANT

1. Letter from John H. Reed, Governor of the State of Maine.
2. Letter from Alan T. Rains, executive vice president of the United Fresh Fruit & Vegetable Association.
3. Letter from Harry B. Caldwell, executive vice president of the Farmers Cooperative Council of North Carolina, addressed to Chairman Harold D. Cooley.
4. A letter from the Florida Potato Council of Orlando, Fla., supporting this legislation.
5. A letter from Sam Pugh & Son, potato wholesalers from Muncie, Ind., supporting this legislation.
6. A wire from the Rocky Mountain Farmers Union in support of this legislation.
7. A wire from B. Finkel & Sons of Newark, N.J., potato wholesalers.
8. A letter from Veril Baldwin & Sons, onion growers and shippers, indicating their pleasure in the fact that futures trading has been prohibited on onions.
9. A letter from Howard P. Dunlap, Marshall, Mich., onion grower and shipper.
10. A letter from W. J. Piowaty, former onion grower now interested in Florida citrus, in opposition to futures trading on perishables.
11. A letter from the Fargo Potato Co., Boston, Mass., wholesalers and suppliers of Stop & Shop, retail chain.
12. A letter from William J. McCormick, potato broker of Philadelphia, Pa., supporting this legislation.
13. A letter from A. C. Hazlett, director of procurement and merchandising, P. & C. Food Markets, Inc., Syracuse, N.Y.
14. A letter from F. H. Vahlsing, Sr., president of F. H. Vahlsing, Inc., potato receivers.
15. A letter from Northern Farms, Inc., Presque Isle, Maine, potato shippers.
16. A letter from Gilman Albair, Caribou, Maine, potato grower who formerly testified in favor of the mercantile and now finds it detrimental to the industry.
17. A letter from Floris Scholtens, onion grower, Grants, Mich.
18. A letter from Brink Muck Farms, Grant, Mich.
19. A letter from Malcolm A. Gunnerson, potato grower, Stockholm, Maine.
20. A letter from R. C. Boelter Potato Co., East Grand Forks, Minn.
21. Statement from Cole Brown, potato shipper, Foley, Ala.
22. Statement from Frank E. Mann, president, Mann's Potato Chips, Inc., of Washington, D.C.
23. Testimony by James Bishop, potato grower and lawyer, State representative, from Presque Isle, Maine, who is unable to appear before the committee today.

24. Reprint of an article appearing in the Spudman magazine, copies of which have been furnished to members of the committee.

Our request that Congress prohibit futures trading of potatoes comes about, as will be dwelt upon more fully later, because, like onions, potatoes are a perishable commodity and do not lend themselves to futures trading. We realize that futures trading with stable commodities has a very definite place in the marketing system and provides a means of hedging. However, because of the perishable nature of potatoes and because of the violent fluctuations that occur and can be further stimulated by the activities of traders, we feel that potato futures is nothing but a speculative gamble performing no economic function and certainly not providing any hedging operations that justify its continuation.

As I have stated and as will be brought out more forcibly by others, none of the large chains or wholesalers use futures trading for hedging purposes. The potato chip industry that takes approximately 25 percent of the national potato crop uses futures trading only on a very few occasions. In Maine, we have six processing plants. Only one plant has ever used the futures market for hedging operations. That plant would not account for over 10 percent of the potatoes being processed in the State of Maine. Occasionally one or two of the other processors have used futures trading purely to pick up some supplies that were being delivered on the Board which had no relationship to hedging operations.

As will be brought out by later testimony we have indications that futures trading on the New York Mercantile Exchange has been at least partially responsible for a decline in the position of the Maine potato industry as compared to other States to the extent of \$15 million a year for over 10 years, which means a cost to the State of Maine of \$150 million.

We find that the exchange is not wanted by the chains, the wholesalers, and the growers. We find that, for the most part, it provides no useful function except an opportunity for speculators to gamble.

Our growers were bitterly disappointed when this legislation failed to pass the 88th Congress. We are confident that the 89th Congress will recognize the fact that perishable commodities, such as potatoes and onions, are not adapted to futures and therefore will give our growers the relief that they have been seeking for over 6 years.

Mr. MATSUNAGA. You may proceed.

Mr. BRYANT. As the chairman has mentioned, my name is Harold E. Bryant, I am executive vice president of the Maine Potato Council.

The Maine Potato Council could best be described as a trade association for potato growers in Maine. All growers in Maine belong to the Maine Potato Council.

I am also consultant to the Maine Potato Commission. The commission is a five-man commission appointed by the commissioner of agriculture in the State of Maine to administer the funds that are raised by the industry itself with a self-imposed tax of 2 cents per barrel, that is, 155 pounds per barrel. That raises approximately \$300,000 per year, which is used by the industry for research, promotion, and advertising.

Prior to my taking the two positions I now hold, I was for 15 years the general manager of the Maine Potato Growers, Inc., a cooperative sales agency that, at that time, marketed about 10,000 cars of potatoes a year. Ten years after that time I worked with an organization that handled all other types of fresh fruits and vegetables on the west coast.

Mr. MATSUNAGA. May I interrupt you just a minute?

Mr. BRYANT. Yes.

Mr. MATSUNAGA. I notice that Congressman Walker is here. He is a member of the full Committee on Agriculture. You are invited to join us up here.

Mr. WALKER. Thank you.

Mr. MATSUNAGA. You may proceed.

Mr. BRYANT. I give you this background to show that I do have some experience, not only in potatoes, but in the marketing of all fresh fruits and vegetables.

Much of the material that is in my testimony will be submitted by other witnesses. It is the same material or similar to the material that was submitted in the last session on H.R. 904 of April 8, 9, and 10 of 1963, and on S. 332, the hearings on which were held September 30, 1963.

We will repeat, because I think that there has been a change in the subcommittee so that the people who may have heard the testimony before or, those who are on the committee now did not hear that testimony.

At this time I would like to submit, and I believe you already have it—the chairman mentioned it—a letter from the Department of Agriculture recommending—I will not say “recommending,” but giving their report to the chairman of the committee, Mr. Cooley.

I have an analysis here which I would like to submit for the record, of that report, and basically the report says this, that Maine potato growers do not want futures trading; that Maine potato growers do not need futures trading as witnessed by the fact that no other area has futures trading, 85 percent of the potatoes produced outside of Maine in these other areas get by very well without futures trading.

If I may, I might comment on the point that the chairman made in connection with Congressman Hathaway as to why growers do not voluntarily stop futures trading.

Actually, they cannot, because many of the growers do not know where their potatoes are being sold. They work through a broker or a carlot distributor. They call up—that is, the carlot distributor will call up and say, “I have an order for you.” And it is not an uncommon fact not to tell these growers where the potatoes are being shipped or who they are going to. Therefore, the grower cannot help himself. He does not know. And the brokers and the carlot distributors, of course, will go on futures trading, because it is very profitable for them.

Rather than to submit the letter which has already been introduced, I would like to submit this analysis for the record.

Mr. MATSUNAGA. Without objection, it is so ordered to be included in the record at this point.

(The document entitled “Analysis of USDA Report on H.R. 6006” follows:)

ANALYSIS OF USDA REPORT ON H.R. 6006

In its report on this legislation submitted under date of August 4, 1965, to the chairman of the House Committee on Agriculture the USDA makes two points which we believe show the desirability of eliminating futures trading in potatoes:

1. The Maine potato growers do not want futures trading.
2. The Maine potato growers do not need futures trading.

Both of these statements are, of course, abundantly supported by the record. On the first point the report mentions the 90 percent opposition expressed by the 55 percent of the growers replying to the polls. Most significant is the Department's statement that it is the “growers, who retain ownership of the bulk of potatoes until they are sold into distribution channels, and consequently assume most of the price risks involved.”

The second point covering the lack of any need for the potato futures market has also been clearly substantiated by the fact that the 85 percent of the potato producing areas, where there is no futures trading fares better than the Maine growers. In the words of the USDA “the function of crystallizing market information in these other areas is being performed satisfactorily between buyers and sellers.”

While, as stated above, it appears to us that these two points are conclusive on the need for this legislation, the USDA report also presents a tabulation of the market composition as of October 31, 1963, and December 31, 1964, which show that as of the latter date Maine growers were short futures in substantial quantities which, on the steadily rising market of 1964-65, means they were sustaining heavy losses in futures, while speculators outside of Maine (actually largely in New York and Chicago) were heavily long. In the simplest terms this means that through futures trading speculators took a substantial "cut" from the Maine growers' first reasonable profits in many years. We cannot determine the precise dollars and cents amount of this "cut," but we believe that a fair and conservative estimate would place it at not less than \$4 million, and it might easily run to double that figure, or more.

The report states that so far as the USDA knows there has been no survey of the opinions of processors and merchandisers on the subject of futures. While we feel that the growers' views and needs are paramount we have also given consideration to the other segments of the industry. As we stated in our testimony during the hearings before the 88th Congress we contacted processors accounting for 80 percent of the processing in Maine and found that none of them used futures at all.

The Maine Potato Council, on behalf of its 2,300 grower-members, has developed and presented a great quantity of statistical and factual data showing the damaging effect of futures on the industry, but we believe that the USDA report of August 4, 1965, even taken alone establishes the merits of our case.

Mr. BRYANT. Thank you. I also have with me that which I would like to submit for the record, a summary of the principal points that we have developed as to the reason for wanting to get rid of futures trading, and with the chairman's permission we would submit this summary for the record.

Mr. MATSUNAGA. Without objection it is so ordered, and it will be made a part of the record at this point.

(The document entitled "Summary of Principal Points in Support of H.R. 6006" follows:)

SUMMARY OF PRINCIPAL POINTS IN SUPPORT OF H.R. 6006

1. An overwhelming majority of growers and dealers in actual potatoes are strongly opposed to futures trading and urge its immediate elimination.

2. Futures trading in potatoes is limited to Maine. About 85 percent of the producing areas in the United States do not use futures. Elimination of futures will have no unfavorable impact on any area. This is substantiated by the USDA report of August 4, 1965, on this proposed legislation.

3. Maine's situation as regards both actual price and price stability has deteriorated in relation to competitive areas as futures activity has increased in Maine potatoes. Expressed in terms of money value the price deterioration amounts to about \$15 million per year for the 10 years 1951-52 to 1960-61. Growers in the 85 percent of the country where there is no use of futures trading have consistently fared better than those in Maine and the Maine growers' position has progressively worsened as futures speculation has tightened its hold on that market.

4. Perishable products such as potatoes and onions are not adaptable to constructive and orderly futures trading.

5. The potato futures market is used only to a negligible extent for hedging and much of this is done in a manner damaging to the price structure and to the average grower.

6. An attempt at "hedging" during the 1964-65 price advance lost an estimated \$4 million or more from Maine growers for the benefit of speculators in New York and Chicago.

7. Futures trading causes confusion, disorder, and price gyrations.

8. The potato futures market is often completely dominated and controlled by speculative interests.

9. Growers are demoralized and confused by the antics of the futures market, causes failure to make constructive efforts to solve other problems.

10. Legislation as was the case in onions is the only remedy. Those burdened with this activity cannot simply ignore it.

Mr. BRYANT. Also, I would like to submit to the committee a reprint of an article that was contained in the Spudman magazine printed in Oregon about futures trading, and some of the adverse effects of it. It shows they picked up potatoes in a highly advanced stage of decay as the result of the delivery on the futures trading market. And with the chairman's permission we will submit that.

Mr. MATSUNAGA. Is this the article by the Maine Potato Council?

Mr. BRYANT. Yes.

Mr. MATSUNAGA. It is not too lengthy an article, and unless there is objection, it is so ordered and it will be made a part of the record at this point.

(The document entitled "Maine Futures" follows:)

FUTURES—PARASITE ON MAINE'S POTATO ECONOMY

(By the Maine Potato Council)

For the past 13 years, the prices of Maine potatoes has been controlled, not by the grower, not by the shipper, but by a conglomeration of hedgers and speculators on the trading floor of the Mercantile Exchange in New York City.

For all practical purposes, every transaction in actual potatoes from Maine is related to, or completely geared to what takes place on the futures trading floor.

HOW DOES IT WORK?

Though volumes have been written on the subject, the process of future trading can be outlined fairly briefly. The actual trading is done by members of the exchange who meet on the "trading floor," "pit," or "ring" of the market. These "floor traders" or "floor brokers" bid and offer with each other in the execution of orders for future delivery of the commodity. These may be orders from the public, or from the trader's personal accounts. For example, an order to buy five carloads for a retired person in St. Petersburg, Fla., for May delivery, may meet with an equivalent order to sell for a housewife in Baltimore. In this instance, neither party had any intention of actually receiving or delivering the actual potatoes, but are speculating on future market trends. Official figures reveal that only about 1 percent of the trade in potato futures are settled by receipt or delivery of the actual product.

The persons who trade in these contracts represent nearly every line of human endeavor. A publication of the Commodity Exchange Authority of the USDA showed that as of October 26, 1962, speculative market positions in potato futures were held by 241 physicians, lawyers, teachers, and the like; 211 manufacturers, capitalists, financiers, and similar occupations; 127 retired persons; 62 housewives; 165 salesmen, purchasing agents, etc. In all 1,273 speculative accounts were reported as having market positions on that particular day. On the same date 290 accounts were shown as being those of hedgers.

Hedgers are persons whose futures market operations are for the purpose of price protection against the ownership, anticipated ownership, or other commitments involving the actual product. The simplest illustration of a hedger, is a dealer who has a stock of potatoes on hand. He sells futures in equal quantity. If the market drops, his loss on his inventory is offset by a profit on his short futures. If the market rises, he loses on his futures, but gains on the increase in value of his actual potatoes. In theory, the hedger would not care whether the general price level rose or fell. In actual fact, many traders classify themselves as hedgers to avoid certain regulations and disadvantages which apply to speculative operations. The speculator by comparison is concerned with price movements. Those on the buying or "long" side are betting that the price will rise, while those on the selling or "short" side are betting on a fall.

WHAT ARE THE EFFECTS?

If the commodity involved has a long storage life, and a low degree of perishability, then this form of marketing is quite acceptable to all involved, and the existence of a backlog of supply makes manipulation less attractive, more difficult, and more likely to be detected if attempted.

In perishables, however, it is an entirely different situation—one which has placed the Maine potato producers completely at the mercy of speculation and rumor. As stated previously few, if any prospective buyers or sellers of actual potatoes will make a transaction without relating it to the current quotation on the “mercantile” or “board.” Therefore, it is easily understood how rumors, regardless of how ridiculous, can establish a market trend which has absolutely nothing to do with supply and demand. For example, in 1955 a large manipulator put out the story that he was shipping 400 cars from Maine for delivery in New York, and even went so far as to ask the USDA to have men on hand to inspect these cars. The story was completely false, but it had the intended market effect of stirring up the speculators, many of whom have little or no conception of the real value of the commodity.

GROWER SENTIMENT

The opposition to futures trading by the vast majority of Maine's growers is made abundantly clear by a number of polls conducted by the Maine Potato Council. The most recent poll, taken in December of 1964, indicates that 89.7 percent of the growers that replied desire to exert all possible efforts to eliminate futures trading in potatoes. Comments from the grower level indicate this almost unanimous disapproval stems from:

1. Though Maine produces 15 percent of the total annual production, it is the only growing area of the Nation that is subjected to the effects of futures trading.

2. Since 1951, when the volume of futures became significant, Maine's situation in relation to the rest of the industry, has become progressively worse. A comparison of prices between country places in Maine and Idaho shows that if the prefutures relationship had been maintained, Maine would have annually received about \$12 to \$15 million more for its crop.

3. Efforts at orderly marketing programs are often futile because of some growers being tempted to delay marketing, hoping for higher “board” prices.

4. In many instances, market prices are not based on supply and demand, but rather the result of erratic speculation.

SUMMARY

The efforts of the Maine Potato Council to obtain relief through legislative action, were encouraged, then frustrated by the 88th Congress. Encouragement came from the fact that every committee considering the bills after full hearings on the fact and merits of both sides, took action toward eliminating the potato futures market, and the legislation was passed by the Senate. Frustration struck when the bill was reported to the floor of the House by the Rules Committee, only to be called back and thus killed 2 hours later.

It is incredible to the farmers and legitimate dealers, that their obvious needs and desires will continue to be denied. Consequently, the council intends to follow the mandate of December 1964 poll and through its mercantile elimination committee, make all possible effort to end futures trading in potatoes.

Mr. BRYANT. Since the last hearing, Mr. Chairman, there has not been too much of a change in the situation in Maine except that we conducted another poll of growers.

The Maine Potato Council for three times has conducted a poll of the growers. Every time they conducted it they got returns of over 60 percent from the growers, and every time 90 percent of the growers said that they were opposed to futures trading and wanted the council to attempt to obtain its elimination.

The proponents of the Mercantile Exchange have always said that one reason for this was that the Mercantile Exchange was being used as a scapegoat because of poor prices, and we have them in there last year.

For about 10 years most of the time, our prices were below the cost of production. Last year when potato prices were about as high as

they have ever been in history, we conducted another poll, and the results are absolutely the same, so that I think that it takes away from the proponents of the Mercantile Exchange that argument that they are being used as a scapegoat, because these growers have not changed in 15 years and there have been other people conducting the polls as well as the council, and I think that one of our witnesses will bring out that point.

In the last poll, we polled 2,293 growers. Out of that number we we had returns from 1,263; 90 percent, or 1,108 of those growers said that they wanted futures trading stopped.

I have here, which I would like to submit for the record, the list of growers as to how they voted. We asked these growers when we conducted this poll to sign the ballot for the poll with their name and address, and I have here, which I would like to submit for the record, two things, the list of growers and how they voted and an affidavit of the clerk-secretary in our office who conducted this poll.

Mr. MATSUNAGA. Is there any objection to the receipt of this?

If not, the request is granted and it will be made a part of the record at this point.

(The document headed "Signatures on Ballots Returned" is in the files of the committee and the affidavit of Marilyn Payson follows:)

JUNE 30, 1965.

STATE OF MAINE,
Aroostook, ss:

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 December, 1964; 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 2,292 bona fide growers of potatoes; of this number 1,263 returned ballots; of the ballots returned 1,108 were in favor of the question, "Do you want all possible effort made to end mercantile trading in potatoes?" and 129 were opposed; 15 ballots were not counted because they were unsigned and 11 ballots were returned by the Post Office Department for various reasons.

Dated at Presque Isle, Maine, this 30th day of June 1965.

MARILYN PAYSON.

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.

My commission expires December 3, 1966.

Mr. BRYANT. I have with me a memorial passed by the Maine State Legislature requesting the Congress to give us relief by favorable consideration of this bill. That was passed unanimously by the Maine House and Senate, by both parties, and I would like to submit that for the record, if I may.

Mr. MATSUNAGA. Without objection, it is so ordered and it will be made a part of the record at this point.

(The document entitled "State of Maine, in the Year of Our Lord One Thousand Nine Hundred and Sixty-Five," follows:)

STATE OF MAINE

In the Year of Our Lord One Thousand Nine Hundred and Sixty-Five

Joint Resolution Proposing Abolition of Futures Trading of Potatoes on the New York Mercantile Exchange by the Congress of the United States

We, your Memorialists, the Senate and House of Representatives of the State of Maine in the One Hundred and Second Legislative Session assembled, most respectfully present and petition your Honorable Body as follows:

Whereas, the Constitution of the United States provides that the Congress may regulate commerce among the several states; and

Whereas, potatoes are now traded in futures contracts on the New York Mercantile Exchange, 6 Harrison Street, New York City, N.Y.; and

Whereas, the price at which future contracts are bought and sold has a direct and immediate effect on cash prices received by producers for potatoes in Maine and all other areas producing potatoes for market; and

Whereas, futures prices reflect the effects of manipulation and unlimited speculation to the detriment of producers of potatoes; and

Whereas, futures trading of potatoes obstructs all attempts of Maine potato producers to market their product in an orderly fashion; and

Whereas, futures trading of potatoes encourages over-production in Maine and all other producing areas with resulting disastrously low prices for the producer; and

Whereas, experience has proven that futures trading can be carried on without detrimental and depressing effect on price only in the case of those commodities which can be stored for extensive periods of time either within the areas of production or the areas of marketing and distribution; and

Whereas, Irish potatoes are a perishable commodity that do not lend themselves to extended periods of storage, especially following preparation for market; and

Whereas, Irish potatoes historically are one of the most volatile commodities in terms of price range and in degree of sensitivity to myriad market factors, including total volume produced, anticipated production, available supply on track and in the market places, as well as many others; and

Whereas, many areas of production have vehemently registered their opposition to the continued trading of Irish potatoes futures, either with or without the supervision of the Commodity Exchange Authority of the U.S.D.A., and producers in Maine, by mail ballot, have voted overwhelmingly in favor of abolishing futures trading in Maine potatoes; and

Whereas, the Congress of the United States has already established a precedent for the action to be proposed by this resolution in the instance of another perishable commodity, namely onions, leaving potatoes as the only perishable commodity now being traded on the futures market; now, therefore, be it

Resolved: That we, your Memorialist, recommend that the Congress enact legislation abolishing futures trading in Irish potatoes upon the New York Mercantile Exchange or upon any Commodity Exchange; and be it further

Resolved: That a copy of this Memorial, duly authenticated by the Secretary of State, be immediately transmitted by the Secretary of State, by mail, to the Senate and House of Representatives in Congress and to the members of the said Senate and House of Representatives from this State.

In Senate Chamber: Read and adopted; sent down for concurrence March 5, 1965; ordered sent forthwith.

EDWIN H. PERT, *Secretary.*

House of Representatives: Read and adopted in concurrence March 9, 1965.

JEROME G. PLANTE, *Clerk.*

Mr. BRYANT. In addition to the poll taken this last year we had a very spectacular event in May of 1964 when one man took control of the entire offering of 1,939 cars of potatoes. The Mercantile Exchange advocates will say that this is a broad market, but it is not too broad, when one man can control. And I will tell you, frankly, in this case by virtue of his controlling it, he brought the price of potatoes up very spectacularly. Of course, in that instance, naturally our growers were favorable to the higher prices, but if one man can

drive the price up, one man or a combination of men can drive the price down.

And there have been many instances when they have. As will be brought out by Mr. Bagnell, we have very good evidence to indicate that this manipulation of prices has cost the Maine potato industry \$15 million a year for the past 10 years.

Mr. BURTON. May I interrupt you at this point?

Mr. BRYANT. Yes.

Mr. BURTON. On what basis do you say that it has cost the Maine potato growers \$15 million—how did you arrive at that figure?

Mr. BRYANT. I will tell you how we arrived at it, and I think that it will be introduced by Mr. Bagnell, but we have compared figures—we took three 5-year periods—the first 5 years before futures trading was very active; the next 5 years when it was quite active; and the last 5 years when it was real active.

Now, we compared that price percentagewise to Idaho, first, and I am taking these figures from my head now, but they are approximately correct, and the first 5-year period the Maine prices were 86 percent of the Idaho prices; the next 5 years they dropped down to 70 percent; and the next 5 years they dropped down to 60 percent.

Mr. BURTON. You arrived at the \$15 million figure based on equating the Idaho price against the Maine price, taking the difference?

Mr. BRYANT. That is right, plus one other thing. When we made this survey we did not know whether it was a different condition for some reason or not, so that we also took the Michigan prices and we found the same ratio with the Michigan prices. It was not the same as the Idaho, but we arrived at the same point that it was costing each 5-year period our industry, which had gone back, as compared to the rest of the potato producing areas, by \$15 million. We do not maintain that was all due to the mercantile exchange, in any sense of the word.

Mr. BURTON. The next question I was going to ask you is do you get the same prices for Idaho potatoes or, would you, if the mercantile exchange was not in existence?

Mr. BRYANT. Maine is the only State that has futures trading. And Maine in the last 10 years has gone back. There may be other factors, but, bear in mind Idaho has increased their production. We have not. We have held at the same figure. Yet we have gone back.

There is another thing that we know, and this is one reason why growers are bitter and, frankly, gentlemen, the growers are very bitter—we know what has happened. These people who are supposed to be selling the growers' potatoes for the most money possible, in many cases will sell short, and once they have sold short, they will then talk the market down and our growers have gone into the officers of these sales companies and have heard the salesmen say, "You do not want to buy potatoes today—they will be cheaper next week." And this has had an effect. This is the reason our growers are very, very bitter. Does that answer it?

Mr. BURTON. Very good. Thank you.

Mr. BRYANT. When this one man took delivery on May 11, 1964, the price was running from \$2.60 to \$3 a barrel. The people in the know, who had been selling short—the smart money people in Maine—

were betting that the price would go down to \$2. This one man stepped in. He knew that the market was below what it should be. He stepped in and took over 1,990 cars of potatoes, and the price immediately advanced from \$2.60 up to \$3.15 and then to \$4.49.

Nobody can believe that the law of supply and demand would change in 5 days' time that much. This, definitely, in our opinion, had to be manipulation.

This is one of the most spectacular cases. There have been many of them. Some have been proven in the courts, of course. Generally, it does not accrue to the farmers' advantage. Ordinarily, it goes the other way when the price is driven down.

Brokers, the mercantile brokers, are definitely interested in the business, and they are getting a big volume of business. The last 12 months, 1965, they sold 600,000 cars of potatoes. The full brokerage on that would amount to \$12 million. All trades are not on a full brokerage basis. You have membership rates which are cheaper. So we have estimated \$6 million. Now, \$6 million amounts to \$2,790 a year per grower. This is big business. And it has gotten to a point where the futures trading is dominating the entire Maine potato field, which is what our growers do not like. Our growers want to be able to sell potatoes orderly to the regular trade, the chainstores, the wholesalers.

Incidentally, our industry has suffered very badly over a period of 10 years. I would like to submit for the record a copy of an ad that was run in the local papers in Aristook County free by the editors of the papers to try to help the industry to kick off a program which we call "Operation Bootstrap." And I have here a copy of this ad and I would like to submit it for the record.

Mr. MATSUNAGA. How extensive is that ad, sir?

Mrs. HANNAH. It is one page.

Mr. MATSUNAGA. May we just have it filed in the files of the committee?

Mr. BRYANT. Certainly. Whatever way that you would like to handle it.

Mr. MATSUNAGA. We will have it submitted for the files of the committee.

(The ad referred to will be found in the files of the committee.)

Mr. BRYANT. That will be perfectly all right. Our growers are trying to help themselves on "Operation Bootstrap."

We have many problems in the potato industry, including the mercantile exchange. Our growers think that they can solve their own problems, with the exception of this mercantile exchange and only this Congress can help the growers on that. This is what we sincerely hope this committee and the Congress will do.

I mentioned that I am a consultant to the Maine Potato Commission, which is the advertising agency. We are spending money to advertise our potatoes, but we are not doing a good job of marketing because of the violent fluctuations in price caused by trading on the New York Mercantile Exchange, and we find many cases where retailers are not able to obtain Maine potatoes because of this violent fluctuation. We have nine men traveling in America trying to promote Maine potatoes and their efforts are being largely dissipated because of this futures trading in the New York Mercantile Exchange.

None of the retailers—I will not say none, but very few retailers are engaged in futures trading. They do not use it.

We have six processing plants and only one uses it. That is limited. The potato chip manufacturers do not use it.

The only people who are interested in it are for the most part on the buying side, the speculators in New York and Boston and across the country. It is not a part of an orderly marketing program.

We very much want to try to develop a program that will dovetail in with what the big chainstores, the large wholesalers, and the processors want. And we cannot do it as long as we have futures trading.

You mentioned, again, as to why growers do not voluntarily give as one reason why futures trading has gained such a hold in Maine is because it has been used as a vehicle to sell fertilizer and farm machinery. The people who are selling machinery and fertilizer want futures trading because they will use that to force the growers to sell on the market on a so-called hedge operation, but it does not make any difference whether his cost of production or loss comes in—he has to sell when he buys his equipment. This is one reason it has taken hold in Maine.

It is, in our opinion, a cause of increase of production on the part of the growers who would not be able to obtain financing from a legitimate bank or lending corporation. It has a tendency to increase the production of potatoes. And this has been a problem for the entire industry across the United States for 10 years.

Mr. Chairman, I think that concludes my statement, and I will answer any questions that you may have.

But before that, may I ask to have inserted into the record at this point a statement prepared by Mr. James A. Bishop who is unable to be present here today.

Mr. MATSUNAGA. If there is no objection, it will be made a part of the record at this point.

(The prepared statement of James A. Bishop follows:)

STATEMENT OF JAMES A. BISHOP, PRESQUE ISLE, MAINE

My name is James A. Bishop, and I live in Presque Isle, Aroostook County, Maine.

As a lawyer and small potato grower in Presque Isle, I am in rather close touch not only with the potato industry in our area, but also with general business conditions. My membership in the State legislature, where I am on the judiciary and appropriations committees, also keeps me in somewhat closer touch with sentiment throughout Aroostook County than might otherwise be the case.

There doesn't seem to be any room for question as to the general sentiment in the Maine potato producing area. The last legislature adopted a memorial to the Congress advocating elimination of the futures market in potatoes. (Here offer a copy of the memorial). The growers who expressed themselves in the poll described by Mr. Bryant certainly left no room for doubt. The testimony given by the major farm organizations at previous hearings shows how organized agriculture feels. As a lawyer I think I am safe in saying that a preponderance of the evidence is certainly on our side.

Of great importance, it seems to me, is the reaction of the various congressional committees to the evidence presented at earlier hearings. As early as 1956 a committee which held hearings in Presque Isle expressed very serious doubts as to whether futures trading should be continued. The Domestic Marketing Subcommittee in the 88th Congress favorably reported the bill, and the full Agriculture Committee then reported it "ought to pass" by a vote, I understand, of 23 to 8. The Senate committee reported a companion bill apparently with no dissent, and the measure was passed by the Senate also, I understand, with no opposition. The situation in the Rules Committee of the House became confused. As I understand it, the bill was reported out by a one-vote margin, but on the same date was called back from the floor so that a member of the committee might change his vote. This resulted in killing the measure.

I think it is fair to say that almost without exception all of those committees that heard the full facts appeared to agree with our position that futures trading in potatoes should be prohibited.

With this history of our previous efforts, I am highly optimistic as to the outcome in the 89th Congress. I also know that the more than 2,000 growers in Maine, while disappointed and confused as what happened in the 88th Congress, are also confident that this time they will bring the matter to a successful conclusion, and will then be able to devote their thoughts, time, and energy to the many other problems that cannot be solved as simply as can this one.

It seems to me that if any group is genuinely interested in the welfare of Maine and of the potato industry in general, it would be those of us who actually participate in the production and marketing of potatoes. Our livelihood depends upon this industry; we are the ones whose mortgages are foreclosed. A frenzy of futures activity, such as resulted in the 400,000-car volume on the New York Exchange last year, brings instant prosperity to the brokers and futures commission houses. Of course, the prices of actual potatoes last year were also more favorable to the industry and to the State in general than they have been for a long time. In many instances, however, it merely meant that a producer was able to take a new hold in his perpetual struggle to stay one jump ahead of bankruptcy.

Heavy futures trading is always prosperous to the wirehouses whether it is in periods of high or low prices, but to the producer it is just as likely to be disastrous as advantageous.

Whenever drastic price gyrations appear in futures markets, it is suggested that there must be manipulation. A definition, or rather a proposed definition of manipulation, suggested by the Commodity Exchange Authority, includes the following:

"Any action resulting in the exacting, causing, or maintaining of abnormal or artificial price shall constitute manipulation."

This would seem to mean that anytime when the price is artificial or different from what it would normally be, manipulation must be present in the market. This is a very broad and sweeping definition. When a futures price goes down 30 or 35 cents and the next day goes up exactly the same amount, it would appear that one or the other of these prices is not justified by a basic change in supply and demand; and, consequently, might be considered abnormal or artificial. The fact of the matter probably is that both prices were based upon rumors. Many times a rumor is disseminated, causing a sharp price movement and a few hours later, or perhaps the next day, is found to be untrue, causing the price to go back to where it should have been all the time. While under the proposed definition of manipulation this would appear to constitute manipulation it would usually be very hard, indeed, to prove it legally. In this connection it should be observed that in order to qualify for designation as a contract market, eligible to trade in futures under the Commodity Exchange Act, the governing board of such market must "provide for the prevention of manipulation of prices and the cornering of any commodity by the dealers or operators upon such board."

In many instances it will be completely impossible for the market itself or the Commodity Exchange Authority to fix responsibility for some of the erratic price movements that occur. In such cases it would seem that the only action which could be taken by the board or the exchange in compliance with this provision of the law would be to close the board and stop trading. All of this merely points up the basic impossibility of preventing erratic futures price movements in these volatile perishable commodities. Rather than call this sort of thing manipulation, we are more inclined to look at it as a built-in feature of the attempt to trade in futures contracts in perishable agriculture products. It has been demonstrated to be a demoralizing force to the industry, and presents a problem to which we believe there is only one solution and that is to recognize the unsuitability of potatoes for futures trading just as the Congress recognized the impossibility of an orderly futures market in onions, and forthrightly took care of the situation by legislation such as we are asking for here.

It seems obvious that perishable commodities such as potatoes and onions present problems that make it impossible to expect orderly futures markets such as seen in other nonperishable commodities. I think we should make it very clear that those who have observed and had some experience in other commodity futures markets thoroughly recognize that some of these have been developed into most useful tools in the distribution and processing of these commodities. Their usefulness seems always to have depended upon the storability and supply situation. There is likely to be trouble in any case where a commodity is on a strictly seasonal basis. The Maine potato season comes to a definite halt about

May of each year. This makes it necessary for all of those in the market to bring their operations to a close at that time, and is the cause of the many wild scrambles we see about that season of the year.

I was interested in a newspaper item I saw concerning a proposal to establish a futures trading market in beef cattle. I do not know how successful this market has been, though I believe it was supposed to have been inaugurated sometime in the fall of 1964.

I was impressed, however, with the comments of the head of the American Meat Industry, Mr. Harrell de Graff. Among the characteristics which Mr. de Graff listed as essential to a successful futures market are the following:

"The product must possess a minimum degree of perishability, and preferably should be storable. The trade must be willing to accept futures, and a generally acceptable form of the product must be deliverable in settlement of the futures contract."

Certainly the potato does not possess a minimum degree of perishability, and even more certainly the trade has not accepted it.

If there were any indication that the potato industry had any need for futures or could possibly be benefited by futures, we would not mind a little experimentation, but what we have here is a situation where we have actually had the market for more than 15 years. Again, it cannot be overemphasized that we have been at a price disadvantage in relation to the other 85 percent of the country where futures trading is not used.

In the face of these clearly provable facts we see no justification for the Maine potato growers having to bear the results of still further experimentation.

Frankly, we think it is quite unfortunate for the futures markets that have demonstrated a useful purpose to be clouded by the repeated evidences of unsatisfactory conditions in other markets. It seems to me that justified criticism of the onion and potato markets has reflected adversely on markets where such criticism is not justified. I can't help but feel that some of these other markets, in their zeal to support the futures trading system in general, have done a disservice to themselves in not recognizing the difference between various types of products. Attempts have been made and, no doubt, will be made in the future to stimulate speculation in various products where clearly it is of no purpose. For example, there have been attempts to inaugurate trading in such unlikely products as platinum and nails. It has been demonstrated time after time that the futures trading system is a most delicate mechanism requiring constant vigilance, and such vigilance becomes more essential as the trading is extended to commodities where the only purpose is to create and stimulate speculation and earn brokerage commissions.

Sometime in 1963, I believe it was, there was a speculator operation in soybean oil, which was reported as involving some \$150 million and bankrupting some very large concerns. This was reported to have caused the New York Stock Exchange to establish a system of particular vigilance over its members who also dealt in commodities. I do not think that this should be taken as an indictment of the commodity futures system, but it certainly does point up risky nature of this operation. These risks might well be overlooked and accepted in a situation where the futures market is needed; but where, as in potatoes, it not only is not used by any significant segment of the industry, but also has so repeatedly resulted in fireworks, it seems to me that the industry in Maine could take no intelligent position except that they do not need it, do not want it and hope to get out from under it as soon as possible.

An indication of the general character of this market is the temptation it seems to offer irresponsible and sometimes abusive operators.

In March of 1965 it is alleged by the Commodity Exchange Authority that a floor broker on the exchange executed a number of contracts for himself at the same time that he was trading for customers. According to the complaint of the USDA this broker systematically allocated the good trades to himself and the poor trades to his customers.

The allegations in this case (CEA docket No. 126) have not been adjudicated and cannot be considered proven as of this date. It may be many months—or perhaps even years—before a final determination. This brings up a point that illustrates the practical impossibility of effectively preventing abusive episodes in perishable commodities like potatoes, such as were found repeatedly in onions until that commodity was taken off the futures market in 1958.

It is necessary to follow slow judicial process in handling these cases. This usually involves several months' notice for the preliminary hearings, after which all the parties are given considerable periods of time to file the various pleadings

and documents. After the findings in the Department of Agriculture, the persons charged can take the matter to the U.S. circuit court of appeals and even to the Supreme Court. While all of this is taking place, which is usually a matter of years, that person can continue to operate in whatever manner he sees fit. If he wants to take a calculated risk by repeating his performance, or one like it, he can do so, and there have been a number of instances where former offenders did appear again as parties to illegal and abusive operations.

The fact of the matter is that such perishable commodities, as potatoes and onions, attract a reckless type of speculator, and nothing has been found which can effectively prevent the erratic price movements that result from these market-abuses and speculative splurges.

All of this describes a situation which potato growers simply do not like to be associated with. Potatoes are the only perishable commodity subject to this type of trading. The onion people got relief in 1958 and we earnestly solicit similar treatment. We, in Maine, envy the remaining 85 percent of the country where futures trading in potatoes has never taken hold.

We have been told repeatedly of the great benefits which growers can obtain from the use of the futures market. Generally, these contentions favorable to the market relate to the whole futures trading system and do not differentiate between trading in such storable products as wheat, soybeans, cotton, and the like, and attempts to adapt that trading to perishables. The Maine potato farmer's position is very simple. Despite all of the theoretical assurances which we have received concerning this market, we are faced with the sad fact that 12 or 15 years actual experience has demonstrated to us that it is no good for our product. We are not lacking in people who have knowledge—not only of the practical aspect of futures trading, but also of the theory. We have people who are graduates in agricultural economics, and in law, and who combine this academic knowledge with years of attempts to use the futures market. Certainly these people would welcome any marketing device that was an actual benefit in making their industry a prosperous one. Their livelihood depends upon their ability to produce and market potatoes efficiently.

It has been suggested by some of those who favor futures trading that our attempts to have it eliminated constitute an infringement upon the free enterprise system. We believe that exactly the opposite is true. What we are seeking is freedom to operate our industry without interference from speculative pressures having nothing to do with the actual production of potatoes, but nevertheless interfering with and dominating our attempts to establish an orderly marketing system such as is enjoyed by 85 percent of the potato growers in this country.

The onion people were very happy to be relieved of futures trading. Responsible members of the onion industry assure us that conditions in that market have been greatly improved, and there has been no suggestion from any responsible source that futures trading be resumed in onions.

So, to sum up, all we are actually asking is to be put on an equal basis with the 85 percent of the country where there is no futures trading in potatoes; and to be given the same opportunity to produce and market our product that was so wisely given the onion people in 1958.

Mr. MATSUNAGA. I wish to commend you, Mr. Bryant, for a very interesting presentation. I will call upon my colleagues to determine if they have any questions?

Mr. GREIGG. No questions.

Mr. FOLEY. No questions.

Mr. BURTON. I would like to say, Mr. Bryant has been a very fine witness.

Mr. BRYANT. Thank you very much.

Mr. MATSUNAGA. The next witness is Mr. Bagnell.

Mr. BAGNELL. If we may we would like to change our order of presentation here. Mr. George Barnes, the president of the Maine Potato Council we would like to have next, and after him Mr. James, if that is satisfactory to you.

Mr. MATSUNAGA. That will be fine. At this point I might say that we have 13 witnesses scheduled for today to be covered in the hour and 45 minutes that we have this morning, and if there is cumulative testimony in that which you wish to present, you might just submit

the statement and briefly summarize the points that you wish to make, over and above what has already been said.

Mr. BAGNELL. We will try to do that, Mr. Chairman.

Mr. MATSUNAGA. Our next witness is Mr. George H. Barnes. We are glad to have you here. You may proceed.

**STATEMENT OF GEORGE H. BARNES, PRESQUE ISLE, MAINE,
PRESIDENT, MAINE POTATO COUNCIL**

Mr. BARNES. Mr. Chairman and members of the subcommittee, my name is George H. Barnes. My address is Presque Isle, Maine. I am in partnership with a brother and we produce and ship a total of 250 acres of potatoes in Maine. I am presently serving as president of the Maine Potato Council.

I have long been aware of the dissatisfaction felt in Maine about the futures market, but I have become more acutely conscious of it and in closer touch with it since assuming the position of president of the Maine Potato Council.

At this time I would like to mention three principal points that seem to me to demonstrate the undesirability and the lack of any need for futures trading in Maine potatoes.

(1) The farmers most certainly do not want it or like it. Polls over a period of 10 years show approximately 90 percent who expressed themselves on this subject as wishing this trading eliminated. These polls have been taken mainly in times of low prices, but the most recent was at a period of very satisfactory prices.

Mr. Bryant has mentioned the polls, so that I will not go into that any more.

(2) It is obvious that the elimination of this trading will not harm the producers in any manner at all. This is made clear by the fact that the 85 percent of the producing areas in the country where futures trading is not a dominant factor prosper and have less instability and disorder than we do in Maine with our 15 percent of the production.

(3) The farmers are greatly confused by the futures market. They encounter difficulties in selling because all trades have to be hinged to the board price. Generally they cannot get a quotation in the morning until after the board has opened.

The effect of futures trading on the pricing mechanism is well expressed by Mr. Al Mercker (who was formerly executive secretary of the National Potato Council), in previous testimony. On page 42 of the Senate hearings on S. 332 in the 88th Congress Mr. Mercker says:

The trading on the futures market practically eliminates the native bargaining ability of the producer. It cramps his style. In the past he would meet the buyer or the broker who has an offer for his potatoes face to face or by telephone and discuss the merits of that particular offer. He could decline it or he could receive several competitive offers from several brokers and take the best one. Now his potatoes may be sold without his consultation and without his participating in the bargaining discussions.

The fact of the matter now is that the "bargaining discussions" usually consist of offers to buy and sell futures on the floor of the exchange by floor brokers representing such "bargainers" as (I want to emphasize that) housewives, retired persons, professional people, and others having nothing to do with and no knowledge of the pro-

duction or marketing of potatoes. These people often buy or sell on rumors which they have heard and which becomes particularly prevalent in the market near the end of the season in April or May, or they may not even hear these rumors themselves but simply act upon the advice of a customer's man whose volume of commission depends upon many traders get into and out of the market as rapidly as possible. Again we quote Mr. Mercker who stated:

The passage of S. 332 will eliminate many uncertainties, particularly pricewise, in the marketing of potatoes, not only in Maine but in the United States as a whole.

On this same general line, we know that the growers and industry in Idaho and other areas have been told of the supposed advantages of futures trading. They have seen the operations on the New York Exchange in Maine potatoes—some of them have traded in that market—speculatively and perhaps sometimes in attempts to hedge, and still these areas will have no part of a futures market. They have observed how, having once taken hold, it is extremely difficult and, in fact, to date has been impossible to get out from under this operation.

Once a market has been effectively promoted to the extent that the prices are disseminated over the wires throughout the producing area, and the dealers feel it necessary to observe these prices and base their prices upon the board price, it becomes very difficult to go back to the sound system of individual negotiations even though the system has seemed to operate most satisfactorily in all the other areas.

The potato growers in Maine could more easily understand the difficulties they are having in getting rid of futures speculation if this proposed legislation was in the nature of an experiment or in a field where there was little knowledge of its possible effect. The fact is, however, that we are able to see what the situation is in onions where futures trading dominated the market and was eliminated by legislation. We find that before futures prices dominated the Maine market it held a better competitive position with other areas than it has in recent years. We also find that the onion industry has been stabilized and improved by the elimination of futures trading. With this background of cold fact the growers simply cannot understand why it is so difficult for them to be put on an equal basis.

As previously discussed, the only event of momentous importance since the hearings on H.R. 904 and S. 332 was the spectacular operation in May 1964 where, instead of there being a broad open market, we had a situation with only one man on the long—or buying—side, against an unknown number of persons on the short—or selling—side. It seems that this one man had sufficient strength and courage to put the price up during the last few days of trading to where it would have been many weeks before had it not been for the pressure exerted by the persons on the selling side.

What the Maine growers desire is a market based on true supply and demand and not influenced by competitive forces trading on speculative rumors and "slugging out" their differences of opinion on the floor of the speculative futures market. This attitude of ours does not reflect any criticism of speculation or even gambling, but it does reflect our strong aversion to having our product used as a basis for such activities. We are not opposed to futures markets—we think they are good—we think they have a purpose—they have a use,

but for a perishable commodity like potatoes and onions, it is not good for the industry. We are trying to produce and market potatoes, and we have enough problems without continuing to be a small segment of the industry saddled with an activity which has been proven detrimental to our interests.

Who profited or lost by this May 1964 operation? Certainly it did not do the farmer any material good. His potatoes were out of his hands by that time. If any farmer had decided to take a speculative venture in futures it must have been on the short side of the market because there was only one long left at the end of the deal. Again, as is typical in the end-of-season fireworks, among the more important beneficiaries would be the brokerage houses. There were over 75,000 contracts in the May futures traded in in April and through May 8, the last day of trading in that future. Commissions at full gross rates would have amounted to about a million and a half dollars for that period of something over 5 weeks. Discounting this by 50 percent to allow for special rates to members and floor brokers, would still leave a very attractive figure.

I have had years of personal observation and some considerable experience with the mercantile; I have close contact with many farmers, particularly in my capacity as president of the Maine Potato Council, the 2,200 membership of which includes all the producers in our State.

I am convinced that this speculative operation performs no useful purpose but does keep our industry in such a state of instability and demoralization that our producers simply cannot devote their efforts to the many other problems which they might be solving. And believe me, we have them. Some take the position that as long as futures speculation dominates the market they don't see much use in trying to establish orderly conditions.

We do not contend, and have never contended, that futures trading is the only thing that is wrong with the Maine potato market. We do know, however, that our situation as regards other markets is unsatisfactory and that it has become progressively more unsatisfactory as futures trading has become more active in Maine. We believe that part of our trouble is the demoralization of the large segment of our industry to the extent that they simply do not concentrate on the various problems that they have.

We are sometimes asked how Maine would get along without the futures market. That is a question that is often asked: "What are you going to do when you get it eliminated?" It is hard for me to understand how this question can be seriously asked. We must remember that it is only in Maine—where only 15 percent of the potatoes are produced—that prices are hinged to and dominated by futures speculation. We think we would get along very well indeed by using the same marketing and pricing techniques that are used so satisfactorily in Idaho, California, and all the rest of the potato-producing areas of the country. Our lack of any concern over getting along without the futures market is strengthened by the fact that the areas of the country that do not have a futures market consistently get along better than we do here in Maine. We feel very strongly that with 90 percent of the industry in Maine opposed to futures trading there would seem to be no basis whatever for forcing us to continue to be dominated by this trade.

Even if we are wrong and, as the exchange suggests, simply do not have the necessary mental ability to take advantage of the futures market, we still feel that our wishes should prevail. If we are that wrong, let us suffer the consequences. However, we have no fear in that respect when we look at the rest of the country where there is no futures trading. We would like to be wrong like they are.

I hope that we have touched upon all of the points of consequence in this matter. Perhaps in some instances we have been too brief, but we will be most happy to amplify our testimony, either verbally or in writing, if any member of the committee has any unanswered questions.

In this connection a summary of the various points involved in this question appears on pages 28 to 31 of the printed hearings on S. 332. I believe substantially the same summary appears in the record on H.R. 904.

Mr. BARNES. We want all the facts in the record, whether pro or con, and we have complete confidence that with all the facts the committees of the 89th Congress will, just as did those of the 88th, find that we are justified in our request for the elimination of futures trading. We are also confident that this time we will get over the last hurdle and see our law enacted. It is way past due. We have been confused, demoralized and handicapped by this activity for more than 12 years, and we feel that the enactment of this legislation will do perhaps more than any other one thing to help us get ourselves straightened out in an orderly production and marketing program.

We have recently heard suggestions of further regulatory legislation or rules changes to correct the excesses and abuses that have made this market such a burden to the industry. These proposals are, in my opinion, only efforts to delay or defeat the only remedy that will be effective—stop futures trading in potatoes just as was done in onions.

When this legislation was before the 88th Congress the mercantile made certain changes in its rules on delivery points which it claimed would be beneficial. Despite this, in May 1965, a delivery situation arose which was directly tied in with the new rule and according to a news item resulted in an effort by the mercantile to require a buyer to accept potatoes, "in an advanced stage of slimy rot."

All of this is further proof of the fact that perishables are simply not adaptable to futures trading.

The report on this bill which the USDA submitted under date of August 4, 1965, gives strong and authoritative support to our position. For the ready reference of the subcommittee, I am attaching an analysis of the report together with a copy of the report itself.

This drive to get relief from futures operations has drawn to our side the support of responsible industry leaders from all over the United States and also from all the principal farm organizations.

We most heartily welcome this support to counter what we know will be a resourceful, energetic, and lavishly financed campaign to continue what has grown into a fantastically profitable operation for the mercantile and its futures brokers.

Mr. MATSUNAGA. Thank you.

Mr. BARNES. Before I close, Mr. Chairman, I have here the testimony prepared by Mr. Doyle Burns, who is the executive director of the National Potato Council. Mr. Burns is unable to be here, and I would like to introduce his testimony at this point.

Mr. MATSUNAGA. Without objection, the request is granted, and it will be made a part of the record at this point.

(The prepared statement of Doyle Burns follows:)

STATEMENT OF DOYLE BURNS, EXECUTIVE DIRECTOR, NATIONAL POTATO COUNCIL

My name is Doyle Burns. I am executive director of the National Potato Council, with offices located at 741 Munsey Building, Washington, D.C. I am testifying in favor of H.R. 6006 on behalf of the National Potato Council and the growers it represents.

The National Potato Council is the only organization representing the commercial potato growers of this country on a national basis. Active participation in council affairs comes from potato growers from Washington State to Florida and from Maine to California and most States in between.

On November 16, 1965, during the 17th annual meeting of the National Potato Council, held in Idaho Falls, Idaho, the following resolution was passed by a vote of 80 for and 8 against:

"Resolution No. 6—*Resolved*, That the National Potato Council support legislation which would prohibit futures trading in Maine potatoes."

Included in the official bylaws of the National Potato Council, article II, section 1—Purposes, will be found the following phrase: "To promote the welfare of the potato industry of the United States * * *." This is a part, and I might add, a very important part, of our obligation to the potato growers of this country. Anything which affects the welfare of the potato industry is an immediate concern of the National Potato Council.

One of the most important and perennial problems facing the potato industry has been, is today, and probably will be for years to come, price instability. The fluctuation of prices for potatoes is greater than for any other commodity, except onions. One of the principal reasons for the unusual price pattern is attributed to the "static demand" for potatoes. Unlike many other food commodities, potato consumption does not increase when supplies increase. As a nation we eat about the same amount of potatoes each year, whether potato prices are high or low. Agricultural economists have adopted a rule of thumb which says that for each 1 percent of excess supplies above normal consumption we can expect a corresponding decline in price of 4 to 5 percent. This may not appear to be drastic, but when we are faced with an excess of 10 percent this is pictured as a 40- to 50-percent cut in the grower price. The point I want to make here is that potatoes are a highly speculative crop. Here is a product made to order for the pure speculator.

A second important fact which must be reckoned with is that the potato grower is subject to the whims and fancies of this fluctuating, highly volatile marketing pattern. It is a pattern over which he has very little control. It is also a pattern which can be and is affected by many marketing factors, both man-made and natural. Because of the uncertainties of potato marketing, the grower is constantly searching for ways to stabilize and strengthen the cash market for potatoes. A few years ago one bad price year did not necessarily mean disaster. This is no longer true. Agriculture is moving away from the trend toward diversification to one of specialization. Mechanization, labor, supply, and handling costs make it imperative that the grower do everything possible to assure himself of a reasonable return for potatoes sold. The important point here is that the potato grower is at the mercy of a highly speculative market; a market that will react to rumors, manipulations, or substantial buying and selling, either current or future.

The third point I would make is the importance of the interrelationship of prices for potatoes throughout the continental United States. The price that potatoes sell for in Maine, for example, can and does affect the price received by every other area marketing during the same period. This variation carries a certain amount of cushion most of the time, but after the spread reaches a certain point, then the price in one area affects all others. Thus, in trying to help stabilize the price across the country, the State or area selling at the lowest price is the first objective. For your information, the average f.o.b. price on January 8, 1966, was as follows: Maine, \$2.02; Pennsylvania, \$2.52; New York, Long Island, \$2.66; New York, upstate, \$2.70; Michigan, \$2.60; Colorado, \$2.69; Idaho, \$2.68; Washington \$2.51; Oregon, \$2.88. All areas marketing were higher than Maine from 49 to 86 cents per hundredweight. Does this mean that because Maine is the only State operating under futures trading they are being penalized from 49 to 86 cents per hundredweight on every sack they sell? This is not completely

true. However, there is a good possibility that a substantial part of this difference could be attributed to futures trading. Certainly something is radically wrong when potatoes from across the continent in Oregon will sell for 86 cents per hundredweight more than those in Maine.

Earlier I pointed out that the potato market is a fickle, fluctuating, easily influenced business. Naturally, when growers begin to think in terms of stability any service which would provide a hedge would be looked upon as a benefit. A hedge would help to take part of the risk out of the business for the grower. Proponents are quick to point out that futures trading provides a hedge for the potato grower. This is true and a limited number of growers are attempting to use futures for this purpose. There is another element involved in futures trading, however, that nullifies any advantage to be gained by hedging, and this is the pure speculator. For your information, the ratio of hedgers to speculators on October 27, 1961, was 300 hedgers to 1,170 speculators. Almost four out of every five people trading potato futures were in for the gamble and not for the business of selling a crop they had raised or buying a crop that they would process or pack. Take the pure speculator out of potato futures trading and this thriving enterprise would fold.

This is not a blanket condemnation of all futures trading. There are other commodities that, because of the nature of their utilization and marketing pattern, could and probably do benefit from such trades. Potatoes are, because of their peculiar utilization and marketing weaknesses, an easy prey to manipulation, rumors, and deliberate market management. The very weaknesses inherent in the potato marketing picture are the factors which make potatoes so attractive to speculative interests. No one to whom speculation is a way of business wants an inactive market. Highs and lows are their stock in trade and those same highs and lows are the weaknesses that can spell disaster to the potato grower.

Let's take another theoretical example. The delivery date has arrived for a certain series of contracts. Coupled with this we have a market that is full to the limit with cash sales being made by those who normally sell. As deliveries are made on futures contracts the speculator is stuck with the last thing he wants, the potatoes. The only thing he knows to do is sell, take his loss and get out. Now, if there is any large amount to be handled in this manner, the market immediately reacts to too many potatoes and the effect of futures has made itself known to the cash market.

There are two groups of people who make use of futures trading on potatoes, the hedger and the speculator. The hedger is in the market for a sound economic reason. It is an insurance policy for him. The speculator generally has no ties to the industry. His only concern is to buy cheap potatoes and sell at a high price. Rumor, fact or fancy, anything that will help him to achieve his goal, are tools of his trade.

The price of Maine potatoes does influence the price elsewhere. A panic on the futures market does affect the current cash market. The deliveries on future contracts do weaken and demoralize the cash market. Rumors, volume sales, and manipulations can cause prices to drop or rise, all of which is not in the best interest of the growers, handlers, or the consuming public.

I respectfully ask that this Subcommittee on Domestic Marketing give due consideration to H.R. 6006 and report favorably at the earliest possible date.

Mr. MATSUNAGA. You state on page 3 of your testimony—

We also find that the onion industry has been stabilized and improved by the elimination of futures trading.

Have you any statistics to show this, because this has been one of the bones of contention of the opponents of the measure that the elimination of the trading in futures in onions has done no good for the onion industry.

Mr. BARNES. Mr. Chairman, I purposely did not state any figures, because we have a witness who has been very actively engaged in the industry who will testify later and who will present those facts.

Mr. MATSUNAGA. All right.

You state on page 6 of your paper that the U.S. Department of Agriculture report of August 4, 1965, strongly supports your position. If I interpret that letter correctly it does not support your position—

it states that the present system is working highly satisfactorily. What is your comment on that?

Mr. BARNES. My comment is the fact that we got a statement at all from the U.S. Department of Agriculture which I consider support of our position.

Mr. MATSUNAGA. Very well.

Mr. GREIGG. Mr. Barnes, on page 3 of your statement you state:

We find that before futures prices dominated the Maine market it held a better competitive position with other areas than it has in recent years.

On page 5, you state:

Our lack of any concern over getting along without the futures market is strengthened by the fact that the areas of the country that do not have a futures market consistently get along better than we do here in Maine.

On those two points where in the testimony that we have heard today or that we will hear today or tomorrow will there be substantial facts to back that up?

Mr. BARNES. Mr. Bryant who preceded me on the stand here, I think, quoted some figures—compared figures of prices received by Idaho and Michigan and other States compared to those received in Maine, and I am sure that there will be some more testimony on that. We have a lot of testimony here. We tried to divide up these loads.

Mr. MATSUNAGA. Mr. Barnes has already stated that.

Mr. GREIGG. Thank you.

Mr. MATSUNAGA. Are there any further questions?

Mr. FOLEY. No questions.

Mr. MATSUNAGA. If not, we thank you, Mr. Barnes, for your statement.

Mr. BARNES. Thank you kindly.

Mr. MATSUNAGA. The next witness is Mr. Vernon G. James, Elizabeth City, N.C., president of the National Potato Council. We will be glad to hear from you now.

STATEMENT OF VERNON G. JAMES, ELIZABETH CITY, N.C., PRESIDENT, NATIONAL POTATO COUNCIL

Mr. JAMES. Mr. Chairman and members of the subcommittee, my name is Vernon G. James. My address is Route 4, Elizabeth City, N.C. I am a potato grower and President of the National Potato Council.

In November 1965 at the annual meeting of the National Potato Council, a resolution (No. 6) was adopted by a vote of over 90 percent in favor. The National Potato Council is a group of farmers made up of potato growers in the United States, in every State throughout the country. The resolution reads:

Resolved, that the National Potato Council support legislation which would prohibit futures trading in Maine potatoes.

Since that time it has been my privilege to visit many potato-producing areas and in all cases I have been urged to do everything possible to secure this legislation. I am convinced that futures trading in Maine potatoes is a financial disadvantage to potato growers throughout the Nation. Quite a few people who trade in potato futures are not growers, users, or handlers of potatoes; consequently, when Maine futures are terminated during the month of May there

are a number of cars of potatoes left in the hands of speculators who have no knowledge or experience in marketing potatoes. Therefore, they dump them on the market, which works to the disadvantage of the spring crop. What I am trying to say, gentlemen, is that this condition disrupts the orderly marketing of potatoes.

The North Carolina Potato Association at its annual meeting for the last 3 years, has gone on record as requesting that futures trading be eliminated.

About the time Maine potatoes are dumped on the market at the end of May, it is about the same time that harvest is started in North Carolina and Virginia. History will show, over a period of years, that this depresses the potato market on a national basis, and seldom does the market ever recover for the remainder of the year.

I thank you.

Since this group of farmers elected me president it was quite a shocking surprise and privilege that I have thoroughly enjoyed, because I like to get around the country. And I was just up in Maine last week. I have some friends up there that I buy seed from. And the first question that I asked them was, "Do you like the futures market?" and most invariably they said, "Yes." And I said, "Why?" And they said, "Well, I have a staff and an office and a teletype and I feel that I am in a better position to speculate on the market than the average farmer; therefore, I like it." However, they said in the same breath, "It is detrimental to the potato industry," and that they would be glad to see it abolished.

This came from, at least, seven or eight large dealers, some of them cooperative organizations.

I have been growing and selling potatoes all my life, since a boy. And if you look at the history of the industry, at the end of May we start our shipping season, and they dump all of these potatoes on the market, and the market starts going down. We always work in a depressed market. The summer months are the big months in the harvest, and the market seldom ever recovers from this depression. I think that if we are going to be realistic about it, this something that ought to be stopped.

Mr. Barnes gave you testimony. I was well aware of what was going on about as early as anybody when one man took the delivery of some 1,700 cars of potatoes. Bless his heart, he raised the market just at the time that I was getting ready to harvest my potatoes, and that was fine. We on the east coast, particularly, enjoy a good market. And we really needed that one. But let us look at it from the other side of the coin.

Suppose that this man had the 1,700-some cars, and somebody else had them if he did not have them and they were available on the market, and suppose that he had put the 1,700 cars of potatoes on the market, and we would have had the reverse effect and it would have been really bad.

That is all I have to say. And I thank you for listening.

Mr. MATSUNAGA. Thank you. Are there any questions?

Mr. FOLEY. No questions.

Mr. BURTON. I think some of these folks ought to make a comment on what the effect of this is going to be on the consumer. We grow potatoes in Utah, too.

Mr. JAMES. Yes; I know you do.

Mr. BURTON. A lot of our colleagues in the House of Representatives represent big cities, and if this bill ever gets to the floor, they are going to want to know if more money is going to be had from the consumer—is the consumer going to pay it. If you are not prepared to comment on that, maybe some of the others are. That ought to be a part of this record.

Mr. JAMES. I am sure that somebody else will comment on it, but I am glad that you asked me the question. I think that you know yourself that what a grower receives for potatoes has very little to do with what the housewife pays for potatoes, and when the market goes down, it goes down to the grower, but seldom does it ever go down in price to the consumer. And if you will look at the prices—I do not know what the prices are today to the consumer, because I have not noticed any supermarkets lately, but what the grower is getting is a very small percentage of the total. Over a period of years it is, roughly, 30 percent. I do not know what it is today, but I do not think it would have any effect at all as to what the housewife would have to pay.

Mr. BURTON. When you say roughly 30 percent, is that of what it sells for on the market, that is what the grower gets?

Mr. JAMES. That is a rule of thumb. That is about the case. It is what the grower receives.

Mr. MATSUNAGA. Thank you very much.

Mr. JAMES. Thank you.

Mr. MATSUNAGA. We will next hear from Mr. Bagnell.

STATEMENT OF DOUGLAS B. BAGNELL, FAIRHOPE, ALA.

Mr. BAGNELL. Mr. Chairman and members of the subcommittee, of the list of some 14 witnesses you mentioned earlier, it is not anticipated that all of those will be on today. They were just put on there so as to be listed. The list is very flexible.

Mr. MATSUNAGA. May I at this point put a question to the witnesses who are listed for today—how many intend to stay over until tomorrow, or let us put it the other way, how many intend to leave today.

Mr. LARSEN. I do not intend to leave today, but I have some appointments tomorrow, and it would be convenient if I could go on today.

Mr. MATSUNAGA. Thank you.

Mr. BAGNELL. My name is Douglas B. Bagnell. Since retiring from the Department of Agriculture about 6 years ago I have been living in Fairhope, Ala., and for about 4 years I have been working with the Maine Potato Council in its effort to stop futures trading in Irish potatoes.

My experience and contact with commodity futures trading dates back to about 1928.

I have been in full contact with every commodity exchange in the United States. I would say that I have conducted dozens of special investigations that resulted in testimony before congressional committees, grand juries, criminal and civil proceedings. I am very glad of this opportunity to express my views concerning this proposed legislation.

I am not following my text, Mr. Chairman.

Mr. MATSUNAGA. I noticed that you are not.

Mr. BAGNELL. I approached this, primarily, from the point of view of the grower. I have known for about 8 years the Maine growers' antagonism and dissatisfaction with futures trading. I have tried to find out whether that was based on some sound reason and without prejudice from another direction.

I used to work with the Chicago Board of Trade, the New York Stock Exchange, et cetera. The futures trading system to me is a valuable part of our economy. So, as I say, I think I went into it with an open mind or, perhaps, in favor of futures trading in potatoes.

I hope to present here in quite brief form some exhibits and some comments which I think explain why the Maine growers do not like futures trading, high prices or low prices. After my testimony I am sure you will get testimony from men who will speak with the voice of experience, potato farmers, who, actually, have attempted to use this market.

I work on the premise that the interests of the growers is paramount. I think that should be obvious. They are the people who raise the potatoes and market them. And so everything I say is hinged on that thought.

As the chairman has mentioned, this matter has had the attention of Congress for a long time. Back in 1955 there was a special committee that looked into the situation, held hearings here in Washington and up in Presque Isle, and they made the comment to the effect in their report that the physical production of producing and marketing potatoes was a primary function and not trading in the futures concept. I think that is very significant, because it seemed quite doubtful to me at this time whether that situation still exists. I think that we have got to a place where it might be feared that trading in futures contracts in Maine has become more profitable than the business of raising potatoes. I base that on the fact that the futures has become so enormous that about 602,000 cars, according to my calculations for the years 1964-65 were traded—that is about seven times the total crop in Maine, and if you apply it to the proportion of the crop that is marketed commercially outside of Maine, it is about four times the total crop.

I think it might well be suggested that here we have a situation where the committee of Congress did not think that it was essential as a prerequisite to the futures trading and futures trading has taken hold and the actual commodity has fallen into the background.

If I may, I would like to introduce here an exhibit that shows the volume of futures trading back to 1945-65. It is very simple. I will not waste any time talking about it. It shows on its face how this has increased.

(The table entitled "Potato Futures—Annual Volume of Trading (Carlots)" follows:)

Potato futures—Annual volume of trading (carlots)

Year	Chicago Mercantile Exchange	New York Mercantile Exchange	Year	Chicago Mercantile Exchange	New York Mercantile Exchange
1945-46.....	570	5,642	1955-56.....	180	126,159
1946-47.....	182	16,142	1956-57.....	123	137,055
1947-48.....	19	27,563	1957-58.....	12	188,157
1948-49.....	6	9,208	1958-59.....	48	95,423
1949-50.....	38	6,554	1959-60.....	273	284,621
1950-51.....	111	2,516	1960-61.....	364	188,911
1951-52.....	280	17,901	1961-62.....	3	237,688
1952-53.....	1,720	121,729	1962-63.....	47	152,056
1953-54.....	1,030	66,495	1963-64.....	-----	178,680
1954-55.....	576	196,610	1964-65.....	-----	602,521

¹ Subject to minor corrections. Chicago figures not available for 1963-65.

Mr. BAGNELL. Mr. Bryant mentioned a while ago that, as the futures trading has increased, Maine potatoes positively had deteriorated or worsened. Obviously, the growers do not feel very happy when they see futures trading dumping, as it has in the last 8 months or a year, potatoes on the market, because they feel that the increase in the past years has been accompanied by a bad situation, and that the current situation is going to be so much worse.

Someone asked, and I think very appropriately, what we base our suggestion or our tieup with the \$15 million loss to the State of Maine—what we base that on. I would like to emphasize again what has been said that I, certainly, would not suggest for one moment that that \$15 million was all the result of futures trading, but we do have the irrefutable fact that futures trading has increased Maine's position, compared to other sections of the country in its deterioration. The figures of the Department of Agriculture show that.

I have here another tabulation which is headed "Wholesale Potato Prices, Free on Board Shipping Point, Idaho, Compared With Maine, Crop Years 1946-47 to 1962-63." This is divided up into four segments; the first 5 years being when futures trading was of no consequence in Maine, and then 5 years when it got to be pretty heavy, then 5 years when it became quite heavy, and the last 2 years are shown as 1961-63.

(The chart entitled "Wholesale Potato Prices Free on Board Shipping Point," etc., follows:)

Wholesale potato prices, free on board shipping point, Idaho, compared with Maine, crop years 1946-47 to 1962-63

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
1961-62	1.97	1.16	59
1962-63	2.29	1.37	60
Average	2.13	1.26	59

¹ Russet Burbank No. 1, size A, sales, free on board shipping point, Idaho Falls, Twin Falls district.

² Mostly Katahdin type, U.S. No. 1, size A, sales, Aroostook County points, Presque Isle, free on board shipping point.

Mr. BAGNELL. It shows that the average that Maine got in relation to Idaho in the present futures period was 88 percent. The average is 69 percent. Whether I am right or not right in that, it certainly does account to some extent for the Maine growers' resentment which is, as I have said, something that I am driving at.

It happens that in that particular field we have something that I think shows that, at least, a substantial part of this is due to futures trading. This consists of two newspaper clippings from responsible market reports. They are both dated April 25, 1964. One is from Pocatello, Idaho, and it says, among other things:

Prices on all packs have been rising steadily the past 10 days to 2 weeks as demand has been excellent. The market is fully \$1 higher than it was last year at this time.

In contrast to that a reporter from New York, reporting on the mercantile's activities—he is explaining a 20-cent price decline that occurred overnight:

Heavy commitments have been built up. Those who have bought and are unable to take delivery have been liquidating. This brought about a price decline this week.

That is the situation where you can point to something and say, "Well, right here, if in one day Maine suffered a 20-cent per hundred loss compared to Idaho", that, I believe, happens time after time. When you see prices go up 35 cents or down 20 cents or 25 cents in a matter of a few hours that is not, in my opinion, supply and demand. I do not think potatoes are worth that much more or less. This fellow hit it right on the head when he said that this is a result of heavy commitments being built up by these people who want to get out.

(The newspaper clippings referred to follow:)

[The Packer, Apr. 25, 1964]

IDAHO POTATO DEAL THIS YEAR ONE OF BEST

(By Tom Pearse)

POCATELLO, IDAHO, April 24.—Potato shippers in this State are enjoying one of the best potato deals in years. Despite the fact Idaho harvested its second largest crop in history, supplies are running out and some shippers have closed their doors for the season. More are expected to do so by early May. A few expect to continue shipping until late May, while just a handful will hang on until mid-June.

Prices on all packs have been rising steadily the past 10 days to 2 weeks as demand has been excellent. The market is fully \$1 higher than it was last year at this time.

[The Produce News, Apr. 25, 1964]

SPUD FUTURES TRADING HITS SEASON PEAK

(By Col. L. Brown)

Futures trading was the most active of the year to date on Thursday, with 4,933 cars traded. Volume was heavy all week, except for 1 day when it was off. Prices declined sharply on Thursday and closed at \$2.94, down 20 cents from the previous close.

Heavy commitments have been built up. Those who have bought and are unable to take delivery have been liquidating. This brought about a price decline this week.

Mr. BAGNELL. In April we are getting close to the delivery periods. You have a lot of people in there, housewives, doctors, dentists, retired people, who feel that potato futures is the way to make some money. They have gone in and bought, and they have held on, but most of them, probably, lose money right away. The first thing that a speculator does, when he loses money, is to hold on. He is not willing to face a loss in value. If he has a profit, he will get rid of it.

Along about April the broker calls him up and states, "You will soon get some potatoes on delivery, you are pretty close—we will soon have to do something." He liquidates. This not only puts the futures market down, but at the same time it is the time that the Maine farmer is marketing the actual potatoes.

Our farmers in Alabama, Mr. James' farmers in North Carolina are marketing their potatoes, too. This futures trading is helping them to market their potatoes. It is helping them to sell. The future speculators are selling in competition with these farmers.

I think that is the very point, Mr. Chairman, of one instance where futures operations create this condition for the Maine farmer and contributes to the \$15 million loss we have been talking about.

Another thing that they do not like is the rapid price move. So I compared the range of prices of actual potatoes in Maine and Idaho and found that our futures trading increased and that Maine's prices fluctuated more violently as they increased than did those in Idaho, which remained relatively stable. And I say relatively stable. I say that advisedly, because potatoes and onions have always had a history of wide price points. But there seems to be a very clear correlation between the futures trading and the price movement in these areas.

(The statement 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 53 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

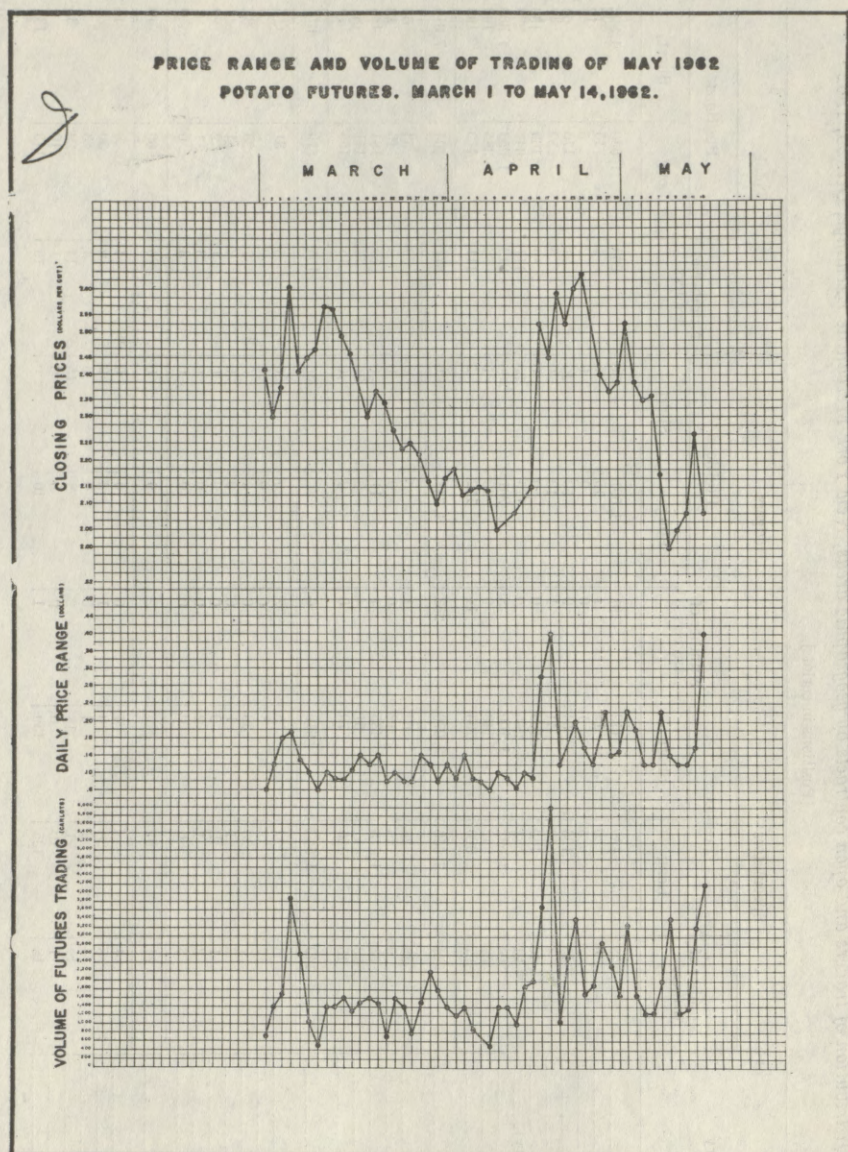
[Dollars per hundredweight]

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-----	4.42	\$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-----	2.06	.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. I dislike to put all of this statistical material into the record, being a certified public accountant, I cannot resist it. I have a chart here that shows that same thing in chart form. It does not really add anything, I will admit, to what has been said.

(The chart entitled "Price Range and Volume of Trading of May 1962 Potato Futures—Mar. 1–May 14, 1962," follows:)



Mr. BAGNELL. This question as to instability is also brought out in another publication of the U.S. Department of Agriculture which compares seasonal price ranges of onions, potatoes, wheat, corn, oats, soybeans, cotton, and eggs.

It goes back 30 years. It shows that potatoes and onions have by far the widest seasonal price fluctuations, making them more attractive to speculation and more vulnerable to speculation because of the obvious tendency to jump around in price.

(The table entitled "Maine potato futures," et cetera, and the table "Season average prices received by farmers for selected commodities and percentage change from previous season's price" follow:)

Maine potato futures: Distribution of traders and open contracts by geographic areas, New York Mercantile Exchange, Oct. 26, 1932

[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.....	78	439	112	191	1,091	4,690	269	1,530	4,802
New Hampshire.....	3	0	12	1	15	0	4	15	12
Vermont.....	2	0	1	0	0	0	2	5	1
Massachusetts.....	45	126	54	9	50	12	54	176	66
Rhode Island.....	4	42	41	1	10	0	41	52	41
Connecticut.....	46	169	169	0	0	0	46	169	169
New York (excluding New York City).....	91	321	245	20	126	33	111	647	278
New York City.....	204	1,692	1,100	8	261	206	212	1,963	1,306
New Jersey.....	54	342	143	9	463	0	63	485	143
Pennsylvania.....	97	320	193	14	152	5	111	472	198
North Atlantic.....	624	3,656	2,070	253	1,748	4,946	877	5,404	7,016
Ohio.....	38	38	63	1	25	0	39	53	63
Indiana.....	9	46	12	0	0	0	9	46	12
Illinois.....	58	1,173	435	1	11	0	59	1,184	437
Michigan.....	29	141	51	4	0	36	33	141	87
Wisconsin.....	15	155	79	0	0	0	15	155	79
East North Central.....	149	1,543	640	6	36	36	155	1,579	676
Minnesota.....	6	22	5	2	9	0	8	31	5
Iowa.....	9	2	3	0	0	0	2	2	3
Missouri.....	7	23	38	0	0	0	7	23	38
North Dakota.....	2	1	1	0	0	0	2	1	1
South Dakota.....	1	2	0	0	0	0	1	2	0
Nebraska.....	3	1	2	0	0	0	3	1	2
Kansas.....	3	6	0	0	0	0	3	6	0
West North Central.....	24	57	49	2	9	0	26	66	49
Delaware.....	4	8	4	0	0	0	4	8	4
Maryland.....	8	28	0	1	2	0	9	30	0
District of Columbia.....	4	3	3	0	0	0	4	3	3
Virginia.....	12	21	18	2	8	15	14	29	33
West Virginia.....	1	10	0	0	0	1	1	10	0
North Carolina.....	18	135	139	1	10	0	19	145	139

South Carolina.....	4	0	3	0	0	0	0	0	4	9	3
Georgia.....	8	1	26	10	0	42	9	405	48	26	32
Florida.....	40	8	83	83	0	48	112	681	240		
South Atlantic.....	99		225	113	15						
Kentucky.....	1	0	0	0	0	1	1	1	0		
Tennessee.....	7	0	18	0	0	7	7	22	18		
Alabama.....	4	0	7	0	0	4	4	67	7		
Mississippi.....	2	0	0	0	0	7	2	6	0		
Oklahoma.....	1	1	8	3	0	6	6	61	16		
Texas.....	19	0	16	0	0	0	19				
South Central.....	38		49	5	0		39	161	49		
Montana.....	3	0	0	0	0	0	3	9	0		
Idaho.....	16	108	69	37	5	20	205	74	74		
Wyoming.....	1	0	1	0	0	1	1	0	1		
Colorado.....	7	5	13	0	0	7	7	5	13		
New Mexico.....	1	0	1	0	0	1	1	0	1		
Arizona.....	10	29	11	0	0	10	10	29	11		
Nevada.....	1	0	1	0	0	1	1	0	1		
Utah.....	6	0	17	0	0	6	6	26	17		
Washington.....	20	26	69	0	0	20	20	106	69		
Oregon.....	14	106	72	0	0	14	14	41	72		
California.....	193	41	304	4	0	194	194	186	304		
Western.....	272	556	564	41	5	277	277	607	569		
Hawaii.....	4	0	7	0	0	4	4	6	7		
Puerto Rico.....	1	0	1	0	0	1	1	0	1		
Total.....	5	6	8	0	0	5	5	6	8		
Canada.....	58	214	41	10	77	68	68	277	118		
Lebanon.....	1	10	0	0	0	1	1	10	0		
Mexico.....	2	2	0	0	0	2	2	2	0		
Switzerland.....	1	4	0	0	0	1	1	4	0		
Total.....	62	230	41	10	77	72	72	293	118		
Grand total.....	1,273	6,782	3,646	290	5,079	1,563	1,563	8,797	8,725		

1 Some positions as of Oct. 31, 1962.

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-lb. sack		Dollars per bushel		Cents per bushel		Cents per bushel		Cents per bushel		Dollars per bushel		Cents per pound		Cents per dozen		
1930-31	48	-35.1	1.30	-22.3	103.6	-35.2	70.9	-25.2	41.8	-23.0	1.88	-27.1	16.78	-43.6	29.8	-20.5	
1931-32	43	-10.4	.88	-48.9	39.1	-41.7	59.8	-46.3	32.2	-33.9	1.37	-63.5	5.66	-40.2	23.7	-25.7	
1932-33	43	-2.3	.45	-32.1	32.1	-41.7	32.1	-1.6	21.3	-33.9	.50	-78.0	6.52	+15.2	17.6	-19.5	
1933-34	41	+56.1	.81	+113.2	74.4	+94.8	52.0	+64.6	33.5	+113.4	.94	+74.1	110.17	+56.0	13.8	-19.5	
1934-35	64	+4.7	.42	-48.1	84.8	+14.0	81.5	+56.7	48.1	+43.6	.99	+5.3	112.36	+21.5	17.0	+23.6	
1935-36	71	+6.0	.59	+40.5	83.1	+2.0	65.5	-19.6	26.4	-45.1	.73	-26.5	11.09	-10.3	23.4	+37.6	
1936-37	43	-39.4	1.12	+89.8	102.5	+23.3	104.4	+59.4	44.9	+70.1	1.27	+74.0	12.36	+11.5	21.8	-6.8	
1937-38	66	+53.5	.50	-55.4	96.2	-6.1	151.8	-50.4	30.2	-32.7	.85	-33.1	18.41	-32.0	21.3	-2.3	
1938-39	55	-16.7	.54	+8.0	156.2	-41.6	148.9	-6.2	23.8	-21.2	.67	-21.2	18.60	+2.3	20.3	-4.7	
1939-40	45	-18.2	.69	+27.8	169.1	+23.0	156.9	+16.9	31.0	+30.3	.81	+20.9	19.09	+5.7	17.4	-14.3	
1940-41	70	+55.6	.51	-26.1	168.2	-1.3	161.8	+8.8	30.3	-2.3	.90	+11.1	19.89	+8.8	18.0	+3.4	
1941-42	99	+57.1	.79	+54.9	194.4	+38.4	173.7	+21.5	41.1	+35.6	1.55	+72.2	17.03	+72.2	23.5	+30.6	
1942-43	1.10	-10.0	1.14	+44.3	111.0	+16.5	191.7	+22.1	48.8	+18.7	1.61	+3.9	19.05	+11.9	30.0	+27.7	
1943-44	1.68	+69.7	1.26	+10.5	136.0	+23.6	112.0	+22.1	72.9	+48.0	1.81	+12.4	19.73	+4.5	37.1	+23.7	
1944-45	1.30	-28.6	1.44	+14.3	141.0	+3.7	109.0	-2.7	70.9	-1.8	2.05	+13.3	120.73	+4.2	32.5	+12.4	
1945-46	1.69	+40.8	1.38	-4.2	150.0	-6.4	127.0	+16.5	66.7	-5.9	2.08	+1.5	22.52	+8.6	37.7	+16.0	
1946-47	.89	-47.3	1.21	-12.3	191.0	+27.3	156.0	+22.8	80.9	+21.3	2.57	+23.6	132.64	+4.9	37.6	+20.5	
1947-48	2.08	+133.7	1.60	+32.2	229.0	+19.9	166.0	+38.5	105.0	+29.8	3.33	+23.6	131.93	+2.2	45.3	+20.5	
1948-49	1.32	-36.5	1.52	-5.0	199.0	-13.1	130.0	-39.8	172.3	-31.1	1.27	-31.8	230.38	-4.9	47.2	+4.2	
1949-50	1.47	+11.4	1.27	-16.4	188.0	-5.5	125.0	-3.8	165.7	-9.1	1.26	-4.8	28.58	-5.9	45.2	-4.2	
1950-51	1.87	+40.8	.90	-29.1	200.0	+6.4	153.0	+22.4	179.1	+4.0	1.47	+14.4	140.07	+40.2	36.3	+19.7	
1951-52	1.67	+92.0	1.63	+81.1	211.0	+5.5	166.0	+8.5	182.3	+4.0	1.24	+10.5	137.88	-5.7	47.8	+31.7	
1952-53	2.31	+38.3	1.95	+19.6	209.0	-9.9	153.0	-7.8	178.6	-4.5	1.27	0	134.59	-8.7	41.9	+13.0	
1953-54	.08	-70.6	1.78	-60.0	204.0	-2.4	149.0	-2.6	174.3	-5.5	1.27	-9.6	132.25	+6.8	47.7	+14.7	
1954-55	1.07	+57.4	1.30	+66.7	212.0	+3.9	143.0	-4.0	171.4	-3.9	2.46	-14.6	133.61	+4.2	36.8	-22.9	
1955-56 ¹	1.31	+22.4	.94	-27.7	199.0	-6.1	131.0	-8.4	159.2	-17.1	2.10	-19.6	433.00	-1.8	36.8	-22.9	
Average ²		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, USDA, "Agricultural Statistics," and AMS Statistical Bulletin No. 140, "Potato Prices." For 1953-54, USDA, Agricultural Marketing Service—potatoes, wheat, corn, oats, and soybeans, "Field and Seed Crops," May 9, 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. It seems to me that this vulnerability which is based on perishability is pretty well answered by my question of why onions and potatoes sold bad in the spring when other commodities have demonstrated themselves to be good. I think it hinges altogether on the question of perishability. It may be that the people who liquidated that day back in April sold because they had potatoes at the end of the season. If they had been in wheat, for example, they could have taken delivery of the wheat and sold it for July or September or December delivery. You cannot do that with potatoes. The deal cuts off at the end of the season. And in May the fireworks take place, because that is due to that keyword of "perishability"—that is when the fireworks takes place.

I do not think in looking at all of the facts and figures that it can be contended that Maine is going to be hurt in any way by the abolishment of this exchange. That seems to be true, because 85 percent of the country seems to get along without an exchange. The basic situation is analogous to what is in onions. And, incidentally, we will have some of the most responsible people in the onion industry in here who will testify as to their views concerning whether the onion industry is better or worse with the elimination of futures trading. The basic situation is identical to what it was in onions and as was stated, nothing short of elimination can remedy it here. And I say elimination deliberately.

Ten years ago there was a regulation and more rules it was felt would solve the problem that was advanced before the onion legislation came up for serious legislation. Despite that, Congress decided to eliminate the situation in onions. Limits were established on onions but Congress nevertheless went ahead and eliminated it.

When it was up before the 88th Congress new delivery rules and procedures were adopted by the exchange with the purpose, and I know a sincere purpose, of stabilizing that market. Let me say here that I know that the exchange is as anxious as anybody else to have this thing where it does not irritate the growers, as it does today. But I will also have to say that simply cannot be done and still have an exchange. The exchange hinges on speculation. It has to. And in a case of this sort of commodity it is not what could be called a very stable situation—there is a very delicate balance that the speculators are always afraid of. When they get deliveries they are always listening to the rumors that come out on the wire. So I do not believe that you could possibly have a market that will provide enough commission to be worth paying the electrical bill with if you regulated it to the necessary extent to get rid of this difficulty.

It has already been mentioned that this very rule that was established some years ago was cited and I can tell you that it was an item in which the recipient of the delivery, if the exchange applied that rule, he had to take delivery of the potatoes on that day. The point is that the rule did not work. No regulation can make it possible to conduct an orderly futures market in this sort of a product.

It may very well be, and I think it is probably true, that trading in other commodities needs stronger regulations. I know that a commodity exchange, if it is given the tools, they will use them to the best of their ability. The fact remains, however, that they cannot, no matter what legislation is given them, regulate this thing unless they simply strangle it to death. It cannot function in the manner in which it is now set up.

There is one other exhibit here that I will not try to put into the record, but I would like to present it to you. I would like for the committee to see it. I will tell you now that this is a brochure put out by the mercantile exchange. It is not adaptable, I do not think, to reproduction in the record, but it does show in very brief form how the exchange operates. I think it would be worth the attention of the members in taking a look at it, at least. It is a two-page affair. You will notice on the second page there is a chart that shows the wide price movements that take place in futures on the exchange. This goes back to 1951 up to 1962. You will notice that each year this seasonal jump which is built into the perishable commodity—built into the fact that this commodity goes off the board in May of every year, causing these price movements.

The exchange comments rather interestingly on this. It says:

Outside investor: Potato futures contracts are active and have wide price swings in a highly fluid market; for example, over 221,000 contracts were traded in 1961.

That has since faded into insignificance.

Potato prices fluctuate in relation to such factors as weather, production, export, import, and general economic conditions. This affords the investor the opportunity to play an important role in the economy, carrying the hedge risk inherent in price fluctuations.

Well, as a former partner in a stock exchange firm, I do not believe in the term "investment," as a former partner I do not, but, nevertheless, I do think that this is fairly well worthwhile. It gives the quantity and the size of the contract and the general procedures that are had on the exchange.

This brings me, I think, about to the end of my statement.

Mr. MATSUNAGA. The two-page document you have referred to will not be made a part of the record, but it will be made a part of the files of the committee.

(The document referred to entitled "Trading Information in Brief" will be found in the files of the committee.)

Mr. BAGNELL. There are some more that I think should go into the record. One is a geographic distribution of traders. They plan to use the market for hedging. Every contract in Chicago where I worked could be traded on, but they do not use it and so it has gone along very satisfactorily. They do not even attempt to use that futures contract.

Then there is occupational distribution which just shows the wide variety of persons who are in this market, who trade in the market who may be dentists in Philadelphia buying, or some housewife, or a retired person in St. Petersburg, Fla. The Maine potato people think that there are better ways than that to determine the price of their product. They think it has been demonstrated in other parts of the country and I believe that they are well justified in their feeling that they would get along better without the futures market. I believe they would, too.

It is a very serious question, there is no doubt about that, but having lived with it and looked at it for about 8 years, and having looked at the futures market for more than 30 years, it is my opinion that they are justified in stopping this activity.

We heard the chairman mention awhile ago the very narrow margin as to the passage of this legislation, which was right on the crest last

year and practically passed. As a matter of fact, we congratulated ourselves and one half hour later we had to call ourselves up and say, "Cancel it." We are very hopeful that will not be repeated this time; that the potato growers will not again be attempting to use the market for hedging as they did during this price rise in 1964 and 1965 when the figures will show that some 8,000 cars were sold by growers under the advice which presumably was given by the exchange for hedging.

Unfortunately future prices kept on going up and they lost on all of those short sales. The Department of Agriculture statistics show that those short sales were bought by speculators in New York and Chicago largely. The net of it is that these growers in Maine, in the first decent year they have had almost in their memory, gave away, I would say at least \$3 or \$4 million out of their pocket. It not only left their pockets, but it left the State of Maine entirely.

I have been around Maine long enough and often enough to know that they could do very well if they had that money in their own pockets.

I think that concludes my remarks.

(The prepared statement of Mr. Douglas B. Bagnell follows:)

STATEMENT OF DOUGLAS B. BAGNELL, FAIRHOPE, ALA.

My name is Douglas B. Bagnell. Since retiring from the Department of Agriculture about 6 years ago I have been living in Fairhope, Ala., and for about 4 years I have been working with the Maine Potato Council in its effort to stop futures trading in Irish potatoes.

My experience and contact with commodity futures trading dates back to about 1928. The last 5 years before retirement were as Deputy Administrator of the Commodity Exchange Authority. My work has involved the close observation and investigation over a period of over 30 years of many operations and practices in these markets and the presentation of facts in hearing grand juries, in court proceedings, and before congressional committees.

I hope to present here in not over 20 minutes some factual and statistical material which I think gives the background for the reasons why the responsible elements in the industry, especially those in Maine, so strongly oppose futures trading in potatoes. I have worked on the premise that the interests of the growers is paramount and I have tried to find out whether their opposition to futures is justified.

I would like to put into the record at this point a tabulation showing the enormous increase in futures volume over the past couple of years. From an average in the recent past of about 180,000 cars per year this trading increased to over 600,000 cars in the 1964-65 marketing year. This is more than seven times the average Maine crop of actual potatoes.

The figures show that Maine's comparative position in the industry has deteriorated steadily over the past 15 years as futures has fastened a tighter and tighter hold on the pricing and marketing system. In view of this fact naturally the growers look on the current huge volume with apprehension.

The steady worsening of Maine's situation in comparison with other areas is shown in this tabulation I would like to put in the record if I may. This shows, in brief, that in the period before there was a significant volume of futures Maine's potatoes brought approximately 88 percent of the Idaho price but slipped steadily for about 12 or 15 years until in 1961-63 they brought only 59 percent.

It is on this price record that we base our calculation that Maine has dropped some \$15 million per year pricewise as futures has taken hold. These calculations are also presented on page 67 of the hearings in the last Congress on H.R. 904, and if permissible I would suggest that the reporter copy this in the record of today's hearing.

Going back for a minute to the present very large volume of futures trading, a committee of the House investigating futures trading in both potatoes and onions in 1956 made this observation: "The committee is firm in its belief that the physical production and distribution of potatoes and onions—not the trading in futures contracts for these commodities—is the basic economic activity." It seems questionable to me whether that is the case in potatoes at this time.

Two trade news items which appeared on the same date point up very sharply one of the constantly repeated instances where futures activity operated adversely to Maine's interest. I would like to put these in the record at this point.

The items both appeared on April 25, 1964. Please note that one reports Idaho as having a steadily rising market, while the writer of the Maine item reports a 20-cent price decline in futures due to the liquidation of heavy commitments by persons "who had bought and were unable to take delivery."

The Maine market is repeatedly affected, and often completely dominated, by "technical" futures situations such as reported here. In my opinion this is built-in to any attempt to adapt the futures trading system to a perishable product. The basic situation is identical with what it was in onions, and, as was the case in onions, nothing short of elimination can remedy it.

Consideration of all available figures and data disclosed no evidence to me that the Maine growers received any significant benefit from futures trading. Some who speculate make a profit, but more lose, as is the way of futures speculators at all times in all markets.

The fact that approximately 85 percent of the potato production is in areas not using futures markets, and that entirely satisfactory marketing processes are in use in those areas makes it obvious that no damage would come to the industry in Maine with its elimination.

I believe the Maine potato industry is justified in seeking an end to futures trading. I believe this will result in more orderly market conditions, less demoralization among the growers and more effective attempts to solve other industry problems.

This subject of potato futures has had the attention of Congress and congressional committees for about 10 years. On October 27, 1955, a special subcommittee was appointed to consider futures trading in both potatoes and onions. Testimony was taken in Presque Isle, Chicago, and Washington.

In a report dated September 24, 1956, the subcommittee raised serious question as to the suitability of both potatoes and onions for futures trading. As you know, legislation identical to that we are now discussing was considered by the 88th Congress. It received favorable reports by both the House and Senate committees after hearings such as this one, and was passed by the Senate. It went to the Rules Committee of the House, and was reported to the floor, but an hour or so later was called back, and died with the end of the 88th Congress. It is by that narrow margin that we are here today, again presenting our story.

Witnesses who follow will speak with the voice of experience on the actual results of attempting to use this market.

Now if I may I would like to introduce several exhibits and tabulations. My comments on each will be very brief. I believe they were all introduced and discussed in the earlier hearings on H.R. 904.

This is a comparison of price range of actual potatoes in Maine and Idaho. Its purpose is to show the wider price swings in Maine as futures became a greater market factor.

The next is a chart or graph showing that as futures volume increases price movements also increase.

The next is a tabulation of prices of a number of commodities from 1929 to 1956. It shows that onions and potatoes had the greatest seasonal fluctuations.

This tabulation of geographic distributions of traders shows that there are practically no traders outside of Maine and immediate vicinity who claim to be using the market for hedging, though there are quite a number of speculators scattered around the country.

This tabulation of occupational distribution shows the wide variety of speculators who trade in futures. These include housewives, physicians, retired persons, and many others with no apparent knowledge of the commodity except that it moves fast.

I have tried to be brief to conserve the time of the committee and the witnesses who will follow. If anything further is desired, or there are any questions, we are most anxious to try to answer them.

Thank you very much.

Mr. MATSUNAGA. We have just about 5 minutes left now for the next witness.

I wish you would touch on this one point, however. What, in your opinion, would result, insofar as the consumer prices go, if the trading in potato futures would be abolished—what do you think that would be, from your experience in this?

Mr. BAGNELL. My opinion would be that the effect would be very slight. And I will tell you why.

One reason that I guess, as Mr. James mentioned, that there has been a very close correlation between what the farmer gets and what the consumer pays.

On top of that the chainstores now have to watch that Board if they are trading in Maine potatoes, that is, buying potatoes from Maine—they have to be conscious of the likelihood of the Board going up or down by these 20-, 15- or 35-cent points and I think many of them would take the position, "We had better keep our margin up kind of high on potatoes, because next week when we buy it may be higher or it may be lower—we do not know—but we are going to protect ourselves, and the consumer is going to pay us."

I believe that in offering potatoes on a man-to-man bargaining basis, with the relatively steady price move, not these tremendous ups and downs, but the same price for a week, then maybe another price for the next week, that thereby they would feel more secure and the market to the consumer would be steadier and I think better.

If you can get someone here on that I would like to take one of the two sides of that question, and argue it.

Mr. MATSUNAGA. Are there any questions?

Mr. FOLEY. No questions.

Mr. BURTON. No questions.

Mr. MATSUNAGA. Thank you, Mr. Bagnell, for your most persuasive presentation.

Mr. BAGNELL. Thank you, gentlemen.

Mr. MATSUNAGA. Our next witness is from Idaho, Mr. Allan F. Larsen.

**STATEMENT OF ALLAN F. LARSEN, BLACKFOOT, IDAHO,
PRESIDENT, POTATO GROWERS OF IDAHO, INC.**

Mr. LARSEN. Mr. Chairman, this is the first time I have appeared before a congressional committee, and I want to tell you how much I am impressed with your management of it and the pertinent comments that have come from the different members of the committee, and the friendly and inquiring attitude that you have presented is really beneficial.

I am Allan F. Larsen, a potato grower from Blackfoot, Idaho.

I am president of the Potato Growers of Idaho, Inc., formerly known as the Potato Growing & Marketing Association of Idaho, Inc.

I am beginning my third 1-year term as president of this organization.

I have been in the business of growing and marketing potatoes all of my adult life.

The growers in Idaho are anxious to do everything possible to help the Maine growers in getting rid of futures speculation. I am very happy for this opportunity to appear before you gentlemen at the request of the Maine Potato Council.

Since I am also a member of the steering committee of the National Potato Council, my testimony will be aligned with the resolution passed at Idaho Falls in November of 1965, supporting the growers of Maine in trying to relieve themselves of the futures trading which they believe is detrimental to them. This resolution, as I am sure you know by now, passed almost unanimously.

On three different occasions over a period of the last 4 or 5 years, the State board of the organization which I represent have had a vote on the Maine potato futures. Twice, when my predecessor, Joe Allen, was president, and at least once under my jurisdiction, we asked the State board to express their thinking on the Maine futures. In each one of these instances the growers of Idaho have voted to back the Maine growers in their efforts to relieve themselves of futures trading.

We have one member of our State board who has used the Maine futures trading and rather favors it from a speculative point of view. He told us in our last board meeting that he was not at all sure that it would be good for the growers in Idaho and felt sure that it was bad for the growers in Maine.

We invited him to discuss it fully because he believes in it, the points of advantage to him, and when it was all done from the speculative standpoint I do not think he said that it would be good for the growers but from a speculative standpoint it is fine, but not otherwise.

I have read quite a lot of testimony given to previous committees on the Maine futures by Maine growers. I have read some information that would tend to encourage Maine futures by Maine growers. I have read some information that would tend to encourage Maine futures given by a stockbroker in Idaho.

I have heard a processor urge very definitely that we should continue Maine futures and that we should extend it to Idaho. For many years there has been a futures board in Chicago where I understand the contract was set up for trading in Idaho potatoes. Fortunately our people have never been tempted by it. And there has never been any significant trading. This may be because our people saw the demoralizing effect of this business in Maine and certainly didn't want it to get any closer to home.

On the other hand, it looks like the New York Mercantile Exchange was able to organize a futures promotion program in Maine and got the industry in that area hooked to the extent that almost every transaction in actual potatoes is affected by these speculative prices.

I am sure that Idaho has ably demonstrated that we can establish prices by actual sales of potatoes without a futures trading program. The great majority of growers and responsible dealers don't want any part of this sort of activity. We want a market based on supply and demand as determined by negotiations between buyers and sellers of actual potatoes. We do not want the price of our product to be determined and controlled by what amounts to gambling between speculators who often have no connection with the industry and no knowledge whatever of the problems of production and handling.

Mr. MATSUNAGA. Thank you, Mr. Larsen, for your very fine statement, and it is very interesting coming from an out-of-State witness, and because of that your statement is especially welcome.

We have, according to my list here, 12 witnesses left who wish to testify tomorrow.

We will then meet at 10 o'clock. That will give us 2 hours, or 120 minutes. I ask that your testimony be limited to 7 minutes, leaving 3 minutes for questioning on each witness. If you can do that, we will get through.

Mr. BRYANT. I think that other than two statements, that most of the statements coming tomorrow will be very short.

Mr. MATSUNAGA. Thank you.

We thank you all for coming. We had hoped that we would get through with more of the witnesses. I am sorry that we have not enough time today to do that. I would appreciate your returning tomorrow.

Thank you very much.

The committee stands in recess until 10 o'clock tomorrow morning.

(Whereupon, at 12 noon the subcommittee recessed to reconvene at 10 a.m., Friday, February 4, 1966.)

Mr. BREAST, I think that other than two statements, that most of the statements coming tomorrow will be very short.

Mr. BREAST: Thank you.

Mr. BREAST: I think you all for coming. We had hoped that we would get through with more of the witness. I am sorry that we have not enough time today to do that. I would appreciate your returning tomorrow.

Thank you very much.

The committee stands in recess until 10 o'clock tomorrow morning.

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PROHIBIT TRADING IN IRISH POTATO FUTURES

FRIDAY, FEBRUARY 4, 1966

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

The subcommittee met at 10:10 a.m., pursuant to recess, in room 1302, Longworth House Office Building, Washington, D.C., Hon. Spark M. Matsunaga (chairman of the subcommittee) presiding.

Present: Representatives Matsunaga, Foley, Resnick, Greigg, Teague of California, and Burton of Utah.

Also present: Christine S. Gallagher, clerk, and Martha Hannah, staff.

Mr. MATSUNAGA. The meeting of the subcommittee will come to order.

The subcommittee will proceed with its hearing on H.R. 6006 to prohibit trading in Irish potato futures.

Our first witness this morning is Mr. Herschel Smith.

We will be glad to hear from you now. You may proceed.

STATEMENT OF HERSCHEL SMITH, WESTFIELD, MAINE, CHAIRMAN, MERCANTILE ELIMINATION COMMITTEE, MAINE POTATO COUNCIL

Mr. SMITH. Mr. Chairman and members of the subcommittee, I am Herschel Smith, of Westfield, Maine. I grow potatoes and I am also a partner in a sales firm. I am chairman of the Mercantile Elimination Committee of the Maine Potato Council and, of course, am advocating favorable action on this legislation.

Previous witnesses have already touched on the terrific volume of trading, and the \$6 to \$12 million of commission, compared to only 2,200 growers in the State of Maine.

I have been particularly concerned with the effect which futures markets had on the Maine industry during the period of high prices which we enjoyed during the marketing season of 1964-65.

In a release appearing in trade papers on July 30, 1965, it is stated by a spokesman for the New York Mercantile Exchange that Maine growers obtained a better price than those in Idaho during the marketing period of 1964-65, and that this was possible because of information obtained long in advance from the futures market. I have this release here and I would like to present it for the record, with your permission.

Mr. MATSUNAGA. Is that a news release?

Mr. SMITH. Just a photostatic copy of a news release.

Mr. MATSUNAGA. Was that submitted yesterday?

Mr. SMITH. No; I do not believe it was.

Mr. MATSUNAGA. Without objection, it is so ordered, and it will be made a part of the record at this point.

(The photostatic copy of the news release of the Produce News, July 31, 1965, follows:)

[From the Produce News, July 31, 1965]

MAINE SPUD GROWERS HAD BEST PROFIT—RETURN PER POUND TOPPED IDAHO; WON BY EYEING FUTURES, WATTS SAYS

NEW YORK, July 30.—Maine potato growers obtained a greater return per pound than did those in Idaho, it was reported this week by Llewellyn Watts, Jr., chairman of the New York Mercantile Exchange. He based the statement on statistics compiled at his request.

Millions of extra dollars came into Aroostook County in Maine because futures prices tipped off growers long in advance that cash market prices were going to jump, Mr. Watts noted.

"Potato futures prices are an important beacon, indicating for all concerned what lies ahead," he said. "They put the 80-acre grower on the same plane with the big growers and shippers when it comes to being able to estimate the future value of potatoes."

INFORMATION BIG HELP

This information about the future value of the crop kept growers from selling too cheaply, Mr. Watts noted, thus allowing them to participate in the high winter and spring potato prices. It also helped managers of co-ops and other organizations to get the top dollar for their members, he said.

Mr. Watts pointed out that the indication of future prices is one of the important functions of a potato futures market and that this value accrues both to those who do and those who do not trade futures.

[From the Bangor Daily, Jan. 27, 1965]

SPUD FUTURES HIT NEW RECORD

NEW YORK.—Llewellyn Watts, Jr., chairman of the New York Mercantile Exchange, reported Tuesday that trading in potato futures in 1964 reached an alltime record high of 403,208 contracts.

The previous high was 224,896 contracts in 1960. The average volume for the years 1959-63, the busiest period in exchange history, was 182,538 contracts.

Watts also said that currently the open interest in Maine potato futures is at an alltime high of about 20,000 contracts.

Since the beginning of 1965 trading in potato futures has been at a record-breaking daily average of 4,000 contracts with a total of 63,826 in the first 16 business days of 1965.

POTATO FUTURES AT RECORD HIGH

NEW YORK, August 6.—Potato futures trading volume has been moving at an alltime record pace in 1965. Through the end of July, trading for the calendar year 1965 has been 384,266 contracts. The similar period in 1964, biggest year in New York Mercantile Exchange history, was 178,716.

"Potato futures trading seems to be in for its biggest year on record," said Chairman Llewellyn Watts, Jr. Volume for calendar year 1964 was just over 404,000 contracts.

"Hedging participation by growers, shippers, and processors has accounted for a very high proportion of the vast volume," Mr. Watts said. "The exchange is delighted to find its contracts are of increasing use to trade interests for their protection of profits through hedging."

Mr. SMITH. You will see from a tabulation which I have on page 2 of my statement that it is impossible for the Maine potato growers to have received more than the potato growers of the State of Idaho.

For example, in October Idaho was receiving \$4.50 per hundredweight f.o.b. and Maine was receiving \$2.60. Idaho was over Maine \$1.90. And down throughout the months that follow—in April, Idaho was over Maine \$3.74 a hundredweight. I do not see possibly how it could have been interpreted that Maine received better prices than Idaho.

Furthermore, you will find that May futures give no indication of what the price will be in the later months.

Obviously, there is no pattern of uniformity in the price changes between October and April for any given month from which the grower could make any intelligent decision as to whether to market his crop immediately after harvest or to hold it until the following April or May.

Subsequently, it is perfectly clear from the foregoing figures that Maine growers did not receive better prices than those in Idaho, or, in fact, anywhere near as good prices—and, further, that future prices on any given date provide no indication whatever as to what potatoes will be selling for 5 or 6 months later.

Further factual information on the question of how futures trading affected the Maine growers is shown by a tabulation of open contracts on December 31, 1964, which appears in the USDA letter of August 4, 1965, commenting on this proposed legislation.

The tabulation furnishes striking evidence of heavy losses to Maine growers arising out of the attempt of some 500 of them to use the futures market as a hedge during this period of high prices. This tabulation and the report on which it is based, shows that growers, grower-shippers and other handlers in Maine were short 9,178 cars on December 31, 1964.

As shown by the price tabulation included herein, except for a slight dip during March 1965, the May future advanced rather steadily through its life. It was quoted as \$2.84 on June 15, 1964, and \$6.10 when it expired on May 10, 1965, an advance of \$3.26.

Of course, it is not known to us just when or at what prices the Maine growers and others in the industry sold the net of 7,893 cars which they were short on December 31. Neither do we know when they covered their short position, but there can be no doubt that as a group they lost money. If we assume that on the average they sold about September 15, 1964, when the market began to show a strong advance, and remained short until about April 15, a month before delivery time, they would have lost about \$2 per hundred or \$1,000 per contract. This would amount to nearly \$8 million on the net short "hedging" position.

Who got this money lost by the Maine potato industry? The USDA reports show that the long or buying accounts were mostly speculators located outside of Maine, largely in New York and Illinois. Thus, we have a situation where some Maine growers, being favored with the best prices in many years, attempted to protect themselves by what the mercantile refers to as hedging, and see millions of dollars siphoned out of their pockets and out of their State.

I do not think that there could be any clearer illustration of why the growers and the whole industry in Maine so desperately need to be relieved of this burden.

To me, these facts completely explain why the Maine growers are just as anxious to get away from futures during the rare periods of

satisfactory prices as during the more frequent long, lean years. They want a supply and demand market such as prevails through 85 percent of the producing areas.

I would like to comment briefly on the spectacular operation on the board which occurred in May 1964, which has been mentioned by previous witnesses. I think this clearly illustrates and emphasizes the unsuitability of such a perishable commodity as potatoes for futures trading.

As stated in the Fort Fairfield Review of June 3, 1964, a small weekly published in Maine:

May quotations had been expected by an influential minority to close at only a little over \$2 a hundredweight instead of the \$4.47 season's high at which they actually went out.

How close this "influential minority" was to being correct, and how close the market was to complete collapse is further indicated in a trade news item of April 25, 1964, explaining a 20-cent price decline in one day by stating:

Heavy commitments have been built up. Those who have bought and are unable to take delivery have been liquidating. This brought about a price decline this week.

As other witnesses have testified, one man—and only one man—had the facilities and the finances to stand up and take delivery. I believe that when one man can take all of the delivery of a contract he has cornered the market. This should show that the state of the futures market is too limited and too small and not adapted for futures trading.

I have seen several occasions when there were more contracts on the board than there were actual potatoes left to be marketed in Maine. And when some of the deliveries were being made the receivers found that they had to accept potatoes in an advanced stage of slimy rot, simply because the board's regulations say that potatoes delivered in Maine must be delivered to a point in Maine. The receiver has no alternative except to accept them as a good contract. The receiver of these potatoes is reported as stating that an official of the exchange said that the potatoes must be accepted on the May delivery. The Maine growers heartily agree with that statement as regards many aspects of the potato futures market.

I have here a copy of the items appearing in the New York Times, and in the Bangor Daily News covering the episodes I have just described, which I would like to submit to the subcommittee for the record. It is another photostat copy of a news release which has not been entered before.

Mr. MATSUNAGA. Without objection, that is so ordered and it will be made a part of the record at this point.

(The news release entitled, "Maine, New York Merchants in Row Over Rotten Spuds" follows:)

[From the Bangor Daily News, May 18, 1965]

MAINE, NEW YORK MERCHANTS IN ROW OVER ROTTEN SPUDS

PRESQUE ISLE.—Potato Service, Inc., of Presque Isle, has become involved in a controversy with the New York Mercantile Exchange.

The controversy concerns the quality of some May potatoes consigned to Potato Service Inc., from Aroostook County.

General Manager Moe Kimmel said Monday the first of six cars of May potatoes in a shipment consigned to the local plant by the mercantile exchange arrived at Potato Service Friday morning, but failed to live up to high standards required by the company.

An official of the mercantile exchange in New York City said Potato Service had to accept the May deliveries, Kimmel noted. But the big processing firm here does not, according to Kimmel, "for the simple reason the potatoes are not up to standard."

The potatoes in question were shipped from within a few miles of the plant on the Reach Road, packed in 50-pound bags, 1,000 bags to a car, said Kimmel.

The spuds arrived at Potato Service in a wet, slimy condition, Kimmel stated.

Kimmel said that if the same car were sent to Harlem River, N.Y., an inspector would have turned it down and it would have been dumped.

The plant official added that because the car was shipped from a point in Maine to a point in Maine, it wasn't subject to inspection or guarantee and that the exchange is demanding the plant here accept it. Kimmel said: "It just doesn't make sense."

A reinspection of the car showed that 40 percent of the car had 3 to 10 percent of slimy rot in advanced stages, according to Kimmel.

Kimmel said the carload of potatoes was of no value to his firm and estimated the cost of the potatoes at over \$3,000. He said the five other cars in the May shipment arrived at the plant in good condition. The six cars are part of a 400-car delivery to the plant for May.

[From the New York Times, May 11, 1965]

COMMODITIES: KEY MAY CONTRACT FOR POTATOES EXPIRES ON STRONG AND ORDERLY NOTE—KEY POTATO PRICE REGISTERS A GAIN—TRADE LEADERS PRAISE EXCHANGE

WATCH FUTURE STAGE FINAL ADVANCE DESPITE FEAR OF LAST-MINUTE DUMPING

(By N. J. Maidenberg)

Amid reports of a short supply of potatoes and climbing prices, the important May potato futures contract expired yesterday at \$6.20 a hundredweight.

The closing price represented a gain of 10 cents a contract from last Friday's final quotation and compared with the historic high—for any potato futures contract—of \$6.50 set by the May delivery last Thursday. The contract's season low was \$3.88, registered last June 16. Each cent represents \$5 a contract of 50,000 pounds.

Among the throng that gathered at the New York Mercantile Exchange to witness the close of trading at 1:30 p.m. were many leaders of the industry, most of them seldom seen on the exchange.

Growers and shippers from Maine, Idaho, and the South milled about the periphery of the crowd of shouting and gesticulating floor traders.

While most of the industry leaders preferred to remain anonymous, Jules DiLorenzo, one of the Nation's largest planters with interests in Florida and Delaware, expressed the feelings of most of the observers.

"It's beautiful, beautiful," he exclaimed when the final bell rang. "The exchange ought to receive a vote of confidence on the orderly way the contract was handled."

One large shipper from Maine told an exchange official, "I guessed wrong all season—twice today in fact—but the performance of the exchange will insure its vital place in the potato trade."

The expressions of confidence in the mercantile exchange's handling of potatoes for future delivery came after considerable worry about the high price level of potatoes, fears that there would be a last-minute rush to dump stocks, and concern over the large open interest that remained up to the last day of trading.

May's open interest early yesterday was 2,437 carlots, down 904 from Friday. It is expected that the 2,394 cars traded in the May delivery yesterday included heavy further deliveries.

In any cases, dealers were sure that the present price structure for Maine potatoes—the only ones covered by futures contracts—would make deliveries relatively smooth.

As for the relative high price of potatoes, usually double the futures level at retail, potato traders cited the principle reasons.

For one thing, they said that high prices last year had the unusual effect of cutting plantings. Growers with limited field crews were too busy packing and shipping and thus planted late. The late plantings, in turn, resulted in lighter weights for the immature growths at harvest. Many planters were further inhibited by the belief that a bad year follows a good one as far as prices are concerned.

Rather than join the rush to overplant, which usually follows a good year, they sold their seed potatoes.

Secondly, the Government places the blame for the smallest crop since 1938 on poor weather in the major growing areas. Late plantings combined with dry weather stunted plants that had to be harvested early because of premature frost in many sections late last year.

Consumption of potatoes, much of it in new forms such as frozen french fries and instant varieties, continues to soar. This runs contrary to past fears that nationwide concern over excess weight would cut consumption.

Finally, dealers noted that the recent strong prices caused growers of winter potatoes in Florida, Alabama, and South Carolina to rush underweight growths to northern markets. One trader noted that "If they would have kept them in the ground for 10 days more, they would have 20 percent more potato." However, he conceded that worry over competition from other areas, particularly the West, unnerved many southern growers.

The decision faced by growers at this time, to use their help to pack or to plant, was reflected yesterday in cash prices in Maine. Buyers paid \$5.25 to \$5.35 a hundredweight for one-car or two-car orders. Larger orders brought as much as \$5.50.

Because of early frosts in Maine in the fall, every day lost in planting now is critical and reduces the amount of money available from local banks for agricultural outlays.

Mr. SMITH. There simply is no reason for their products being used year after year in a guessing game between groups of speculators.

The situation existing in the potato futures market at this time can be fairly summarized by saying that futures trading now completely overshadows the production and marketing of actual potatoes. The total crop is traded on the board some six or seven times, considering the total production of Maine potatoes. However, if you take the total shipments which is approximately 40,000 cars a year as compared to the 600,000 cars processed and traded on the board each car is traded 14 or 15 times—bought and sold—on the board before it is actually rolling into the market.

The commissions amount to an almost incredible figure in relation to the number of growers. There were more than 3,000 futures accounts in the market as of December 31, 1964, with many times that number passing in and out of the market during the year, as compared to the total of about 2,200 growers.

The characterization of this market as a parasite on the industry is not adequate to cover the situation. It has reached a place where the parasite is larger than the industry on which it is feeding. The flea is larger than the dog.

In all seriousness, gentlemen, it seems to me that there cannot be any possible basis for hesitation or doubt concerning the prompt disposition of this matter by giving the industry the relief which would be provided by the legislation for which we are testifying. Of course, we are mindful of the fact that the opponents have not yet testified and that they are most certainly entitled to the right to present their side of the situation. We are sure that this will be done forcefully. We anticipate that there will be a great deal of theoretical evidence presented along the lines of that in the 88th Congress, but we know that no amount of theory can change the documented facts which exist showing the need for this legislation.

We also most earnestly hope that there will be no delays which may result in the growers falling into the same sort of trap as that which lost them some millions of dollars in attempting to "hedge" in 1964-65 price rise.

(The prepared statement of Mr. Herschel Smith follows:)

STATEMENT OF HERSCHEL SMITH, WESTFIELD, MAINE

I am Herschel Smith of Westfield, Maine. I grow potatoes, and am also a partner in a sales firm. I am chairman of the Mercantile Elimination Committee of the Maine Potato Council and of course am advocating favorable action on this legislation.

The figures on recent volume of trading reveal the shocking indication that commissions and clearing fees earned in 1 year by the mercantile and its members amounted to probably \$2,700 for each of the approximately 2,200 potato farmers in Maine. Of course this does not mean that each individual farmer lost or was assessed \$2,700. It does, however, mean that the total cost of running this "game" when divided by the number of farmers still operating in Maine probably approximated that figure. As stated in previous testimony it is impossible to determine precisely the amount of the commission "cut" taken by the brokers and wirehouses without a detailed examination of the records of the exchange and its members. This uncertainty is due to the fact that some trades are not charged full commission. At full commission rates the volume of 600,000 cars would amount to more than \$12 million. For purposes of calculation we have cut this in half or \$6 million. Even on the unlikely assumption that this figure is double the correct amount, we would still have a figure of more than \$1,300 per grower.

I have been particularly interested in the effect which the futures market had on the Maine industry during the period of high prices which we enjoyed during the marketing season of 1964-65.

In a release appearing in trade papers on July 30, 1965 it is stated by a spokesman for the New York Mercantile Exchange that Maine growers obtained a better price than those in Idaho during the marketing period of 1964-65, and that this was possible because of information obtained long in advance from the futures market. I have this release here and think it should go in the record for the information of this committee.

Two questions are raised by this release:

1. Did the Maine growers get better prices than the Idaho growers?
2. Do futures prices at any given time give any guide to what prices will be months later?

On the first question, it is interesting to look at the readily available figures covering prices of representative grades of potatoes at Idaho and Maine shipping points from October 1964 to April 1965—the latest date for which Idaho prices are published. These are as follows for Russets, No. 1, size A in Idaho, and mostly Katahdin-type No. 1, size A in Maine.

	Idaho	Maine	Idaho over Maine
1964—October.....	\$4.50	\$2.60	\$1.90
November.....	5.38	2.68	2.70
December.....	6.71	3.58	3.13
1965—January.....	7.26	3.94	3.32
February.....	7.01	3.88	3.13
March.....	7.37	3.88	3.49
April.....	18.54	4.80	3.74

¹ Through April 17 (prices per hundredweight).

It is also interesting to test the statement that by observing current futures prices the grower can judge what his crop will bring months later and thus decide whether to sell or to hold. The accuracy of this contention can be determined by comparing the price of the May future in October with that in the following April as follows:

May future	Month-end prices		Change October to to April
	October	April	
1964 to 1965.....	\$4.78	\$5.95	+\$1.17
1963 to 1964.....	2.63	3.23	+.60
1962 to 1963.....	2.55	1.87	-.68
1961 to 1962.....	2.32	2.38	+.06
1960 to 1961.....	3.20	2.09	-\$1.11

Obviously there is no pattern of uniformity in the price changes between October and April from which a grower could make any intelligent decision as to whether to market his crop immediately after harvest or hold it until the following April or May.

It is perfectly clear from the foregoing figures that Maine growers did not receive better prices than those in Idaho, or in fact anywhere near as good prices—and further that futures prices on any given date provide no indication whatever as to what potatoes will be selling for 5 or 6 months later.

Further factual information on the question of how futures trading affected the Maine growers is shown by a tabulation of open contracts on December 31, 1964, which appears in the USDA letter of August 4, 1965, commenting on this proposed legislation.

The tabulation furnishes striking evidence of heavy losses to Maine growers arising out of the attempt of some 500 of them to use the futures market as a hedge during this period of high prices. This tabulation, and the report on which it is based, shows that growers, grower-shippers, and other handlers in Maine were short 9,178 cars on December 31, 1964. Against this were 1,285 cars reported as long hedging in Maine, or a net short position for the Maine industry of 7,893 cars.

As shown by the price tabulation included herein except for a slight dip during March 1965, the May future advanced rather steadily throughout its life. It was quoted at \$2.84 on June 15, 1964, and \$6.10 when it expired on May 10, 1965, an advance of \$3.26.

Of course it is not known to us just when or at what prices the Maine growers and others in the industry sold the net of 7,893 cars which they were short on December 31. Neither do we know when they covered their short positions, but there can be no doubt that as a group they lost money. If we assume that on the average they sold about September 15, 1964, when the market began to show a strong advance, and remained short until about April 15, a month before delivery time, they would have lost about \$2 per hundred or \$1,000 per contract. This would amount to nearly \$8 million on the net short "hedging" position. If we assume they were fortunate enough in their timing to have lost only \$1 per hundredweight or \$500 per contract, their hedging effort would have cost them about \$4 million.

Who got this money lost by the Maine potato industry? The USDA reports show that the long or buying accounts were mostly speculators located outside of Maine, largely in New York and Illinois.

Thus, we have a situation where some Maine growers, being favored with the best prices in many years, attempt to protect themselves by what the mercantile refers to as hedging, and see millions of dollars syphoned out of their pockets and out of their State.

There can be no clearer illustration of why the growers and the whole industry in Maine so desperately need to be relieved of this burden.

This also gives a clue as to the spectacular volume of trading the mercantile is now reveling in. When a solicitor in a wirehouse in New York or Chicago can show a prospective speculator the bonanza being enjoyed by other speculative customers it is not too difficult to get another name on the books.

Without this hedging operation, the Maine growers would, of course, have enjoyed the full benefit of the high prices for actual potatoes, but would not have given up a substantial share of it to the futures speculators. In other words, they would have done just as the growers do in the 85 percent of the producing areas where futures do not control the marketing process, and where, in the words of the USDA "the function of crystallizing market information is being performed satisfactorily between buyers and sellers."

To me, these facts completely explain why the Maine growers are just as anxious to get away from futures during the rare periods of satisfactory prices as during

the more frequent long lean years. They want a supply and demand market such as prevails through 85 percent of the producing areas.

I would like to comment briefly on the spectacular operation on the board which occurred in May 1964, and which has been mentioned by previous witnesses. I think this clearly illustrates and emphasizes the unsuitability of such a perishable commodity as potatoes for futures trading.

As stated in the Fort Fairfield Review of June 3, 1964, "May quotations had been expected by an influential minority to close at only a little over \$2 a hundredweight instead of the \$4.47 season's high at which they actually went out."

How close this "influential minority" was to being correct, and how close the market was to complete collapse is further indicated in a trade news item of April 25, 1964, explaining a 20-cents price decline in 1 day by stating "Heavy commitments have been built up. Those who have bought and are unable to take delivery have been liquidating. This brought about a price decline this week."

At the very last minute, as it turned out, there was one, and only one interest able and willing to take delivery. Only by this action on the part of one man did the May 1964 future go off the board without complete chaos.

It is not surprising that a year later as reported in the New York Times of May 11, 1965, "leaders of the industry" gathered on the floor of exchange and expressed jubilation and relief when the 1965 May future expired without a repetition of the disorder of May 1964, and many other May contracts, and without the "last-minute dumping" which had been feared.

The relief of the exchange officials over getting the May 1965 future out of the way was no doubt quickly tempered by a controversy which developed a few days later. It was charged that certain potatoes delivered on the May contract were in an advanced stage of slimy rot. The receiver of these potatoes is reported as stating that an official of the exchange said the potatoes must be accepted on the May delivery. The receiver said this was the case because the car was delivered from a point in Maine, to a point in Maine, apparently under a new exchange rule providing for delivery at Maine shipping points. The receiver is reported as saying "it just doesn't make sense." The Maine growers heartily agree with that statement as regards many aspects of the potato futures market.

I have here a copy of the items appearing in the New York Times, and in the Bangor Daily News covering the episodes I have just described which I would like to submit to the subcommittee.

In a report of a special study of the May 1964 delivery, the Commodity Exchange Authority describes it as the "largest merchandising operation in potatoes through the futures market that we have seen." I question the use of the term "merchandising operation." It seems to me that "fantastic and unprecedented futures operation" would be a more accurate description. It was also generally publicized that the long side of the whole deal was under the control of one trader. The CEA study refers to three traders whose addresses were in Maine, Idaho, and Illinois.

In any event the operation was far different from the "broad market" described by the defenders of potato futures speculation in which it is claimed that large numbers of traders on each side register their views with resultant true supply-and-demand prices.

It is this sort of touch-and-go activity that the Maine growers so heartily resent. They simply see no reason for their product being used year after year in a guessing game between groups of speculators. They are resolved to establish a marketing system such as is described by the USDA in giving its views on this legislation in which it is stated that the "function of crystallizing market information (in areas not using futures trading) is being performed satisfactorily between buyers and sellers." This is the method 85 percent of the producing areas use with complete satisfaction. Those most strongly and actively opposing futures speculation are, in the words of the USDA, "the growers, who assume most of the price risks involved." Surely there can be no serious contention that the welfare and desires of these producers should not govern in the operation of the market through which they must dispose of their product.

The situation existing in the potato futures market at this time can be fairly summarized by saying that futures trading now completely overshadows the production and marketing of actual potatoes. The total crop is traded on the board some six or seven times. The commissions amount to an almost incredible figure in relation to the number of growers. There were more than 3,000 futures accounts in the markets as of December 31, 1964, with many times that number

passing in and out of the market during the year, as compared to the total of about 2,200 growers.

The characterization of this market as a parasite on the industry is not adequate to cover the situation. It has reached a place where the parasite is larger than the industry on which it is feeding. The flea is larger than the dog.

In all seriousness, gentlemen, it seems to me that there cannot be any possible basis for hesitation or doubt concerning the prompt disposition of this matter by giving the industry the relief which would be provided by the legislation for which we are testifying. Of course we are mindful of the fact that the opponents have not yet testified and that they are most certainly entitled to the right to present their side of the situation. We are sure that this will be done forcefully. We anticipate that there will be a great deal of theoretical evidence presented along the lines of that in the 88th Congress, but we know that no amount of theory can change the documented facts which exist showing the need for this legislation.

We also most earnestly hope that there will be no delays which may result in the growers falling into the same sort of trap as that which lost them some millions of dollars in attempting to hedge in the 1964-65 price rise.

Mr. MATSUNAGA. Thank you very much, Mr. Smith. If you desire, we will allow you the right to revise and extend your entire text, and your statement will be put in the record as if you had read it word for word.

Mr. SMITH. Thank you.

Now I have just a few comments in addition to make. There were questions which came up yesterday regarding the effect of abolishing the futures on the consumer. And with your permission, I would just like to go into that.

Mr. MATSUNAGA. If you have anything to add, you may do so at this time.

Mr. SMITH. Thank you.

Mr. MATSUNAGA. Do you have anything to add at this time?

Mr. SMITH. Yes, I just have a few more remarks that I would like to make, in answer to some of the questions that came up yesterday.

Mr. MATSUNAGA. Let me present Mr. Resnick, a member of our subcommittee.

Mr. SMITH. A question yesterday was how would the abolishment of the futures market affect the consumer. I am sure that you will—I am sure that you all had a copy of the Spudman yesterday, the article and the picture, showing the deteriorated quality of the potatoes in that carload that was delivered on the board. We could refer back to the Maine 1964 deliveries of the 1,900 cars to the one man.

All of these cars were loaded and inspected. Some of these cars were on the tracks for weeks, sprouting and rotting and bruising, as pictured in the Spudman. That is not unusual. It may be an extreme, but it is not an unusual thing.

Some of these cars were loaded and inspected to make the contract delivery complete, then immediately unloaded, some going back into storage, possibly, into the one next door. Many of these cars were unloaded—the bags were dumped out and then reloaded into smaller sized packages that could be marketed, because no one wanted 1,900 carloads of Maine, 50-pound bags of potatoes in 1 week.

Who paid for all of this waste and expense? Indirectly, it must be the ultimate consumer, because all costs are calculated in determining the selling price, to say nothing of the lower quality which the consumer finally did receive after the dumping out and the extra handling.

The same thing can be said of the \$6 to \$12 million spent as clearing-

house fees which serve no useful purpose. It either comes out of the pocket of the grower or the pocket of the consumer—it comes out of the public somewhere.

Previous witnesses have already testified as to how the retail price of potatoes must rise in order to absorb the wide price fluctuations. Abolishing the futures then would allow the retailers to sell more closely, to carry on a steadier market, resulting in a considerable saving to the consumer.

The per capita consumption of potatoes is less than 100 pounds per year. I am sure that abolishing the futures will tend to lower the prices to the consumer and, also, to give a much better quality product, so far as Maine potatoes are concerned. However, even if it raised prices 1 cent per pound, it would be a fantastic raise to the grower and would retire him early in life, it would cost the consumer less than \$1 per year.

I thank you.

Mr. MATSUNAGA. Thank you, Mr. Smith. We appreciate your fine testimony.

Are there any questions?

Mr. RESNICK. No.

Mr. TEAGUE of California. No.

Mr. MATSUNAGA. Our next witness is Mr. John R. Mooers. We shall be glad to hear from you now.

STATEMENT OF JOHN R. MOOERS, HOULTON, MAINE

Mr. MOOERS. Mr. Chairman and members of the subcommittee, my name is John R. Mooers of Houlton, Maine. I am a medium-priced-potato farmer. In addition to my farming operations, I purchase potatoes from some of my neighbors and conduct a shipping business. In both my farming operation and my shipping business I am desirous of developing a quality merchandising program with some medium-sized legitimate chain operators in the New York metropolitan area. I have developed contacts with a few medium-sized chains in the metropolitan area who are very much interested in working with me on a merchandising basis throughout the shipping season. These chains are not interested in speculation and expect me to provide them with quality merchandise on a steady, uniform basis throughout the marketing season.

Because of the tremendous gyrations created by futures trading on the New York Mercantile Exchange and the effect that this futures pricing has on day-to-day operations, I find that it is impossible for me to adequately service the chain operators whom I am working with. Growers whom I am doing business with naturally follow the fluctuations of the exchange prices. As a result I am forced many times to change my prices daily, and at times almost hourly. This creates an almost impossible situation for the chains who in their merchandising operation need to plan their requirements several days or a week in advance, and who need to be able to determine accurately what the cost of the merchandise may be.

Because of the confusion created by these price gyrations, our growers are continually in a state of confusion, resulting in many cases in their being unable to conduct an orderly marketing program for their own potatoes. My growers, along with 90 percent of all growers in the State, do not favor this futures trading.

Dealers, such as myself, are very much opposed to futures trading. The chain operators whom I do business with and other growers and shippers they do business with are very much opposed to futures trading.

Processors, who you might expect would be able to use futures in a hedging operation, for the most part do not use the futures market at all. Most processors hedge their supply by contracts with growers, choosing this in preference to attempting to outguess the violent fluctuations that occur in a futures market dominated by speculators who know nothing about the potato market and are being guided largely by wire houses and brokers whose main interest is to keep prices fluctuating so that there will be a tremendous amount of activity and they may be able to make many trades on which they collect brokerage with each transaction.

As has been pointed out previously, those of us opposing futures trading on Maine potatoes are not opposed to futures trading as a system, but rather oppose futures trading on potatoes because of the perishable nature of the commodity and because, unlike cotton and some of the other storeable commodities, we have every spring a definite cutoff period when futures operations must be traded out. This period occurs in the May option of each year. In some cases we are fortunate and the market is able to be traded out without too many deliveries. However, in many other cases we find, particularly in the May contract, that large quantities of potatoes may be delivered over a period of a few days to lawyers, doctors, housewives, and retired people, who haven't the slightest conception of what to do when they are forced to take delivery of a car of potatoes in Harlem River. The net result is that those people are at the mercy of brokers, speculators, and scavengers who immediately take advantage of the situation with tremendous losses to those unfortunate speculators who have to take delivery and results in a complete demoralization of the potato market.

At the first signs of vulnerability, our industry is apt to be subjected to a raid by speculators who are spurred on by these wire houses. This causes a disruption in orderly marketing far out of proportion than existing conditions warrant. In certain volatile situations, it is possible for groups of speculators and others by innuendoes and subtleties to cause the board to fluctuate at will, with complete disregard to the actual supply and demand situation. I have seen times when a definite need for first-quality potatoes by the chain trade was the only deterrent to utter chaos and complete breakdown of the marketing structure. These wirehouses do a great job for their patrons, but they sure appear not to care much for producers or handlers who are the day in and day out workers of this potato industry.

In May of 1962 we had such a condition when nearly 1,000 cars of potatoes were delivered. These potatoes were shipped into Harlem River, New York. Within a couple of days time Harlem River was completely plugged up and cars had to be stopped at Cedar Hills, Conn., and as far back as Boston, Mass. The weather was hot and in many cases these cars sat on track for days waiting for a retired person or a housewife to work themselves out of their problem. During this hot weather these potatoes, being perishable, in many cases deteriorated. With nearly a thousand cars on track in New

York, many of them in poor physical condition, there could be only one result and that was a complete demoralization in the potato market in the entire east coast. These potatoes had to be sacrificed at extremely low prices which affected the market until they had been completely used up or deteriorated. In addition to that so many of them were deteriorated that they were not actually worth much money, but the housewife or other uninformed person who was stuck with them sold them to go on to the market in competition with good potatoes.

We have passed out and have available for each member of this committee a copy of the 1965 spring issue of the Spudman, a national publication devoted to the interests of the potato industry in the United States. On pages 12 and 13 you will find an article concerning the evils of futures trading. On that page you will note a picture showing the inside of a carload of potatoes that was two-thirds rotten, spilled out of their bags, and in a thoroughly unacceptable condition. These potatoes were U.S. grade 1 when leaving Presque Isle, Maine, having been shipped by one of the best shippers up there. The resulting condition when this picture was taken is purely because futures trading is not practical with a perishable commodity and because of the confusion in Harlem River created by large deliveries at the termination of the shipping season, the May option. We would like to submit this article and this picture for the records.

When we appeared before the committee of the 88th Congress several people raised the question: "If growers in Maine do not like futures trading, why do they not ignore it?"

It is impossible for growers or shippers to ignore futures trading. Take my own case and the growers who are working with me. In May 1962 I had no potatoes traded on the May board, and we did not deliver potatoes to the board in Harlem River. However, I did have cars of potatoes going to New York City and Harlem River destined for legitimate customers, chainstore operators who needed those potatoes. In many cases we were forced to face many days of delay because of the congestion as a result of all of these board cars being tied up in Harlem River.

I couldn't ignore futures trading at that time. I couldn't supply my customers with potatoes, not because of any failure on my part, but because of the impracticability of trading a perishable commodity on the futures board and the congestion that resulted from that impracticability.

Later, when my cars finally did get through to my customers, they were confronted with terrific losses because the market had declined and they had to meet the competition of junk potatoes such as are shown in this picture. Neither my chainstore customers, myself, or my growers could ignore futures trading and yet none of us had any part of futures trading.

As has been pointed out previously, only Maine potatoes are traded on the New York Mercantile Exchange. Also, as has been pointed out, 90 percent of Maine potato growers are opposed to futures trading. Also, we find that the legitimate users of potatoes, such as chainstores, wholesalers, and other people who have an outlet for those potatoes are not in favor of futures trading. Processors, for the most part, do not use or support futures trading. The entire fresh fruit and

vegetable trade, as evidenced by the statement of the United Fresh Fruit & Vegetable Association, is opposed to futures trading.

In true retrospect the order of the day was, and still is, pride in brand, orderliness and quality of service. There is no substitute for a good understanding and working relationship between the country shipper and the urban receiver. It is through the efforts of these two groups working together and sharing and solving mutual problems that progress will be made in the best interests of the consumer. We potato growers in Maine feel equal to this challenge, but at the same time we know that we won't ever get to first base if we don't eliminate the trading of potato futures on the New York Mercantile Exchange.

Who wants futures trading? The only people that we can find are the brokers, who make huge commissions, and the exchange.

Gentlemen, as a grower we ask you to pass this legislation so that this industry can be returned to the growers, to the shippers, to the wholesalers, and other chainstore operators who conduct a legitimate merchandising business.

Mr. MATSUNAGA. Thank you, Mr. Mooers, for your statement. are there any questions?

Mr. RESNICK. What percentage of Maine potatoes would you say go direct to the chainstores?

Mr. MOOERS. I cannot answer that. All I can say is that I think that it has been increasing every year, because the small stores tend to unite and become larger stores and they tend to wipe out the corner grocery store, so that the chainstore is increasing.

Mr. RESNICK. Do you pack them for the chainstores in their own bags with their own brand names?

Mr. MOOERS. That is right—however, I use my own brand name—I try to do a good job and then the consumer gets onto this brand name.

Mr. RESNICK. They are packed right in the bags for a particular chain. That is true in the matter of the sweet corn business. I was wondering if this same thing is happening with potatoes, a direct relationship between the shipper and the chainstore.

Mr. MOOERS. That has happened some; yes.

Mr. RESNICK. Do you know what percentage that would be?

Mr. MOOERS. No; I do not.

Mr. RESNICK. That is, that is moving in the trade?

Mr. MOOERS. I do not know.

Mr. MATSUNAGA. Thank you very much, Mr. Mooers.

Mr. MOOERS. Thank you.

Mr. MATSUNAGA. Our next witness is Mr. Robert DuBruin.

STATEMENT OF ROBERT DUBRUIN, ZEALAND, MICH.

Mr. DuBRUIN. Mr. Chairman and members of the subcommittee, My name is Robert DuBruin. I come from a small community in Michigan. It is near Grand Rapids. No doubt you have never heard of the city although that is not important.

Mr. TEAGUE of California. It is very important. Mr. Ford comes from there.

Mr. DuBRUIN. Jerry Ford formerly represented our district.

Mr. MATSUNAGA. You have no prepared statement?

Mr. DuBRUIN. No, I will speak from notes.

I am a vegetable producer and shipper. We acquire our supplies in three ways: First, we buy it from the growers. We handle it for

certain growers on a brokerage commission basis. And then we produce crops in partnership with growers. Our operations are not confined to Michigan. We operate in Michigan, Wisconsin, Indiana, Texas, Idaho and Colorado.

Our principal commodity is onions. We normally ship about 5,400 carloads a year, and about 4,000 of those are onions. It will make a lot of hamburgers.

We have been in the vegetable business for many years, I think since 1890. I have been active since 1930. We handle less than 100 cars of potatoes each year. I have never traded on the potato futures market. So I have no financial interest in the potato futures market. I have no ax to grind.

The reason I am here today is because I see the potato industry in about the same position that the onion industry was in, in the middle fifties.

I became active in the onion business about 1930, and during the thirties we had some hard years. Some years we would overproduce and other years we were short. I think the best year we ever had in the onion industry was in 1934. It was a short year, and we all made good profits.

In the years that we overproduced we realized what our problem was and usually the next year we cut down on our acreage. And we were almost sure that very soon we would have a good year to make up for the bad year.

During the war years we were all quite prosperous but in 1943 onion futures were introduced into the Chicago Mercantile Exchange. We went along pretty well at first, because the growers used the market as a hedge, and that is the proper way to use it. And trading was limited. We were not entirely unhappy with onion futures.

In the late forties the speculators and the floor brokers started to trade more heavily in onions, and by the early fifties we found the control of the onion business passing from the hands of the growers and the shippers into the hands of the brokers and the speculators on the Chicago Mercantile Exchange.

To give you an idea, the country at that time was consuming about 150 carloads of onions per day. Many times there were 1,500 or 1,600 cars in a single option traded in 1 day. And when I say an "option," that might be the January option or the November option or the February option. All told there could be over 50,000 cars traded in 1 day. And we were consuming only 150 cars per day. I have known days where they traded 3,300 cars in a single option.

During those years of northern onions—and that is what we traded in—it was about 28 to 30 million bags per year, yet the open commitment was often more than 60 million. You can easily realize the chaos that existed under those conditions. The growers were confused. Supply and demand did not seem to make much difference, because certain cliques of operators in Chicago would get together, and the market was short. And they might make different conditions on the exchange. We had no rules or guidelines by which to operate anywhere. It was just a confused situation.

Our growers tried, first, to leave the board alone, that is, many of them, and they found that they might be better off if they traded. But whatever they did they found out that they could not win. They became financially embarrassed—a few of them went broke.

I would like to give you just three illustrations of some of the things that happened during those years.

In 1955 I knew a Minnesota grower who hedged his onion crop, and it was advisable to hedge his crop in the fall. The market was pretty good. During the course of October and early November, the price of onions went up very sharply, and all of these onions are sold on margin. The grower got two or three margin calls that he met and then, finally, one day he got to the point when he could not meet his call—he was sold out. He lost all of the margin that he had put in. And he still had his onions, of course.

Had the price continued to rise he might still have come out all right, but early in December, I think it was about the 4th or the 5th of December that year, we had a National Onion Association meeting in Chicago, and to our surprise we found that there were 1,100 cars of onions in cold storage in Chicago; 1,100 cars of onions in 1 market in 1 place is entirely too many. As soon as the word got out the onion market started to slip. I remember in 1 day I sold one car of onions three times. I sold it in the morning. I changed the price about noon. And I changed the price again in the afternoon. And each time considerably lower. And yet by the next day I had a dissatisfied customer, because the market was still lower. We had disaster.

This poor grower in Minnesota lost his margin, his hedge was no good and then he took a low price for his onions and he ended up in bankruptcy.

That is the kind of thing that the futures trading in perishable commodities does to the grower.

Another instance, we had a chainstore buyer who worked it the other way. In February, in one of these years—I think it was 1956 or 1957—he bought about 50 cars of onions so that he would have a supply and would have a stable price during the month of March. He thought he was buying right, and yet because the market was manipulated the price went down very materially. He had plenty of money—at least he thought he did—and he decided to support the market. He supported it a little. He found he had to support it continually more and more and he actually ended up in March in taking delivery on 640 cars of onions. That was more than his chain could use by a good deal. Our firm was asked to come in as a so-called undertaker. We handled over 300 cars of those onions that were delivered on the Chicago Mercantile Exchange. They all had met the grade at some time, but when we got them we classified them into three classifications, fair, bad, and very bad.

The only thing that we knew to do with those onions was to consign them. We had a hard job to consign many of the cars. And when they got in the market they had to be re-sorted. Many of the onions were thrown away. And it did not help the consumers one bit. The growers were the losers.

We finally ended up selling some cars for \$25 a car. I sold three cars for \$25, a sort of bargain. It was a disaster. That is the other side of the picture.

Then in 1957–58 I handled a crop for a large Indiana grower. The market seemed to be good. Daily the price came up. He was very bullish. The market worked up to \$6.50. One day he decided that he did not want to sell any. He said, "I think this market does not look so good. I still do not want to sell any onions."

After a little investigation we found that he was in with a combine and they had been pushing the market up and sort of underselling their associates. They ran the market down to \$3.50. That is a big drop in about 4 or 5 days. We could see the market going down even lower. It was going down to \$2.50 a day.

Our growers in Michigan were very, very excited. I remember a Saturday morning my phone rang continually. They said, "What are we going to do? This market should be better than this. Are we going to let the boys in Chicago sell us down the river?"

I do not know if the president of the Chicago Mercantile Exchange is here today, but if he is he can well remember that Saturday afternoon when I called him at his home and told him that the growers of Michigan were ready to come to Chicago and picket the place if something was not done.

We called the Department of Agriculture. We called the Commodity Exchange people in Washington—got them at their homes. We called the Farm Bureau and on Monday morning they traded for about an hour. The exchange had calls from Washington. They called a halt to the trading. They had a meeting of the board of governors and they restricted trading to only the onions that were already committed.

After some effort and work we finally got the market back up to about \$4. It should have been \$5.

That, gentlemen, is what happened when we had futures trading in a commodity that is perishable, where the supplies are limited, and where unscrupulous speculators and brokers can get control of the supply and corner the market. It gets to the point that you cannot win.

We traded on the board in its early days when we hedged and got along fine. Then we dropped off. We saw the evil. And, finally, toward the end we were as shippers forced back in and bought a seat on the board and were forced to trade. We knew what was going on in the market, so that we would know about it. And in our own commodity it was an intolerable situation.

I am very glad that in 1959, Congress by legislation sponsored by Gracie Pfost and Mr. Ford and others eliminated the evil of futures trading.

The onion-producing people and others in particular never asked for price supports. We are happy to run our own show. But in this time the thing got out of hand and Congress helped us. I hope they will have the same consideration for the potato industry, because they are about in the same condition that we were in back in the fifties.

You asked are the onion people happy with the present situation. I might say that we handle about 25 percent of the onions that are grown in Michigan, 10 percent in Texas, 32 percent in Wisconsin and a much smaller percentage in Idaho, Colorado, and New York. I can say that the onion people are, generally, satisfied. We are having a poor year right now. Onions have been down as low as 70 cents per hundred pounds bulk to the grower. I am happy to say today they are up around \$2.

In a poor year we are all looking for answers to low markets, trying to find some way out. And brokers in the Chicago Mercantile Exchange come and talk to the growers and, naturally, there are a few that can be persuaded to say that onion futures should be put back

on the exchange. But these people are in the minority—namely, 5 or 10 percent.

I would like to give you an illustration of what happens to markets in these years that the mercantile exchange was controlling the onion market.

In 1955 we had a production of 29 million bags. The cash market went from \$1.75 for a 50-pound bag to nothing in the spring. We dumped a lot of onions. The mercantile exchange went from \$2.40 to a low of 10 cents, and ended up at 15 cents.

Then we take 1962, a year that we did not have futures trading in onions—we had a production of 54 million bags. The price varied from \$1 to \$1.80, for a 50-pound bag, and we cleaned up the entire crop and did not dump any. Those figures speak for themselves gentlemen.

You may wonder what effect the trading of futures in perishable commodities has on the consumer, or the lack of such trading. I would like to give you an illustration of what happened in the onion deal this January.

During December we had a slow movement. We knew we had to do something. We went to the chainstores, and asked them to put on an onion promotion. They promoted onions throughout the month of January. And in our case of Michigan onions, our shipments have jumped from 62,000 bags last year to 74,000 bags for the last 2 weeks in January this year—a fine increase—something we needed.

Had we had futures trading on onions we would have been reluctant to give the chainstores a firm price for 2 or 3 weeks because we would have had no control of the market. The board might have gone up and we would have had a hard job to sell those orders. Had the board gone down the chainstores would have had onions priced too high.

Such promotions are impossible when there is futures trading in a commodity. Actually, the consumer is benefited in this case, because onions were sold at 3 pounds for 9 cents, 3 pounds for 10 cents, 3 pounds for 19 cents. They had some good bargains which would not have been possible otherwise. And all too often when prices go up high as they do at times, when you have futures trading in commodities, the chainstores raise their price to those levels and are slow to come down. You still find stores even today that are selling 3 pounds of onions for 35 cents, when they should be selling for about 19 or 21 cents.

So the overall benefit to the consumer is not in a commodity that is subject to futures trading.

I also would like to read a statement, a resolution that was passed by the United Fresh Fruit & Vegetable Association in 1958, just before the legislation was passed by the Congress to regulate futures trading in onions. I am a member of the advisory committee of the organization. It has 2,700 members. It pretty well represents the fruit and vegetable industry.

Here is the resolution:

The United Fresh Fruit & Vegetable Association reaffirms its position with respect to speculating, buying and selling of contracts for delivery of perishable agricultural commodities before they have been produced as tending to encourage artificial pricing and confusion as to actual supplies of such commodities available to the 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."

The day before yesterday I contacted Mr. Beamis, the head of the Potato Division of the United Fresh Fruit & Vegetable Association, and he assured me that the stand of the United Fresh Fruit & Vegetable Association has not changed in this regard.

I am confident that this Congress will help the potato industry as the previous Congress helped the onion industry to rid the fruit and vegetable business of this blight on our economy.

Are there any questions?

Mr. MATSUNAGA. Thank you very much, Mr. DuBruin. I think that you have covered the questions that I had in mind. You were in the audience yesterday, I noticed.

Are there any further questions?

If not, thank you again.

Our next witness is from Oregon, Mr. Ray Hirai.

STATEMENT OF ROY HIRAI, NYSSA, OREG.

Mr. HIRAI. Mr. Chairman and members of the subcommittee, I am sorry that your colleague, Congressman Al Ullman from Oregon cannot be present—he was going to be here but he is tied up in the Committee on the Judiciary so that he will not be able to present his testimony himself to you so I have his testimony here and I would like to present it for the record.

Mr. MATSUNAGA. Without objection, that is so ordered and it will be made a part of the record at the conclusion of your statement.

Mr. HIRAI. My name is Roy Hirai. I live in Nyssa, Oreg. I am a potato and onion grower, and am here representing the four major potato-growing areas of Oregon.

In the past few years, many congressional hearings have been held for abolition of potato futures from the commodity exchange. A great amount of testimony has been discussed in detail, pro and con; therefore, I will make my testimony as brief as possible.

We potato growers of Oregon are in support of the abolition of potato futures trading on the commodity exchange. Because of the many similarities of the commodity—whether it be grown in Maine or Oregon, California or Florida, potatoes are potatoes. Prices may vary for the different varieties, but marketing patterns are similar. The fluctuation of prices on the futures board has an indirect price relation to our Oregon potatoes. For instance, in the past years our potato buyers would inform us that the board slipped again today, as it has the last few weeks, the cash market has to come down—it's a thermometer. When doctors, dentists, lawyers, bankers, housewives and others, who are not growers, use the potato futures to gamble, this legalized gambling racket should be eliminated.

As I stated before, I am also an onion grower. We had a long, hard, and costly battle in abolishing the onion futures on the commodity exchange. In 1957, the proponents for the onion futures hearing stated that if the futures were abolished, the onion industry would be a sad one. This is far from the truth. Since the abolition of the onion futures 8 years ago, we have had a more orderly marketing pattern. I believe this would successfully apply to the potato futures, as it has in the onions.

Thank you for allowing me this time.

(The prepared statement of the Honorable Al Ullman, of Oregon, follows:)

STATEMENT OF HON. AL ULLMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. Chairman, I am in wholehearted support of legislation to eliminate the trading of potato futures on the commodity exchange.

The function of the futures market with respect to staple, nonperishable commodities is not being challenged, but the effect of futures trading in potatoes can seriously deflate the price to the producer without having any comparable effect on the ultimate consumer cost. It merely serves, in many instances, to increase the spread between farm prices and food costs that are a matter of great concern to Congress and the American people.

Fresh potatoes cannot be carried over from one crop to another; therefore, the futures trading can have no function in easing and stabilizing price transitions from year to year—as it often does in the case of nonperishables.

Futures trading in potatoes brings no economic benefits to the producer, to the channels of trade, or to the ultimate consumer. It only serves as a source of profit—and occasional loss—to the speculators who gamble against each other as much as against the market itself.

In 1958, Congress approved a measure to remove onions from the exchange. I was a sponsor of that legislation—along with our late esteemed colleague, Congresswoman Gracie Pfof.

The ensuing years have demonstrated the validity of the arguments made in support of the prohibition against trading in onion futures. There have been no artificial depressing of prices to producers, marketing has been more orderly, and prices relatively stable.

It is my conviction that potato producers of the Nation are entitled to the same relief from the sometimes artificial manipulations of the futures market, and I urge approval of H. R. 6006 (Hathaway).

Mr. Chairman, I am pleased that a member of the Oregon Potato Commission, Mr. Roy Hirai, of Nyssa, Oreg., is present today as a spokesman for the potato producers of Oregon. The commission is established under provisions of Oregon law and its members are appointed by the Governor upon the advice of producer groups. Roy is a good friend of mine, knowledgeable in the area of commodity marketing, experienced in the long fight to free onions and potatoes from the strictures of the commodity exchange. I commend his testimony to you, and am sure that he will be willing and able to respond to any questions the committee may have.

Thank you for the opportunity to present this statement.

Mr. MATSUNAGA. Thank you, Mr. Hirai, for adding your contribution to this testimony.

Are there any questions?

We appreciate your traveling all the way from Oregon to present your views to us.

Mr. HIRAI. Thank you.

Mr. MATSUNAGA. Our next witness is Mr. Jay Hulse.

Mr. BAGNELL. Would it be permissible for Mr. Merle Anderson to come on at this time? He is trying to get away.

Mr. MATSUNAGA. Yes, very fine.

Mr. Anderson is from Minnesota.

STATEMENT OF MERLE ANDERSON, CLIMAX, MINN.

Mr. ANDERSON. Mr. Chairman and members of the subcommittee, my name is Merle Anderson, of Climax, Minn.

I grow approximately 200 acres of potatoes. For many years I have been actively associated with the National Potato Council, which organization represents the majority of potato producers across the

United States. During the past 2 years I have served as treasurer for the council and at the present time I am a member of its steering committee.

Although only Maine potatoes are at present traded on the New York Mercantile Exchange, the fact remains that the effect of this trading is felt in the Red River Valley of Minnesota and North Dakota. Naturally the greatest impact is in Maine, but I think all of us realize that the United States as a whole constitutes the basic potato marketing area for all potato-producing States. Any time that the market is affected unduly in the State of Maine, it is bound to be reflected in the Red River Valley, and across the Nation.

I believe most growers in the Red River Valley are very anxious to see futures trading in Maine potatoes prohibited. This futures market is very erratic and in many cases does not follow economic conditions as dictated by supply and demand. Many times the futures market will go up or down as much as 35 cents a hundred in an hour or even a few minutes time. Such erratic movement creates a disturbing factor on the spot market for all potatoes, including the potatoes produced in the Red River Valley.

Another factor that disturbs us on this futures market is the report that we obtain from Maine to the effect that in quite a few cases inefficient producers are kept in production because they are able to obtain financing by selling futures, many times below costs of production, when they are unable to obtain financing from legitimate credit institutions. Potatoes, like some other commodities, have been plagued over a period of years by overproduction and the attending prices that are below cost of production. Thus when the futures market is used as a vehicle to keep inefficient producers in operation, it affects the efficient producers not only in Maine, but Minnesota, North Dakota, and the rest of the country.

As has been brought out in previous testimony, at the last meeting of the National Potato Council held in Idaho Falls, the delegate body of the National Potato Council went on record as supporting this bill to prohibit futures trading (Hathaway bill H.R. 6006).

To show the preponderance of evidence on the part of potato growers it would be well to indicate that out of a total of 91 voters, 80 votes were cast in support of H.R. 6006. As indicated by this vote, practically all of the major potato-producing States in the Union were opposed to futures trading. As a matter of fact, the entire fresh fruit and vegetable industry believes that perishable commodities do not lend themselves to futures trading.

A few years ago this fact was recognized when Congress prohibited futures trading on onions. We believe that the potato industry is entitled to the same consideration that onions received and for the same reasons. A perishable commodity is not adapted to futures trading.

I would just like to add that I have come a long ways and I appreciate the opportunity to testify here. I want to help the Maine potato growers. I want to help the potato growers all over the United States. I believe that favorable consideration of this bill will do us a great service.

Mr. MATSUNAGA. Thank you, Mr. Anderson, for traveling all the way from Minnesota to testify in behalf of the potato growers throughout the country as well as those in the State of Maine. I am sure that they appreciate that.

Are there any questions?

Mr. ANDERSON. Thank you.

Mr. MATSUNAGA. Mr. Foley has joined us this morning and has a matter to present.

Mr. FOLEY. Mr. Chairman, I have the pleasure to bring to the committee room today a distinguished guest of the United States, Mr. Theodoor H. Joekes, a member of the Second Chamber of the Netherlands Parliament.

Mr. Joekes is spending a few days in Washington before leaving to visit other cities in the United States.

I have the honor to introduce him to the committee at this time.

And accompanying Mr. Joekes is Mr. Alben E. Keogh, of the Governmental Affairs Institute.

Mr. JOEKES. Thank you.

Mr. MATSUNAGA. We thank you, Mr. Foley. We welcome you to the hearings being held by this Subcommittee on Domestic Marketing and Consumer Relations. I do not know whether this is anything like the way that you conduct business in your country, but we find that it works very well—everybody is happy, even if they find at the end that we have ruled against them. You are most welcome to be here and to take in our hearings.

Mr. JOEKES. Thank you again.

Mr. MATSUNAGA. Our next witness is Mr. Jay A. Hulse.

We will be glad to hear from you now.

STATEMENT OF JAY A. HULSE, WADING RIVER, LONG ISLAND, N.Y.

Mr. HULSE. Mr. Chairman and members of the subcommittee, my name is Jay A. Hulse of Wading River, Long Island, N.Y. I am a potato grower, raising 75 acres of potatoes on Long Island. In addition to being a grower, I am a director and member of the steering committee of the National Potato Council with headquarters at Washington, D.C., a director of the Long Island Farmers Institute, Inc., and a member of the Long Island Farm Bureau.

There are two major organizations on Long Island representing potato growers, both of which have gone on record unanimously opposing futures trading of potatoes on the New York Mercantile Exchange.

Long Island, N.Y., with over 400 growers, raises approximately 37,500 acres of potatoes and markets in excess of 10 million hundred-weight of potatoes annually. Essentially all of these commercial potato growers belong to either one or both organizations, which are; namely, the Long Island Farmers Institute and the Long Island Farm Bureau.

Therefore, Long Island potato growers support the bill, H.R. 6006, presented by Congressman William D. Hathaway of Maine, which would abolish futures trading of potatoes.

It is the feeling of potato growers on Long Island that the primary reasons why they are opposed to futures trading of potatoes are:

(1) That the price levels of potato futures may be below the actual cash market for potatoes in New York City and therefore have a depressing effect on the cash market price.

(2) Futures trading of potatoes tends to increase potato acreage in the State of Maine because selling of futures contracts early in the production season may be used for financing additional potato acreage.

It is also a matter of record that the New York State Farm Bureau, representing both Long Island and upstate New York potato growers, at a recent annual meeting passed a resolution opposing continued futures trading of potatoes on the mercantile exchange.

As you may know, potato production in the State of New York takes on significance in two distinct areas: one, the Long Island area where I reside, and the other, upstate New York. The majority of the upstate New York potato growers are members of the Empire State Potato Club. While testifying before this committee today, I have been authorized by their president to speak for that organization. At a recent meeting of the Empire State Potato Club the following resolution was passed:

Whereas futures trading in potatoes on the New York Mercantile Exchange has been subject to obvious manipulation to the detriment of the potato growers' cash market; therefore be it resolved that we continue to work actively to have futures trading in potatoes banned on the New York Mercantile Exchange.

Thus you can see by the action of growers' organizations both in Long Island and upstate New York that the majority of potato growers in the State of New York are opposed to futures trading of potatoes on the New York Mercantile Exchange and therefore would ask for vigorous support of this bill.

Mr. MATSUNAGA. Thank you, Mr. Hulse.

Are there any questions? Your testimony is especially welcome since it concerns marketing in New York.

Mr. HULSE. Thank you.

Mr. MATSUNAGA. Our next witness is Mr. Headlee Wright of Colorado.

We will be glad to hear from you now, Mr. Wright.

STATEMENT OF HEADLEE WRIGHT, MANAGER, SAN LUIS VALLEY POTATO COMMITTEE, MONTE VISTA, COLO.

Mr. WRIGHT. Mr. Chairman and members of the subcommittee, my name is Headlee Wright. I am manager of the San Luis Valley Potato Committee, Monte Vista, Colo. I would like to add that I am also a potato grower, and the group that I represent represents approximately 700 potato growers in Colorado.

I have been instructed by my committee to testify in support of H.R. 6006 to prohibit futures trading of Maine potatoes.

One of the basic principles of futures trading is to provide a hedge for producers from the hazards of major price fluctuations. A Colorado potato grower cannot use potato futures trading as hedge on his crop. Potato futures are traded on Maine potatoes only and are delivered in New York. Even if Colorado producers could trade in their own commodity, transportation costs to New York would make it unfeasible. To avail themselves of futures trading contracts in Colorado, a producers must become a speculator.

Maine is a long way from Colorado, but the price of Maine potatoes affects our price. If the price of Maine potatoes is not based on supply and demand, but on the ideas of futures speculators, then the price in Colorado is directly affected by these same speculators.

To base a market on the results of speculators trying to outguess one another, instead of supply and demand, gives us real cause for concern. We take our chances with weather and other factors beyond

our control, but we do not want to take chances on a few individuals who might guess wrong and affect our whole livelihood.

Large sums of money are invested in land, equipment, and storages. Our future is the potato business. We therefore must do everything in our power to see that our product is marketed in the best way possible and to feel that the market price is based on true economic factors. We strongly urge the support of this legislation.

Mr. MATSUNAGA. Thank you, Mr. Wright.

Are there any questions?

Mr. WRIGHT. Thank you.

Mr. MATSUNAGA. Our next witness is Mr. Claude Aunger, of Stockton, San Joaquin County, Calif., president and general manager, General Potato & Onion Distributors, Ltd.

STATEMENT OF CLAUDE AUNGER, STOCKTON, SAN JOAQUIN COUNTY, CALIF., PRESIDENT AND GENERAL MANAGER, GENERAL POTATO & ONION DISTRIBUTORS, LTD.

Mr. AUNGER. Mr. Chairman and members of the Committee, my name is Claude Aunger. I live in Stockton, San Joaquin County, Calif. I am president and general manager of General Potato & Onion Distributors, Ltd., having been associated with the same firm since 1934. I have actively participated in the production and marketing of potatoes for the past 32 years.

In addition, I have been associated with the potato industry in many capacities including 3 years as president of Western Potato Growers Association, 2 years as president of the National Potato Council, and 1 year as president of the Potato Growers Association of California. I have also served as a member of Secretary Freeman's National Potato Advisory Committee.

In the normal course of the operations of my firm, we are producers as well as shippers of potatoes in California. We grow potatoes each year in Kern County, Calif., and we harvest, pack, ship, and sell for a number of other growers in Kern County, San Joaquin County, Modoc and Siskiyou Counties in California. Our entire volume of potatoes produced and marketed each year comes from approximately 3,900 acres, with a production of approximately 1,250,000 hundred-weight. For the most part, this production is marketed throughout the United States in heavy volume during May, June, July, and August each year, the remainder being marketed in lighter volume during the balance of the year and confined primarily to west coast markets.

My remarks here today represent the opinion of my firm as well as all growers whom we represent. In addition, these remarks carry the endorsement of the majority of potato producers in California.

I want to add my support to that of the potato growers in Maine asking for passage of the Hathaway bill, H.R. 6006, to prohibit trading of Maine potatoes on future exchanges.

The adverse effect due to erratic and depressing price movements caused by speculations on the New York Mercantile Exchange naturally has its greatest effect on potato growers from the State of Maine. However, it does have a very definite bearing and effect on potato growers from all other production areas of the United States, including the State of California.

Prior to extensive trading on the futures market, Maine normally had completed the bulk of their shipments along with other production areas in the late fall States by the time the early spring deal in California reached its peak of harvest. This normal movement, or flow to market of the old crop allowed for a favorable marketing situation both for growers in Maine who were concluding their shipments and for growers in California who were entering the market in volume.

Since futures trading became so well established in Maine, the results of this trading has resulted in Maine extending very materially its marketing period. With May being the last month of futures trading there is a very definite tendency for growers to hold back shipments until the May option has expired. As a result, whereas a few years ago Maine would have very nearly completed their shipments by April, we now find Maine shipments extending into May and June which very definitely competes with the shipment dates for our early spring crop in California.

In at least one year Maine delivered nearly 1,000 cars on the May option. These potatoes were delivered to speculators who had no home for the potatoes and didn't know what to do with them except to sell them for whatever price they could obtain. In many cases these potatoes sat on track in hot weather resulting in deterioration and spoilage. This deterioration in quality was another factor to depress prices. These potatoes were all delivered to New York City, which is the largest metropolitan market in the country. Depressed prices in the New York market are bound to affect and depress prices in the rest of the country not only on Maine potatoes but California, Idaho, and any other potatoes being shipped at that time of the year.

Another factor that affects California producers is the tendency for the futures market to be used as a means of financing production in Maine and thereby keep in production inefficient operators who would otherwise be unable to obtain financing from normal credit sources. We hear reports from Maine to the effect that in many cases fertilizer companies will provide fertilizer to a grower providing he sells enough potatoes on the futures market to pay for the fertilizer. These potatoes are placed on the market without respect to the cost of production.

Very often during the past several years, the potato industry has suffered from overproduction resulting in disastrously low prices to potato growers. Anything that has a tendency to increase national production of potatoes beyond the point of normal requirements is detrimental to California potato growers as well as potato growers in Maine or elsewhere.

In view of the fact that a substantial majority of the potato growers in Maine are opposed to futures trading, and in view of the fact that most of the other major potato-producing areas are opposed to futures trading as evidenced by the fact that the National Potato Council is on record in opposition, we would urge this committee and the Congress to give favorable consideration to this bill.

Mr. MATSUNAGA. Thank you very much, Mr. Aunger, for your very fine statement and for traveling all this way from California. We appreciate your testimony you have presented this morning.

Mr. TEAGUE of California. Mr. Aunger, my congressional district has a few coastal counties where they grow potatoes, although we do not grow many potatoes. Would you be of the opinion that the

statements that you have made here would in all probability, also, represent the views of those that do grow potatoes in those counties in my district?

Mr. AUNGER. The potato growers as such; yes, sir; I would say that it does.

Mr. TEAGUE of California. Thank you.

Mr. MATSUNAGA. Are there any further questions? If not, thank you very much.

Our next witness is Mr. Robert Jones of Bath, Pa.

STATEMENT OF ROBERT JONES, BATH, PA., PRESIDENT, PENNSYLVANIA CO-OPERATIVE POTATO GROWERS, INC.

Mr. JONES. Mr. Chairman and members of the subcommittee; my name is Robert Jones of Bath, Pa. I am a potato grower from Northampton County, Pa. In addition, I serve as president of Pennsylvania Co-Operative Potato Growers, Inc., which consists of growers from every part of Pennsylvania. I am appearing before you today in this capacity with specific instructions from, and unanimous opinion of, the board of directors of my organization as expressed by them at a meeting duly assembled on the 28th day of January 1966. This opinion fully supports and encourages your favorable consideration for the enactment of H.R. 6006.

We are fully aware that presently there are futures contracts in existence solely on potatoes in the State of Maine, and that this proposed legislation is considered by many, therefore, to be of a provincial nature. However, experience has shown that our markets for potatoes are national in nature with the influence and practices that affect any area of our country likewise affect the markets of the country in entirety. Therefore, that which affects the State of Maine does have an effect on me and the members of my organization in the marketing of our potatoes.

Repeatedly over a period of considerable years, we have seen our markets become unstable and take wide swings in prices for no apparent reason. We have also seen many times when the price of seed potatoes, which we purchase from the State of Maine, has changed violently; in fact there have been times when it has been seemingly impossible to obtain prices. Invariably in both of these situations outlined, that is, in table stock market and seed, inquiry as to the reason why has resulted in an answer of "The futures board is either up or down; therefore the price must be up or down" or "We are unable to quote you a price until the board stabilizes in New York." We have further been told that many of these violent gyrations were caused either by speculative buying or selling of futures contracts by people unassociated with our industry who were trying to outguess what prices might exist in the future instead of wholesome influences that would determine the true value of potatoes on the day we were attempting to do business. We are of the opinion that a more equitable price structure would result for our potatoes if it were permitted to be determined purely by the free law of supply and demand for the physical product and did not include the influence of special interests that can be possible where futures contracts are involved. For these and many other reasons we respectfully urge your favorable consideration for this proposed bill.

Mr. MATSUNAGA. Are there any questions of Mr. Jones?

If not, thank you very much.

Mr. JONES. Thank you.

Mr. MATSUNAGA. We appreciate your being here.

Our next witness is Mr. Smith McIntire on behalf of the American Farm Bureau Federation.

We are glad to have you here, Mr. McIntire.

**STATEMENT OF SMITH C. MCINTIRE, PERHAM, MAINE, ON BEHALF
OF THE AMERICAN FARM BUREAU FEDERATION**

Mr. MCINTIRE. Mr. Chairman, I am here to present the official views of the American Farm Bureau, an organization with whom you are well acquainted.

My testimony is in written form and I will confine myself to it, except possibly at the end that I may want to add a little more.

Mr. MATSUNAGA. You may proceed.

Mr. MCINTIRE. I am a potato grower. I have been associated with the American Farm Bureau at the county, State, and National levels since its existence in the State of Maine. I am fully aware of all of the polls that have been taken and have been referred to here; in fact, the Farm Bureau conducted the first two which was a number of years ago, with the same identical result, but on a much smaller number of individuals, because it was limited to Farm Bureau membership.

With reference to the Farm Bureau official statement, which I would like to incorporate into the record, I will proceed.

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.

Farm Bureau policies for 1966 contain the following statement:

"Futures trading has a prominent and rightful place in our competitive market price system.

"Trading in commodity futures reflects the need of the market system for a way to transfer certain types of risk. It serves a useful purpose for a number of commodities. Experience has demonstrated the need for regulatory measures to prevent abuses."

Futures trading in perishable crops, 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. 6006 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 crop, 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 Com-

modities. At that time we recommended 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 on commodity exchanges. At that time Farm Bureau supported the legislation to prohibit onion futures trading and was actively involved in securing its passage.

In 1963 Farm Bureau supported H.R. 904 which was very similar to the legislation now under consideration.

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) We do not believe that onions and potatoes lend themselves to sound futures trading. The futures market performs a valuable role for wheat, corn, and other storable commodities since hedging provides price risk insurance on stocks that are held for processing or carried over from one crop year to the next. These commodities are quite different from onions and potatoes—commodities which, having only limited processing, move from processor to consumer in virtually the same form and are not carried over from year to years.

(2) The volume of both onions and potatoes involved in futures trading has been relatively small. This has provided the opportunity for sharp price fluctuations and has facilitated price manipulations.

We feel that these two reasons still are valid and that H.R. 6006 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 Maine potatoes. This means that the trading activity is confined to the product of one potato area, which produces about 12 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 potatoes 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. 6006, 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; in fact it is a detriment. We, therefore, support H.R. 6006 and urge its prompt enactment.

I believe that I would add nothing more except the fact that I approve and agree with all the statements that have been made here by the previous witnesses. I think that this statement by a national organization of the size of the American Farm Bureau Federation through this statement assures you that this has had a large amount of discussion throughout the years within this organization and represents the sum total of an opinion that I think warrants a lot of consideration. I am sure that it will get it.

I hope that the action which we have requested here today will have favorable consideration by the committee.

Mr. MATSUNAGA. Thank you very much, Mr. McIntire. We are glad to have had the report of your organization. I am sure that the author of the bill feels much more at ease now having had your statement.

There is one thing that I might ask about for my own edification: What is the exact meaning of "hedging"? I am no farmer.

Mr. McINTIRE. Well, I can give you an example. Perhaps somebody else could give you a more technical definition. But a "hedge," as to that, let me use an example. If I were fearful that the price of potatoes was to be low next November and there was someone in the mercantile exchange, in this instance, we will say, who was willing to bet that the price would be high or reasonably high I would sell him November potatoes on the mercantile exchange now. I am grabbing at a figure now. I would sell him potatoes on the mercantile exchange at, say, \$2 a hundred or \$2.30. What this amounts to is that I am betting that \$2.30 is higher than I think it will be. He is betting that it will be lower. I have hedged because I now offer it with the knowledge that I have sold my potatoes at \$2.30. This is an advance sale for a known price at a figure which I am ready to accept—not willing—but it is the lesser of two evils if I accept it rather than run the risk.

I have sold potatoes—I have traded a little on the board—and I would like to point out one thing which very often finds its way into a discussion of this type.

It is often said that the reason that you oppose this thing now is that you have lost some money or you have had a hard year. Let me point out that the polls taken of the growers have been over a period of time. The temperature runs higher in certain years than it does in other years, but this poll has been pretty consistent.

You will, also, recognize when the other side presents its case that there will be people in here, some growers who represent the other view, which is always the case, but I would urge you to recognize that the polls, some five of them in total, and three of them have been consistent in their results, it is my own opinion that you can keep taking them and they will still come out 90 percent of the polls being against this.

As growers we have no confidence whatsoever that the New York Mercantile Exchange has anything to contribute to our industry other than the commissions which they obtain. The amount of the commission that they obtain is dependent upon the action that they can get; whereas all marketings as such—and I have been associated with some research work—all marketing studies come to the conclusion that to have a constructive marketing program they must have two things: One is improvement in the continuity of supply. You must have a leveling out of short-time price. And a third, I should add, is that you need to work toward an improvement in quality. These are always the result of any market promotion.

The New York Mercantile Exchange in its operation exaggerates short price swings. Of course nobody makes any money out of commissions if nothing happens. You only make it as you throw the price up and down, hour by hour. And while we are now shipping in the neighborhood of 100 cars a day we are trading—and I am talking for the State of Maine—there is being traded 800 to 1,000 up to 1,200 or 1,400 cars a day. I am conservative in these figures.

Someone raised the question yesterday about which it is always dangerous to draw comparisons, but the question was raised yesterday, "If you do not like this, why do you not quit using it?"

It is hard to draw a comparison, but let us think of a horserace, that business. It would be my belief that the lovers of horseracing have been no longer in control of the horserace business since the parimutuel came in. The increase in attendance at the parks I do not think has any relationship to the support of racing as such. I would say that if the owners of horses, the drivers, and the interested parties ceased to participate in the parimutuels, it would have little effect upon the success of the parimutuels. Their activities would have absolutely no influence on the mercantile exchange whether they participated or not. And very, very often they do not even know that they are participating.

If I sell 10 cars of potatoes to any broker in Aroostook County I have no way of knowing whether he covered them on the board or sold them to someone at the other end. And this is not any of my business, because he bought them—they are his potatoes.

Mr. MATSUNAGA. Thank you very much for a most comprehensive answer.

Mr. TEAGUE of California. I suppose that my relatives are still up there in Aroostook County—the several scores of relatives that I have up there—they are distant relatives—are they with your organization in this?

Mr. McINTIRE. I am certain that they would be. I would think that their opinions would be comparable or better than the 90 percent in the polls, and I would, certainly, agree that your relatives would run better than 90 percent on our side.

Mr. TEAGUE of California. Thank you.

Mr. MATSUNAGA. I am sure that your views are colored by the fact that your twin brother introduced a similar measure sometime back. [Laughter.]

Mr. McINTIRE. I being an older twin, I have contended that I have had some influence on his views. [Laughter.]

Mr. MATSUNAGA. Our next witness is Mr. Harry L. Graham of the National Grange. We are glad to have you here and will be glad to hear from you now, Mr. Graham.

STATEMENT OF HARRY L. GRAHAM, LEGISLATIVE REPRESENTATIVE, NATIONAL GRANGE, WASHINGTON, D.C.

Mr. GRAHAM. Mr. Chairman and members of the subcommittee, the National Grange is pleased to appear before this committee concerning H.R. 6066—futures trading in Irish potatoes. We have long held the position that futures trading has an important place in our American economy as long as it is confined to storable products. A few years ago, we had a very unfortunate experience with onions and it was found necessary to eliminate them from futures trading. In the last few years, we have had the same experience in potatoes grown in the Northeast.

There is a limit on which crops such as potatoes and onions can be held in a marketing year, and it is at the end of the marketing period that the perishable commodities which are traded in futures always get into difficulty. The future trading has had a tendency to move the marketing period for fall potatoes from Maine back from about an April 1 cleanup day into the last of May. As has been pointed out by other witnesses, this puts these potatoes in competition with the early spring potatoes that are grown in our Southern States, and we are faced with two crops of potatoes coming onto the market at the same time. This certainly is not conducive to the orderly marketing processes which are necessary if farmers are to receive an adequate return for their products.

In addition, during periods of oversupply such as we experienced in potatoes for a number of years, the "shorts" are able to drive down the prices to unreasonably low levels. It has been conservatively estimated that this cost Maine producers \$15 million per year in income and depressed prices along the eastern seaboard by an amount that is not easily determined.

However, this does not always accrue to the best interests of the consumer as was demonstrated by what happened in the futures trading in potatoes a year ago. The fact of the matter was that there was no reason for the exceedingly low prices that the traders had forced upon potatoes. This was demonstrated when one purchaser began covering all of the "shorts" and was able or forced to buy over 1,900 carloads of potatoes. He justified his price by the fact that there was really a shortage of potatoes for all the market demands, including sales to consumers through grocery stores and sales to the processing companies. This undoubtedly has led to higher prices for potatoes, especially on the eastern seaboard, but this seems to us to be a completely unrealistic reason for opposing the elimination of futures. Had it not been for the futures trading, this situation would not have arisen, because the potatoes would have moved more normally into the market channels without having been held up through the ownership of futures receipts.

Furthermore, if futures trading is such a good thing for potatoes, why not extend it to the whole Nation instead of just to one market? The simple reason is that every other potato growing area objects to making their product subject to futures trading. Certainly the regional application of this marketing practice is not justified.

It is significant that the recovery in potato prices has not lessened the opposition of the potato producers in the Northeast to this kind of futures trading. The improvement in price in the beginning did not

reflect any additional income to the farmers and was again a speculative venture, transferring the low prices of the farmers over to high prices to consumers without any adequate income improvement for the farmers.

Last week I stayed in a large hotel in a Western State that was purchased by the man who was able to gain control of the market and, consequently, having bought all of the shorts and sold his potatoes at considerably higher prices, he made quite a profit, but this is not true of potato farmers in general. I do not object to his making that kind of profit, but the fact is that neither the consumer nor the producer was helped in this transaction.

One reason, and a very important one, is that trading in futures is not just a hedge against declining prices when practiced by producers. Lacking capital to protect themselves from the adverse effects of unpredictable market changes, the activity becomes a form of gaining additional credit based on a kind of "contract" farming. The undesirable economic and social effects result from the fact that the advance price received is usually too low and subsequent market improvements are not reflected in the market price when the commodity is ready to be delivered to the market.

The Grange believes that the additional credit needs of farmers should be met in a different way, such as the passage of the legislation introduced by Congressman Hathaway providing for emergency low-interest loans on a basis other than natural disaster.

I think it is of some interest, also, that we supported this kind of legislation dealing with potato futures and with credits when it was introduced by Congressman Hathaway's distinguished predecessor, Congressman McIntire and we still think that there are better ways of handling this problem than in the sale of futures which, as has been pointed out, has had a tendency to increase the production of potatoes in the State of Maine in the years when they were in oversupply.

In the light of our experiences, the previous experiences in futures trading in onions, and in light of the present experience in the futures trading in port bellies, where the speculative activities in the market have forced bacon prices far above the general increase in the price of pork products, it seems to be time that Congress takes a good look at this whole business of futures trading in nonstorable commodities.

May I say just in summary that the National Grange and its membership State organizations represent in the Northeast a far greater membership in farm organizations than any other of the farm organizations. It is a very broad sampling of the growers themselves, and we have had no opposition at all, indeed we have had intensive support not only from the Northeast but from the other potato areas for the passage of this legislation.

We hope you will pass it. It is past time to pass it and, again, I hope that we sometime will get to the place that we can take a look at this whole business of futures trading in any perishable or nondurable commodity—commodities that can be stored for only relatively short periods of time—and put in a prohibition as to the rest of them, so that we do not have to do this piecemeal time after time, and then we can turn around and permit the trading in futures where it properly belongs, in wheat, cotton and the long-time storable commodities.

Mr. MATSUNAGA. Thank you very much, Mr. Graham.

Mr. TEAGUE of California. It is unusual, but probably helpful to this committee, to find the Grange and the American Farm Bureau Federation taking the same position on an issue.

Mr. GRAHAM. I am delighted to get to do that, too, Congressman Teague. It is not so often that we figure they are right as they are at the present time. [Laughter.]

Mr. MATSUNAGA. Possibly Mr. Hathaway had something to do with that.

Our final witness this morning is Mr. Robert N. Hampton, director of marketing services, National Council of Farmer Cooperatives.

We are glad to have you here, and we will be glad to hear from you now.

Mr. HAMPTON. Thank you.

STATEMENT OF ROBERT N. HAMPTON, DIRECTOR OF MARKETING SERVICES, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. HAMPTON. Mr. Chairman and members of the subcommittee, I am Robert N. Hampton, director of marketing services of the National Council of Farmer Cooperatives. The National Council is a nationwide federation of farmers' business associations engaged in the marketing of agricultural commodities or purchasing of farm production supplies or both, and of State cooperative councils. The membership includes a large number of the major federated and regional farmer cooperatives of the country. The organizations making up the council are owned and controlled by farmers as the off-farm departments of their overall farm business operations.

The National Council appears today, on behalf of one of its direct cooperative affiliates—Maine Potato Growers of Presque Isle, Maine—to support H.R. 6006, which would prohibit trading in Irish potato futures on commodity exchanges.

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 as will yield the highest returns to the grower. This organization has been in existence for over 30 years and during that period has been an important influence in the orderly marketing of potatoes from this area.

Over the years, this organization 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 made efforts to use this institution constructively to develop and support more orderly marketing of potatoes.

However, Maine Potato Growers believes that the exchange has not achieved its goal of more orderly marketing. The potato marketing cooperative has sought to bring about a pattern of more gradual changes in potato prices but feels that futures trading activities have exaggerated rather than reduced erratic changes in price movements—up to 40 cents per hundredweight in 1 day—which to them indicates a type of speculation—indicating speculative buying and selling which unduly distorts the value of the product as indicated by the supply-demand situation. Such radical and abrupt changes in price are not

in the best interests of farmers as they often attract uninformed speculation by some who are not regularly operating in potato markets.

It is our understanding that the commodity exchange operations for potatoes are used almost exclusively for Maine potatoes. Other major potato-growing regions do not appear to need or want the futures market and have been able to improve their economic position over the years through other programs for more orderly marketing. This further indicates to us that the exchange is not an essential element for progress of the potato industry.

After consideration of all of these things and after trying for many years to utilize the facilities of the exchange to improve farmers' incomes, Maine Potato Growers, Inc., reluctantly believes that the authority to trade in Irish potato futures should be prohibited. On their behalf, we recommend committee approval of H.R. 6006.

Mr. MATSUNAGA. Thank you very much, Mr. Hampton. We certainly appreciate your appearing before the subcommittee and we appreciate your statement. I should like to commend your organization along with the other farm organizations for your and their testimony.

Are there any questions? If not, we thank you again, Mr. Hampton.

I have here a letter from Mr. Cole D. Brown who has requested that his letter be inserted into the record in support of H.R. 6006, and without objection it will be made a part of the record at this point.

(The letter of Cole D. Brown follows:)

COLE D. BROWN, OPERATING
SOUTHLAND FARMS, INC., AND SAND MOUNTAIN CORP.,
Foley, Ala.

HON. SPARK M. MATSUNAGA,
*Chairman, Domestic Marketing Subcommittee,
House Agriculture Committee,
Washington, D.C.*

DEAR CONGRESSMAN MATSUNAGA: I understand that your subcommittee on February 3 and 4 will consider the bill to stop futures trading in potatoes on the New York Futures Exchange. I would like very much to appear at this hearing and testify in support of this legislation. Unfortunately other commitments and the press of work here make it impossible for me to go to Washington at this time so I will appreciate it if this letter can be made a part of the record.

I control between 600 and 700 acres in Baldwin County, Ala., and for a number of years I have seen the instances of disorder and confusion caused by speculative deals in the futures market. It happens that our marketing season here in Alabama is at about the same time that the May contract is going off the board in New York. The wild price movements and manipulation that take place there often directly affect us here. I well remember a case a few years ago when a big operator ran what looked to me like a strictly speculative attempt to force the May price down. This seriously hurt our market. I believe formal charges were brought in this case.

From both observation and experience I am sure the whole potato industry in Alabama, Maine, Idaho, and all the producing areas would be better off without futures.

I followed the attempt to get this law through the last Congress and I was very much surprised and disappointed when it failed at the last moment after having made what looked like good progress in the Senate and before several committees.

I'm sure many growers lost heavily during the 1964-65 price rise in trying to "hedge" as advised by the mercantile. The fact is that almost all those who try to operate in futures speculation lose in the long run whether prices are up or down.

We are now organizing a South Alabama Potato Council. From my work with the growers and dealers in getting this council underway I am sure that the great majority in our area feel just as those in Maine do in wanting to stop futures trading.

I respectfully request the support of you and your colleagues in promoting this urgently needed legislation.

Sincerely yours,

COLE D. BROWN.

Mr. MATSUNAGA. Is there anyone else who wishes to testify at this time? If not, the subcommittee will recess its hearings until such time as the Chair shall make further announcement.

The meeting stands in recess until such call of the Chair.

(Whereupon, at 11:50 a.m., the subcommittee recessed subject to the call of the Chair.)

We are now in a position to state the main results of the paper. The first result is a theorem which states that if a function $f(x)$ is continuous on the interval $[a, b]$ and if $f(x)$ is differentiable at every point of the interval, then the function $f(x)$ is differentiable at every point of the interval. This result is a special case of a more general theorem which states that if a function $f(x)$ is continuous on the interval $[a, b]$ and if $f(x)$ is differentiable at every point of the interval, then the function $f(x)$ is differentiable at every point of the interval.

The second result is a theorem which states that if a function $f(x)$ is continuous on the interval $[a, b]$ and if $f(x)$ is differentiable at every point of the interval, then the function $f(x)$ is differentiable at every point of the interval. This result is a special case of a more general theorem which states that if a function $f(x)$ is continuous on the interval $[a, b]$ and if $f(x)$ is differentiable at every point of the interval, then the function $f(x)$ is differentiable at every point of the interval.

PROHIBIT TRADING IN IRISH POTATO FUTURES

MONDAY, MAY 16, 1966

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

The subcommittee met at 10:05 a.m., pursuant to notice in room 1302, Longworth House Office Building, Washington, D.C., Hon. Spark M. Matsunaga (chairman of the subcommittee) presiding.

Present: Representatives Matsunaga (presiding), Greigg, Teague of California, and Burton of Utah.

Also present: Martha Hannah, staff, and John J. Heimburger, General Counsel.

Mr. MATSUNAGA (presiding). The meeting of the the subcommittee will come to order.

Today we continue hearings on H.R. 6006, a bill to prohibit trading in potato futures. We had 2 days of hearings previously, at which time proponents of the measure were heard. And today we are prepared to hear opponents of the measure.

Our first witness today is Mr. Rodney E. Leonard, Deputy Assistant Secretary for Marketing and Consumer Services, accompanied by Mr. Ronald C. Callander, Director, Trading Division, Commodity Exchange Authority, and Alex Caldwell, Administrator, Commodity Exchange Authority, Department of Agriculture.

STATEMENT OF RODNEY E. LEONARD, DEPUTY ASSISTANT SECRETARY FOR MARKETING AND CONSUMER SERVICES; ACCOMPANIED BY RONALD C. CALLANDER, DIRECTOR, TRADING DIVISION, COMMODITY EXCHANGE AUTHORITY; AND ALEX CALDWELL, ADMINISTRATOR, COMMODITY EXCHANGE AUTHORITY, DEPARTMENT OF AGRICULTURE

Mr. LEONARD. Thank you, Mr. Chairman and members of the committee, I am here today in place of the Under Secretary, who had to see the doctor today. I have with me Alex Caldwell, who is the Administrator of CEA and Mr. Ronald C. Callander, who is the Director of the Trading Division of CEA.

Mr. Chairman and members of the committee, I am pleased to be here today to represent the U.S. Department of Agriculture at these hearings on H.R. 6006, a proposal to prohibit futures trading in Irish potatoes. This proposal is similar to the bill which the committee approved in past sessions of the Congress. The Department, in this

instance, has taken no position on this legislation but seeks only to provide information which may be useful to this committee.

For all practical purposes, this bill relates to futures contracts traded on the New York Mercantile Exchange calling for the delivery of Maine-grown potatoes. Futures trading in potatoes on other exchanges and in potatoes grown in other States is negligible.

In my testimony, I will seek to assess several major factors related to futures trading in potatoes. They are price, hedging versus speculation, and the measure of support and opposition to futures trading in potatoes.

The cash price and the futures price of a commodity are both derived from the same forces of supply and demand as they interact in a competitive market. Futures trading generally performs a useful function as a guide for pricing the actual commodity by concentrating opposing market opinions as to supply and demand factors and providing prices which are widely disseminated and are available to buyers and sellers alike.

There are times when a futures market exaggerates pricing information, particularly when the supply of a commodity is in relatively close balance with market demand.

In view of the inelastic demand for potatoes, a situation of this type is most likely to occur in the potato futures market when there is some reason to believe that supplies will be inadequate. In April of this year some people, primarily speculators, apparently felt that such a situation would exist during the month of May.

As a result, the May potato futures market rose sharply and a price bulge developed which was not reflected in cash prices in Maine. The market subsequently readjusted itself, going from a high of \$5.20 a hundredweight for May potatoes to a closing price of \$4.09, a price more nearly reflecting the actual cash price in Maine.

Futures trading, although imperfect, is an effective means of establishing prices. Futures markets, of course, have no monopoly on the pricing functions.

There are other major potato producing areas, and all available evidence suggests that the function of crystallizing market information for buyers and sellers is being performed satisfactorily—if imperfectly—in these markets without the benefit of futures trading.

In addition to the pricing function, futures trading enables producers, merchandisers, and processors to hedge their operations, or to seek to reduce price risks inherent in the production, ownership, storing, purchase and sale of cash potatoes.

Studies of the potato futures market show that over recent years volume of trading and hedging activity have increased markedly. Over the past 10 marketing seasons, the volume of trading in Maine potatoes on the New York Mercantile Exchange increased more than fourfold—from about 124,000 carlots to nearly 590,000. In this period, the average of month-end open contracts increased from 2,860 carlots to about 12,250, and the average annual month-end short hedging commitments of large traders—which serve as a guide to producer-shipper utilization of the market—increased from 1,149 carlots to 4,465.

Hedging in commodities is usually on the short side of the market, and potatoes are no different. In potato market surveys conducted

each year over the past decade, short hedging commitments ranged from a low of 49.7 percent to a high of 72.2 percent of all short commitments. Generally as the season progresses, the percentage of short hedging commitments tends to increase.

Now, there are times when general speculation becomes a factor in the potato futures market as it does in all futures markets. During April, as I have indicated, the price of the May 1966 future greatly exaggerated the New York cash equivalent price because of a dominant speculative turn in the market. The Department, within the authority of the Commodity Exchange Act, has sought to dampen the influence of excessive speculation on the pricing function of futures trading.

As a result of the sharply increased volume of trading in Maine potatoes, the Commodity Exchange Authority conducted a study which showed that large speculators were having a definite effect on futures prices. Because of this, the Commodity Exchange Commission in 1964 established speculative limits on trading and positions in potato futures as a measure to restrict the speculative influence on pricing. These limits have been successful in curbing the activities of large speculators. However, in the past year and a half, there have been several violations of these limits—and the Department has acted quickly to stop them. In most cases the individual trader has brought himself into compliance when he was notified that his position exceeded the limits. In two instances the Department has instituted legal proceedings to bring traders into compliance.

Let me emphasize that our experience with violations of speculative trading limits in potatoes is not unexpected, particularly since this was the first full marketing season under the limit order. We have found in other commodities that traders usually need a season or two before they are fully aware of limit requirements.

This brings me now to my last point—the sentiments for and against futures trading in potatoes as nearly as we can gage them. The marketwide surveys conducted by CEA show that the largest number of hedgers are in Maine. Near the middle of the marketing season 2 years ago, about 82 percent of the hedgers were in Maine, and at the beginning of this current marketing season Maine hedgers accounted for over 60 percent of the total.

Among the short-hedging commitments, Maine hedgers accounted for nearly one-half of the total in the most recent survey and nearly three-fourths of the total in the earlier study. Thus, Maine producers, shippers, and processors account for a large part of the total volume of hedging in the market—and if use is an endorsement, then you could say that many of those in the Maine potato industry endorse futures trading as a way to reduce price risk.

We have no way to readily measure absolute numbers, however—that is, to determine what percentage of those in the potato industry support futures trading. We do know that the Maine Potato Council surveyed about 3,200 potato growers in 1962, and about 2,300 growers in December 1964. In both surveys the council reported that about 55 percent of the growers replied, and about 90 percent were opposed to futures trading in potatoes.

In summary, the exchange appears to be a representative market which does help to crystallize market information, to disseminate

futures price quotations which furnish a basis for cash trading, and is used extensively for hedging purposes. However, there is no reason to believe that the Maine cash-potato market would cease to function if there were no futures trading.

Mr. MATSUNAGA. How would you explain the fact that in the survey taken about 90 percent of those who replied to the survey indicated opposition to futures trading of potatoes, and at the same time, by your statement here, about 82 percent of the hedgers were in the State of Maine? I take it that the hedgers were making use of potato futures in trading?

Mr. LEONARD. You have to look at the number of traders who are using this for hedging, and then compare that to the total number of persons involved, both in the production, processing, and storage of potatoes; in other words, the whole potato industry. These numbers we just do not have. I think it might be misleading to suggest that because the bulk of the hedging is done by the Maine people, who are involved in the potato industry, that, therefore, this 90-percent figure may be inaccurate. Probably, the council could give you more information on that, but I think that is, probably, a relative question.

Mr. MATSUNAGA. But is not the term "hedging" one which is applied to the growers, rather than anyone else in the trade?

Mr. LEONARD. Well, the growers hedge—the potato merchandisers can hedge, anybody who is involved in buying or selling of potatoes can and may.

Mr. MATSUNAGA. But as applied to trading potato futures. I am just trying to seek information. I do not know anything about the potato growers or about potato growing or trading. What I am trying to do is to determine the use of hedging, who uses this and under what circumstances it is used. My question is—again I repeat—is "hedging" a term applied to growers rather than to any others within the trade?

Mr. LEONARD. No. Hedgers, according to the tabulation we have of those who are hedging, are growers and shippers and then a category of "others." That is not broken down here.

The all others, but it is not just limited to the growers.

Mr. MATSUNAGA. So that of the 82 percent of the hedgers in the State of Maine, as indicated in your testimony, it could have not only encompassed the growers and shippers, but the others as well?

Mr. LEONARD. That is right.

Mr. MATSUNAGA. In the potato industry?

Mr. LEONARD. That is right. The tabulation here shows that there were 257 traders who were using it for hedging, and 179 of those were growers, 69 were shippers, and the others were 9. So the bulk of them are growers, but the shippers accounted for a good part of it.

Mr. TEAGUE of California. Will you yield?

Mr. MATSUNAGA. Yes.

Mr. TEAGUE of California. Is it not possible, Mr. Leonard, that the growers in Maine or elsewhere do, possibly to a smaller extent, participate in the hedging program, while at the same time they might believe that hedging is not in the best interests of the potato industry as a whole? They may use it so long as it is permitted, but might believe that the industry would be better off without it.

Mr. LEONARD. Oh, sir, I think that is entirely possible.

Mr. TEAGUE of California. Thank you.

Mr. MATSUNAGA. Did you say that of the 82 percent only 179 were growers?

Mr. LEONARD. 179 were growers and 69 were shippers, out of a total of 257.

Mr. MATSUNAGA. A question arises as to the stability of the trade, whether stability is established by abolishing trading potatoes on futures, or by retaining the practices of trading in potato futures. What is your opinion on this?

Mr. LEONARD. Well, the performance of the market, that is, of the futures market, indicates that the price for futures tends to follow very closely the cash price, except for these periods recited in the testimony where we have had an aberration that relates to speculative influences, but generally, the market tends to follow the cash price.

Mr. MATSUNAGA. I understand that only 15 percent of the potatoes grown in the Nation come from the State of Maine, is that correct?

Mr. LEONARD. I could not tell you. I could find out. I do not have the information with me.

Mr. MATSUNAGA. And that the trading in futures pertains to Maine potatoes only, is that correct?

Mr. LEONARD. Yes. There may be occasionally potatoes from other areas, but the bulk, by and large is dealing in Maine potatoes. In fact, there is very little trading done outside of those.

Mr. MATSUNAGA. Actually, we are dealing with even less than 15 percent of the Nation's production of potatoes involved in the potato futures trading; is that not correct?

Mr. LEONARD. Dealing with less than 15 percent?

Mr. MATSUNAGA. Of the Nation's total potato production.

Mr. LEONARD. I will have to get that figure for you. I could not tell you whether it was 15 percent, or what it is. I think that it would be safe to say that the bulk of the potatoes grown in the country are not affected by the futures trading.

(The information referred to above follows:)

Potatoes: Total production in the United States, fall States, Idaho and Maine, 1955-65

Crop	Production (million hundredweight)				Percent of U.S. production		
	United States	Fall States	Idaho	Maine	Fall States	Idaho	Maine
1955.....	227.7	148.8	31.2	35.0	65.3	13.7	15.4
1956.....	245.8	168.0	31.4	41.7	68.3	12.8	17.0
1957.....	242.5	159.8	37.0	37.8	65.9	15.3	15.6
1958.....	266.9	184.2	43.0	36.6	69.0	16.1	13.7
1959.....	245.8	167.7	39.6	34.3	68.2	16.1	14.0
1960.....	257.4	175.0	40.8	33.7	68.0	15.9	13.1
1961.....	293.6	204.6	55.0	37.0	69.7	18.7	12.6
1962.....	266.7	195.2	46.3	39.0	73.2	17.4	14.6
1963.....	271.7	197.3	53.5	37.6	72.6	19.7	13.8
1964.....	239.4	172.2	39.5	39.9	71.9	16.5	16.7
1965.....	288.9	213.4	61.7	35.2	73.9	21.4	12.2

Source: Production—USDA, Statistical Reporting Service, annual reports, potatoes and sweetpotatoes and 1965 crop production, annual crop summary.

Mr. MATSUNAGA. In areas where there has been no trading, that is, in potato futures, as compared to the State of Maine, where we do have trading in potato futures, what has been the situation insofar as stability of price and the price to the consumer are concerned?

Mr. LEONARD. Can I ask Mr. Caldwell to answer that question?

Mr. MATSUNAGA. Yes.

Mr. CALDWELL. We have seen very little difference, Mr. Chairman, between the price stability in areas that do not have futures trading and the price stability in the State of Maine.

Mr. MATSUNAGA. I am informed from previous testimony from the proponents of the measure that there have been greater fluctuations in the price of Maine potatoes than in the price of potatoes grown in other areas. This is contrary to your knowledge?

Mr. CALDWELL. A futures market is inclined to have the effect of increasing short-term fluctuations and the potato futures market is no exception. I would say that there are more short-term fluctuations in terms of 1 or 2 days than there would be in the cash markets, but so far as long-term fluctuations are concerned, I see no difference between the various areas.

Mr. MATSUNAGA. Yes, Mr. Leonard?

Mr. LEONARD. We could prepare for you, if you would like, a study of the price characteristics of potatoes by marketing regions.

Mr. MATSUNAGA. Could you do that for us?

Mr. LEONARD. We will be very happy to do so.

(The information follows:)

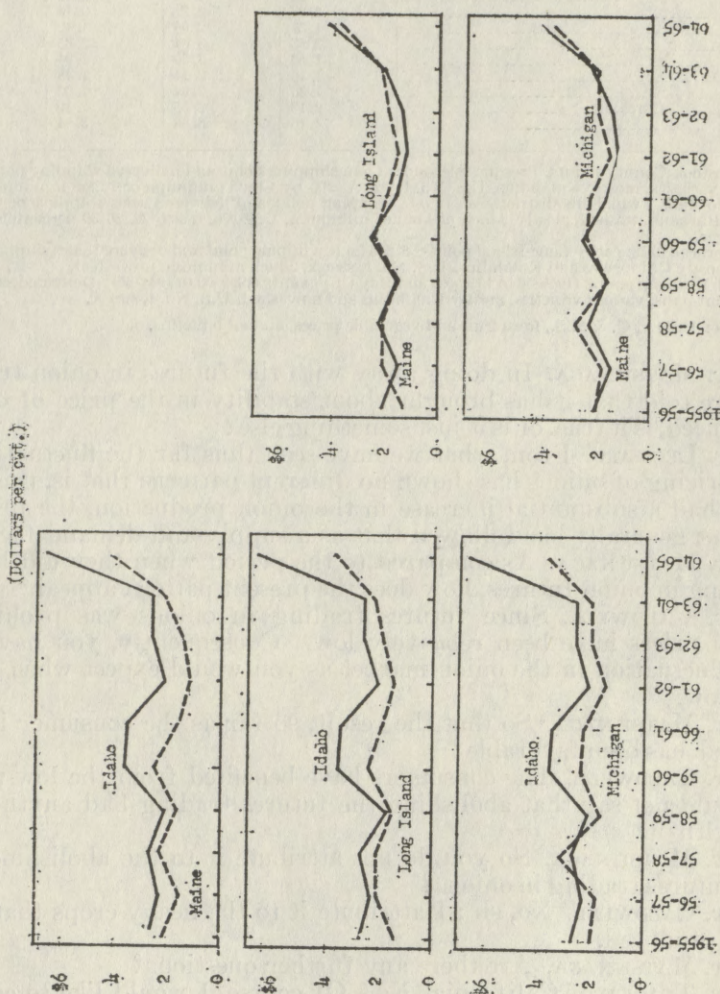
POTATOES

The attached chart shows a comparison of annual averages of f.o.b. potato prices in Maine and other specified markets by crop years for the 10-year period, 1955-56 to 1964-65. Potatoes produced in Idaho are predominantly of the Russet variety, whereas potato production in Maine, Long Island, and Michigan is largely comprised of Round White varieties.

The chart shows that prices of Russets produced in Idaho have risen relative to prices of Round White potatoes produced in Maine, in Long Island, and in Michigan, but that Round White price relationships between Maine and Long Island and between Maine and Michigan have remained largely unchanged throughout the 10-year period shown.

Supporting data table is also attached.

Potatoes: Annual average price comparisons, f.o.b. shipping points, Maine, Idaho, Long Island, N. Y., and Michigan, 1955-56 through 1964-65



Source: USDA, CARS, Fresh Fruit and Vegetable Prices, annual summaries

Potatoes: Annual averages of monthly f.o.b. shipping point prices for specified States and areas, crop years 1955-56 through 1964-65

[Dollars per hundredweight]

Crop year	Maine ¹	Idaho ²	Long Island, New York ³	Michigan ⁴
1955-56	2.10	2.73	1.36	1.96
1956-57	1.54	2.28	2.12	1.83
1957-58	2.27	2.71	2.14	2.79
1958-59	1.57	2.06	1.49	1.57
1959-60	2.53	3.64	2.35	2.42
1960-61	1.56	3.50	1.94	2.30
1961-62	1.16	2.14	1.48	1.48
1962-63	1.36	2.57	1.92	2.00
1963-64	2.13	2.55	2.19	2.00
1964-65	4.16	6.68	3.84	3.74

¹ Aroostook County points, Presque Isle: Sales f.o.b. shipping point and delivered shipping point basis, various varieties, mostly Katahdins, U.S. No. 1, size A, 2½- by 4-inch minimum or 2-inch minimum.

² Idaho Falls-Twin Falls district: Sales f.o.b. shipping point and delivered sales shipping point basis, Russet Burbank, washed, mostly 2-inch or 4-ounce minimum, U.S. No. 1, size A, 20-30 percent 10 ounces and larger.

³ Riverhead and nearby Long Island points: Sales f.o.b. shipping point and delivered sales shipping point basis, mostly Chippewas and Katahdins, U.S. No. 1, size A, 2-inch minimum, unwashed.

⁴ West Michigan points (1955-56 to 1958-59) and Bay City points (1959-60 to 1964-65): Delivered sales shipping point basis, various varieties, mostly Katahdins and unwashed, U.S. No. 1, size A.

Source: USDA, C. & M.S., fresh fruit and vegetable prices, annual bulletins.

Mr. MATSUNAGA. In doing away with the futures in onion trading we are told that it has brought about stability in the price of onions produced, is it true, or is it just something else?

Mr. LEONARD. From what we have seen thus far the fluctuation in the pricing of onions has shown no different pattern; that is, this year they had a substantial increase in the onion production, the price of onions, generally has followed that as a supply-and-demand factor.

Mr. MATSUNAGA. As compared to the period when they did have a trading in onion futures, how does the present pattern appear?

Mr. CALDWELL. Since futures trading in onions was prohibited, onion prices have been relatively low. Consequently, you have had less fluctuation in the onion market as you would expect when prices are low.

Mr. MATSUNAGA. So that the result, so far as the consumer is concerned, has been favorable?

Mr. CALDWELL. The consumers have benefited from the low prices. I would not say that abolishing the futures trading had anything to do with it.

Mr. MATSUNAGA. So you do not attribute it to the abolishment of the futures trading in onions?

Mr. CALDWELL. No, sir; I attribute it to the heavy crops that have been produced.

Mr. MATSUNAGA. Are there any further questions?

Mr. TEAGUE of California. No. Of course, I would like to compliment Mr. Leonard on the fact that the Department this week seems to be economy-minded. I see that you are using less paper in making your statement, since it is printed on both sides. Last week I was a little critical of the Secretary in sending a \$2,400 telegram here. But I do hope that you will keep the taxpayers in mind.

Mr. LEONARD. We always do.

Mr. TEAGUE of California. Not always.

Mr. LEONARD. Well, very well.

Mr. MATSUNAGA. Mr. Greigg?

Mr. GREIGG. No, sir.

Mr. MATSUNAGA. Mr. Burton?

Mr. BURTON of Utah. No questions.

Mr. MATSUNAGA. Mr. Heimbürger.

Mr. HEIMBURGER. Mr. Chairman, I would like to follow up a little bit on the subject which you opened in connection with onions, and before we do that, I would like to go back to your question to Mr. Leonard about the effect of the futures trading on the cash price of potatoes. You asked him, Is there less variation or more variation, a wider swing in the cash price of Maine potatoes than in other potatoes? And I am not sure whether as the culmination of that discussion he agreed to supply the committee with figures on this subject.

Mr. LEONARD. Yes, sir.

Mr. HEIMBURGER. You did?

Mr. LEONARD. We will prepare an analysis.

Mr. HEIMBURGER. I think that would be very interesting.

Mr. LEONARD. We will do so.¹

Mr. HEIMBURGER. And your reference, Mr. Chairman, to the onion prohibition that we passed several years ago, is also, very relevant, I think. It seems to me, Mr. Leonard, that the only time that the producers have the right to complain against the futures trading is when the trading in futures is clearly adversely affecting the price of the commodity they have to sell or the circumstances under which they sell, the orderly marketing of them. If it does not do this, then the producers have no more business complaining about futures trading than they would about the parimutuel betting at Aqueduct, but if it is adversely affecting them, then this is something for the Committee on Agriculture to take into consideration. We have had the law prohibiting trading in futures in onions on the books for some years.

Mr. Chairman, I would like to request that Mr. Leonard, in collaboration with the Commodity Exchange Authority, provide the committee with a study on the cash prices of onions for several years before and after the enactment of the law prohibiting futures trading in onions. Let us find out if the operation of the futures trading in the marketing of onions adversely affected the cash market in onions, so that there has been a noticeable improvement in that cash market since that time, or it did not. I think that this is very relevant to the committee's consideration of the potato situation.

Mr. LEONARD. We have started an analysis like that and we would be glad to complete that and submit it to the committee.

Mr. HEIMBURGER. Thank you very much.

(The information follows:)

ONIONS

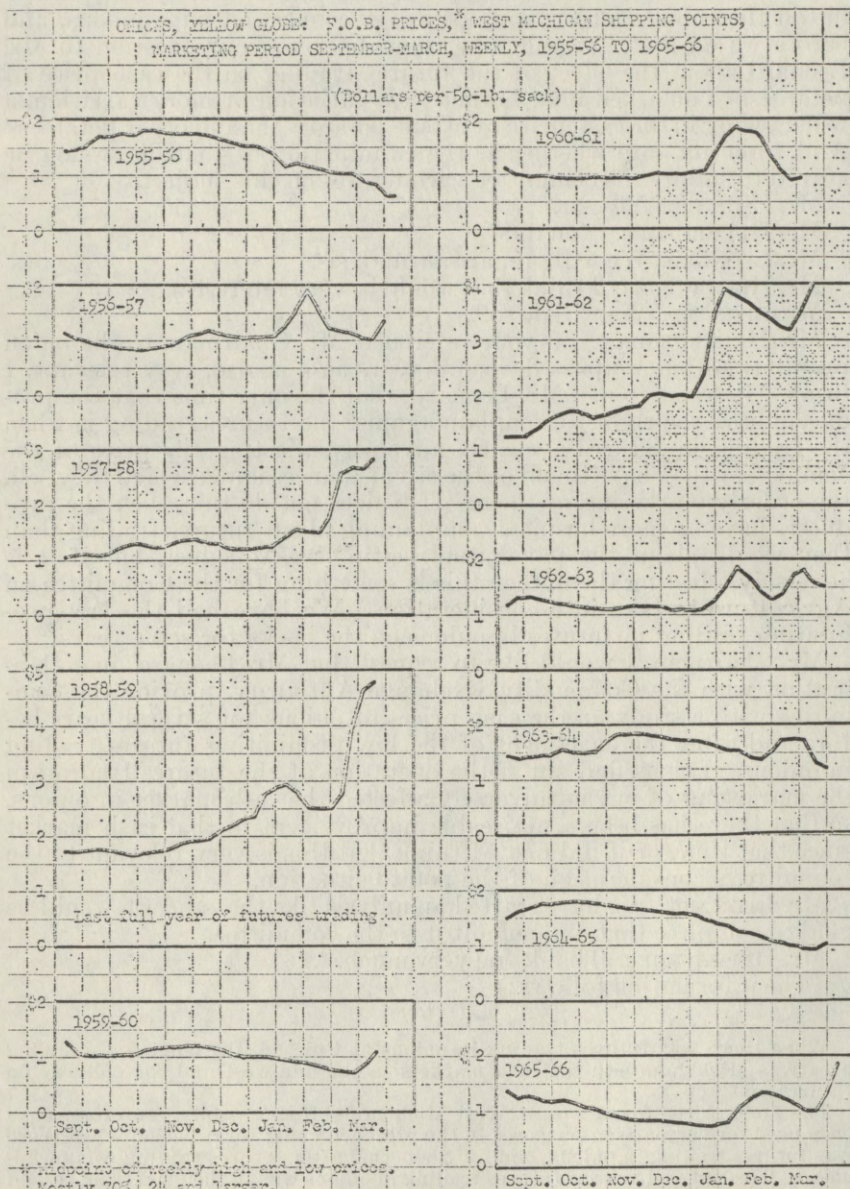
When there was futures trading in onions at Chicago, the dominant shipping area was Michigan, both for cash markets in the mid-west and for delivery on futures contracts.

The f.o.b. prices for onions at West Michigan shipping points, therefore, have been used for comparison purposes in the attached chart for a period when there was futures trading in onions, and for the period after futures trading was terminated. The last full year of futures trading in onions was in the marketing season of 1958-59.

The chart covering an 11-year period 1955-56 through 1965-66, shows the same general pattern of f.o.b. onion prices with futures trading and after the

¹ See p. 94.

termination of such trading. For example, there were erratic price movements in 1958-59, with futures trading, and similar erratic price movements occurred in 1961-62, without futures trading. In general, the price level of onions has been low since 1962-63, being below \$2.00 per 50-lb. sack on the average over these four years. Price fluctuations of onions when prices are below \$2.00 are much less than when prices of onions are above this amount, either when there was futures trading through 1958-59, or afterwards when it was prohibited.



Source: USDA, C & M S, Federal-State Market News Service, Daily Fresh Fruit and Vegetable Market News, (Benton Harbor, Michigan)

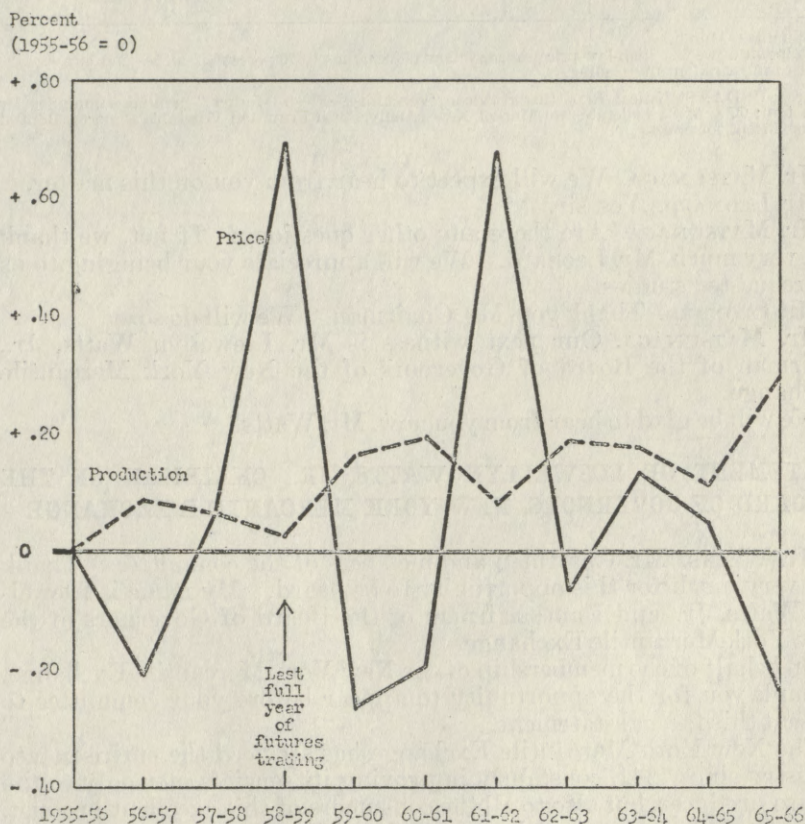
The attached chart compares the annual average of weekly prices of onions, f.o.b. West Michigan shipping points, with late summer production in all areas. The marketing year 1955-56 and the crop year of 1955 are used as a base, and annual prices and production for subsequent years have been computed as percentages of this base year.

The chart shows that in the 11-year period, 1955-56 through 1965-66, an inverse correlation between production and price of onions is apparent. That is, when production falls price rises, or when production increases price falls. This is true in the period through 1958-59, when there was futures trading, as well as in the years afterwards, when there was no futures trading.

The chart further shows that with changes in onion production, prices react substantially, illustrating the fact that instability in onion prices results from a combination of inelasticity of demand for onions and variations of production. Since the prohibition of futures trading in onions, production in the late summer States has shown an upward trend, with a declining trend in onion prices.

Supporting data table is also attached.

Onions: Annual average of weekly prices,* f.o.b. West Michigan points, as a percentage of 1955-56 season as a base, September-March, 1955-56 through 1965-66, and late summer production as a percentage of 1955 crop as a base, crop years 1955 through 1965



* Midpoint of weekly high-low price range, Yellow Globes, mostly 70%, 2" and larger.

Source: USDM, SRS, Vegetables -- Fresh Market, annual summaries for production; GEMS, Federal-State Market News, Daily Fresh Fruit and Vegetable reports, Benton Harbor, Michigan, for prices.

Onions: Production in the United States and late summer States and annual average of weekly prices, f.o.b., west Michigan points, 1955-65

Crop year	Production				Season ¹	Annual average of weekly prices ²	Annual average as percent of 1955-56	Percent change
	United States	Late summer States	Late summer States as percent of 1955 crop	Percent change				
	1,000 hundred-weight	1,000 hundred-weight	Percent			Dollars per hundred-weight	Percent	
1955-----	21,388	16,018	100.0	0	1955-56--	1.40	100.0	0
1956-----	24,426	17,414	108.7	+8.7	1956-57--	1.11	79.3	-20.7
1957-----	24,364	17,000	106.2	+6.2	1957-58--	1.49	106.4	+6.4
1958 ³ -----	23,784	16,400	102.4	+2.4	1958-59 ³ ---	2.37	169.3	+69.3
1959-----	25,761	18,611	116.2	+16.2	1959-60--	1.03	73.6	-26.4
1960-----	26,477	19,072	119.1	+19.1	1960-61--	1.13	80.7	-19.3
1961-----	23,615	17,320	108.1	+8.1	1961-62--	2.35	167.9	+67.9
1962-----	25,765	19,039	118.9	+18.9	1962-63--	1.31	93.6	-6.4
1963-----	25,771	18,882	117.9	+17.9	1963-64--	1.59	113.6	+13.6
1964-----	25,904	17,864	111.5	+11.5	1964-65--	1.47	105.0	+5.0
1965-----	28,079	20,772	129.7	+29.7	1965-66--	1.07	76.4	-23.6

¹ September-March.

² Midpoint of weekly high-low price range, yellow globes, mostly 70 percent, 2 inches and larger.

³ Last full year of futures trading.

Source: USDA, Statistical Reporting Service, "Vegetables—Fresh Market," annual summaries for production; C. & M.S., Federal-State Market News, Daily Fresh Fruit and Vegetable Reports, Benton Harbor, Mich., for prices.

Mr. MATSUNAGA. We will expect to hear from you on this matter.

Mr. LEONARD. Yes, sir.

Mr. MATSUNAGA. Are there any other questions? If not, we thank you very much, Mr. Leonard. We will appreciate your bringing to us the requested studies.

Mr. LEONARD. Thank you, Mr. Chairman. We will do so.

Mr. MATSUNAGA. Our next witness is Mr. Llewellyn Watts, Jr., chairman of the Board of Governors of the New York Mercantile Exchange.

We will be glad to hear from you now, Mr. Watts.

STATEMENT OF LLEWELLYN WATTS, JR., CHAIRMAN OF THE BOARD OF GOVERNORS, NEW YORK MERCANTILE EXCHANGE

Mr. WATTS. Mr. Chairman and members of the committee. Thank you very much for this opportunity to be heard. My name is Llewellyn Watts, Jr., and I am chairman of the Board of Governors of the New York Mercantile Exchange.

On behalf of the membership of the New York Mercantile Exchange, I thank you for the opportunity to appear before your committee to present this factual statement.

The New York Mercantile Exchange has serviced the entire potato industry since 1941, constantly improving its services, not only to the potato producer, but also to all the consumers of this excellent product. It is carefully supervised by the Federal Government, and qualifies through official designation as a contract market for potatoes. It is

the Nation's largest potato market with greatest service reflected by continuing expanding activity.

The U.S. Government has stated:

The potato futures market fulfills a useful and needed economic function in potato marketing. The facilities of the exchange are being used by growers, shippers, receivers, merchants, and processors to a substantial extent as a means of hedging price risks. The proportion of futures trading in potatoes reported as being for hedging purposes compares favorably with that of other commodities.

One of the major economic functions of the New York Mercantile Exchange is to minimize the marketing cost between the producer and the consumer. The basic fact is that through the use of this exchange, farmers receive a greater share of the consumer dollar because marketing costs are minimized. The producers and agriculturally related businesses are able to operate at a lower cost because by using hedging facilities of the New York Mercantile Exchange, their credit risks are sharply reduced. Our record in this field is recognized by the U.S. Department of Agriculture.

For on August 4, 1965, Secretary Orville Freeman wrote:

A futures market exists to provide services for persons engaged in the production, distribution and marketing of a given commodity. These services include the channeling into one place, the market, of the many factors of supply and demand; evaluation of these factors; and wide dissemination of the resulting futures prices. The futures market also, through the participation of speculators, provides persons handling the actual commodity an opportunity through hedging to decrease the price risks which are inherent to the ownership of the commodity.

Studies and surveys made by the Department indicate that the futures market in Maine-grown Irish potatoes, conducted by the New York Mercantile Exchange, provides these services satisfactorily. The potato futures market is sufficiently large and broad based to constitute a representative market. Available data indicate that persons engaged in growing, financing, and handling the Maine crop make considerable use of the futures market, and volume of trading has increased over the years. The volume of trading and level of open contracts in the past year were of record size, and traders in Maine making use of the market increased.

In recent weeks your committee has had the opportunity to consider several major amendments to the Commodity Exchange Act proposed by the USDA. The high caliber of the witnesses in opposition to the proposed amendments is evidence of the major interest which the marketing system has in the operation of the futures market.

Prior to that, your committee heard from proponents of H.R. 6006—a bill to prohibit trading in Irish potatoes on commodity exchanges. We have examined the testimony of the proponents very carefully. In this testimony, much of which on critical examination is contradictory, we find the following arguments:

1. The futures market prevents orderly marketing. (Another witness contradicts this by complaining that the Maine crop is sold over too long a period and should be sold over a shorter period.) No statistical or economic evidence is presented to support this charge of disorderly marketing. An analysis of the shipments of potatoes over the last several years fails to substantiate this allegation.

The shipments of Maine potatoes demonstrate a very high degree of orderly marketing—much greater than that for grains and soy-

beans. Witness the following percentages of rail and truck shipments by months for Maine potatoes:

Month	1960	1961	1962	1963	1964
September.....	0.1	-----	-----	0.2	1.0
October.....	1.3	0.7	2.2	1.3	2.5
November.....	4.4	4.5	5.5	5.5	7.5
December.....	7.3	6.4	6.4	7.4	9.7
January.....	10.0	8.8	8.9	11.2	13.1
February.....	13.7	11.4	12.5	11.5	13.3
March.....	20.2	18.5	17.9	19.5	21.8
April.....	21.7	21.1	21.0	19.8	19.8
May.....	14.7	18.7	14.7	14.6	9.1
June.....	5.7	8.8	8.5	7.8	2.2
July.....	.6	.6	2.0	.7	-----

These figures are ample argument against those who argue that the futures markets induce disorderly marketing. These official statistics show that during the last 5 years grower shipments have been well distributed, and by the end of May have varied narrowly with between 90 and 98 percent of the crop already marketed. This is a vivid example of orderly marketing.

2. One of the major arguments against trading in futures in potatoes is the question of perishability. The argument is used that, unlike grains, there is no carryover to smooth out the abruptness of the price change from one marketing season to the next. First, it should be pointed out that the potatoes are not the only commodity which faced abrupt price changes from one year to the next. Wheat faced a similar problem of an abrupt change in price shifting to a payment program with reduced loan rates. The transition has smoothed by the use of the futures market. The basic fact is that the lack of carryover stocks makes the need for an effective futures market all the greater.

It should be noted that the contract delivery months extend from November to May, well within the normal commercial storage period from September to October to July. As a matter of fact, from the standpoint of futures trading, potatoes are a stored commodity. Sprout inhibitors have been approved by the Food and Drug Administration, and actually make the commodity a year-round product. They are storable.

The basic refutation to the perishability argument is that from the U.S. Department of Agriculture, which reported as follows:

It is our opinion that this commodity is suitable for futures trading as now conducted on the New York Mercantile Exchange. The maturity date of the May or final future traded * * * is well within this period in which the commodity can be carried in storage.

Note that from 2 to 10 percent of the crop has been shipped after May in the last 5 years.

Also, there are many commodities which are traded currently which might be considered by some as perishable. I refer to live cattle, shell eggs, frozen pork bellies, and butter.

3. Another criticism of futures trading in potatoes is that there is excessive price change in Maine potatoes. Probably the best and most objective response is that provided by Secretary Freeman in a letter to Chairman Cooley:

Even though there is a wide variation in the prices of Maine potatoes from season to season and within a particular marketing season, price fluctuations do not appear to be increased by futures trading. The average prices received by farmers for Maine potatoes generally fluctuate no more than the prices of potatoes produced in other States which are not traded on futures markets. The prohibition of futures trading could not be expected to eliminate these wide price movements, which are inherent in the marketing of a commodity having, as do potatoes, an inelastic demand and substantial variations in the size of the crop from year to year.

And, parenthetically, I believe, gentlemen, the statement inelastic demand is a rather arbitrary one. I do not find that there is an inelastic demand for any commodity. Potatoes are showing a very satisfactory increase in demand in the last 2 or 3 years.

4. A statistical myth has been presented to this committee; that is, Maine has lost \$15 million per year due to the futures market, as compared to Idaho. There is a mathematical trick known to statisticians as selectivity. You select your base very carefully. You select your grades with similar care. You stop your calculations when it makes the best case. Now the stage is set for the mathematical magician. Out of the prepared hat comes a predetermined figure. This time it is \$15 million.

Fortunately, the Federal Government provides us with objective statistical data from which anyone can make his own calculations. We have obtained the following comparative data from official USDA sources:

Season average price received by farmers (hundredweight)

	1951-60 average	1961	1962	1963	1964
Maine.....	\$1.80	\$1.14	\$1.23	\$1.90	\$3.82
Idaho.....	1.67	1.05	1.48	1.55	3.49
Ratio of Maine to Idaho.....	108	108	83	123	109

As shown by this table, 1962 was a bad year.

The facts show that Maine farmers, in practically every year are getting higher prices than Idaho potato producers.

The crop reporting board, USDA, has just released the average price per hundredweight received by farmers for potatoes by States for April 1966. The table is here appended.

State:	Dollars per hundredweight	State:	Dollars per hundredweight
Maine.....	3.30	South Carolina.....	----
New Hampshire.....	3.90	Georgia.....	----
Vermont.....	3.80	Florida.....	4.37
Massachusetts.....	4.20	Kentucky.....	----
Rhode Island.....	----	Tennessee.....	----
Connecticut.....	----	Alabama.....	----
New York:		Mississippi.....	----
All.....	3.30	Arkansas.....	----
Long Island.....	2.95	Louisiana.....	----
Upstate.....	3.50	Oklahoma.....	----
New Jersey.....	----	Texas.....	4.25
Pennsylvania.....	3.85	Montana.....	2.70
Ohio.....	3.20	Idaho.....	1.75
Indiana.....	3.00	Wyoming.....	2.45
Illinois.....	----	Colorado.....	1.30
Michigan.....	3.40	New Mexico.....	----
Wisconsin.....	3.00	Arizona.....	----
Minnesota.....	1.80	Utah.....	2.20
Iowa.....	2.75	Nevada.....	2.00
Missouri.....	----	Washington.....	1.65
North Dakota.....	1.40	Oregon.....	2.05
South Dakota.....	1.20	California: All.....	2.35
Nebraska.....	1.20	Winter 1966.....	2.20
Kansas.....	----	Late spring.....	----
Delaware.....	----	Early summer.....	----
Maryland.....	----	Late summer.....	----
Virginia.....	----	Fall 1965.....	2.45
West Virginia.....	----		
North Carolina.....	----	United States.....	2.51

You will note, gentlemen—and I will not go through all of the table by States, but Maine averaged 3.30 per hundredweight for July 1965 and Idaho realized \$1.75 per hundredweight and the national average was \$2.51 per hundredweight.

The figures do not show a deteriorating situation for Maine. It is just the opposite.

Let us just put that \$15 million figure back into the statistical magician's hobby shop where it belongs. It does not deserve the attention of a distinguished body such as this.

5. One of the cruelest arguments used against futures trading in potatoes is that some low-income producers, who could not otherwise obtain financing to put in a crop, are enabled to do so by hedging on the New York Mercantile Exchange. This argument requires only the full understanding of its social implications and the concept of exclusiveness displayed by some who, although better off financially, should know better.

6. Still another argument presented recently was the following:

When Maine futures are terminated during the month of May there are a number of cars of potatoes left in the hands of speculators who have no knowledge or experience in marketing potatoes. Therefore, they dump them on the market, which works to the disadvantage of the spring crop. What I am trying to say, gentlemen, is that this condition disrupts the orderly marketing of potatoes.

The answer lies in the official statistics prepared by the Federal State Market News Service—a cooperative endeavor of the USDA and

the Maine Department of Markets. On page 7 of the October 1965 publication, entitled, "Maine Potatoes 1964-65," we find the following:

Here, Gentlemen, is a price list. That is, the weekly prices from January 1 to May 28.

Barrel (bulk) price, warehouse cash to grower (U.S. 1 basis) central Aroostook

Week ending	1961-62	1962-63	1963-64	1964-65
January 1	1.10-1.25	2.00	1.75	5.00-5.25
January 8	1.10-1.25	1.75-2.00	1.75	5.00-5.25
January 15	1.10-1.25	1.75-1.85	1.75-2.00	5.00-5.25
January 22	1.10-1.25	few 1.85	2.00	5.25-5.50
January 29	too few	2.00-2.10	2.00	5.25-5.50
February 5	1.15	2.00-2.10	2.00	5.25-5.50
February 12	1.15-1.35	2.00-2.10	2.00-2.25	5.25-5.50
February 19	1.25-1.65	2.00-2.15	2.25	5.25-5.50
February 26	1.50-1.65	2.00-2.15	2.25	5.25-5.50
March 5	1.50-1.85	2.00-2.15	2.00-2.25	5.25-5.50
March 12	1.75-1.85	2.00-2.15	2.00-2.15	5.25-5.50
March 19	1.50-1.75	2.00-2.15	2.00-2.50	5.50
March 26	1.25-1.50	1.50-2.00	2.50-2.75	5.50
April 2	1.25	1.50-1.65	2.75-3.00	5.50-6.00
April 9	1.25	1.50-1.60	3.00	6.00-7.00
April 16	1.25-1.75	1.50	3.00-3.50	6.50-7.00
April 23	1.75-2.00	1.50	3.25-3.50	7.00-7.50
April 30	1.50-1.75	1.35-1.50	3.00-3.50	7.25-7.50
May 7	1.50-1.75	1.35-1.50	3.50-4.00	7.35-8.00
May 14	2.00-2.50	1.50-1.65	4.50-5.00	7.50-8.50
May 21	2.50-3.00	1.60-1.85	5.00	8.50-9.00
May 28	2.25-2.50	1.85	5.00	Too few

Examine this table. Does it give any indication of dumping? As a matter of fact, it gives every evidence of price strength during May.

7. Your committee has received testimony with respect to this bill which reveals a fundamental lack of understanding of how commodity markets function. We find the following statement:

A hedge would help to take part of the risk out of the business for the grower. Proponents are quick to point out that futures trading provides a hedge for the potato grower. This is true and a limited number of growers are attempting to use futures for this purpose. There is another element involved in futures trading, however, that nullifies any advantage to be gained by hedging, and this is the pure speculator. * * * Take the pure speculator out of potato futures trading and this thriving enterprise would fold.

Just recently this committee had the advantage of a fine discussion of the essential role of the speculator in relation to hedging. Hedging is made possible only if there is a speculator willing and able to absorb the risk.

Speculation in commodity futures has, at times, been invectively attacked, but without speculators there would not be sufficient traders to assume the hedging risks. Mr. Rodger R. Kauffman, when Administrator, Commodity Exchange Authority, testified at a congressional hearing that—

Speculation, as you, of course, well know, is essential to the operation of a futures market. A commodity futures market without speculation would be a thing of death; it would not amount to anything. It would serve no economic utility. So there must be speculation, of course.

Let us examine in detail some of the implications of hedging sales in a futures market.

When a bank lends money to a business, it is always concerned about the amount of the equity capital in the business as compared with the amount of its borrowings. Especially when the assets are concentrated mostly in holdings of one commodity, a prudent bank manager will not extend loans to a point where a variation in price might wipe out the owner's equity. But when the balance sheet of the business is altered by exchanging commodity debt claims for money debt claims, as it would be through offsetting or "hedging" sales in the futures market, the risk of the bank is correspondingly reduced. Hence, money could be safely lent for expansion of the business beyond the point that otherwise would be possible without the owner obtaining more capital of his own.

In the illustration—an example of a conventional hedging and bank credit relationship—the business acquires additional capital with which it increases its holdings of the commodity further than it could by simply borrowing from the bank against its inventories as collateral. That is accomplished indirectly through a pattern of transactions in which, on the surface, the bank appears to have financed the increased purchases of commodity. But it has done so only because of the security afforded by the claim to a money debt obtained in exchange for the commodity debt sold in the futures market. Hence, although the bank is an important financial intermediary, it does not supply the new credit with which the business is expanded. Instead, the buyer in the futures market emerges as the investor who pledges part of his credit in the form of his debt to pay money in the futures transaction. He obtains in return a claim to a debt of the business, which is like that he would have if he lent the commodity directly. So the net effect is the speculator provides assurances to both banker and hedger.

As one moves ahead from the grower to the next stages in the marketing organization, the amount of loans that historically had been predicated on hedging increases as stocks of commodities move into commercial storage. Thus, the importance of these loans to the constantly changing organization of the business of assembling, processing, transporting, storing, and merchandising parallels that of the producers of the commodities.

It should be noted that in all of this there must be a major nonbanking financier—the much maligned speculator. He is the one who commits his assets to buying commodity futures and influences the costs of carrying commodities. The speculator in turn depends on specialized services provided by others to carry out his enterprise of carrying stocks. This is the economic role of the hedger.

It is essential that this committee recognize that sales for future delivery are necessary to assure producers an outlet, and processors and consumers supplies throughout the marketing year. The genesis of the futures market was the need for a better mechanism for pricing these forward sales.

Futures markets are superior to earlier forms of forward sales in many ways. First, they are organized and supervised open trading—not private negotiations. Second, there is a formal clearinghouse between the buyer and seller with the delivery terms most specific as to a standard form of commodity. Thus, the only item up for negotia-

tion is price. This permits an economy of effort and liquidity not otherwise possible.

The basic fact is that if the Congress should make the mistake of eliminating futures trading in potatoes, forward sales would not stop. Actually, this trading would go back to a more primitive form with major but well-hidden flaws. We do not process that futures trading is perfect, but let us not destroy this closest approximation to perfect competition.

An active and well-conducted futures market is the nearest approach to perfect competition in pricemaking that the record of economic and commercial development has to offer. Competitive pricemaking in futures is the opposite of imperfect competition and monopoly. History teaches us that market trading, fairly and freely conducted, is a standing safeguard against those who—human nature being what it is—would much prefer to seek their advantage in special or monopolistic privileges. The commodity futures system could not have become standard commercial practice in the United States if it had not become associated with the public interest, if it had not proved its capacity—in spite of many trials and errors—to stand as a bulwark against monopolistic forces in marketing.

The proper functioning of this important activity depends upon the high degree of standardization in futures contracts; the heavy concentration of trading on a single floor; the rapid execution of the buying and selling orders; the quick communication of market information, and the continuous stream of price quotations. These services provided by the New York Mercantile Exchange are made possible only by a highly perfected network of bylaws, rules, regulations, and resolutions constantly subject to change.

I feel it is essential to discuss some of the functions of commodity markets because of the confusion existing in this general area. However, of even greater importance is the basic factor of understanding the essentiality of these markets to American agriculture. We need to understand that our free institutions are buttressed by free markets.

Fundamentally, the activities of a large number of people can be coordinated in only two ways. One is by central direction, which is the technique of the totalitarian state. The other is by voluntary cooperation, which is the technique of the marketplace and of arrangements involving voluntary exchanges. If the concept of voluntary cooperation is to function, it must rest fundamentally on the proposition that both parties are beneficiaries. If it is voluntary and reasonably well informed, the exchange can only take place when both parties benefit.

The essential feature of the futures market is that it enables people to cooperate voluntarily in extremely complex situations.

We maintain that effective freedom of the marketplace is the essence of political freedom. The commodity market system is one under which economic power becomes diffused into a broader system of checks and balances. The survival and constant improvement of the free commodity market system reflected in the futures market for potatoes is a major contribution to our economic health.

We respectfully request that you do not approve H.R. 6006.

Mr. MATSUNAGA. We thank you very much, Mr. Watts, for your very fine statement.

Mr. WATTS. May I add, Mr. Chairman, that there are some statements from people who could not come here. I refer particularly to Mr. George Wilkens, executive vice president of the Minneapolis Grain Exchange. He could not be present today, but he has provided me with the necessary copies of his statement, requesting that it be put into the record. In my opinion, Mr. Wilkens' statement is pertinent. Since it is a very short statement, with your permission, I would like to read it into the record.

Mr. MATSUNAGA. Please do. Proceed.

STATEMENT OF GEORGE WILKENS, EXECUTIVE VICE PRESIDENT, MINNEAPOLIS GRAIN EXCHANGE

Mr. WATTS. This is a statement by Mr. George Wilkens, executive vice president of the Minneapolis Grain Exchange and reads as follows:

The Minneapolis Grain Exchange is an association operating a public grain market in the city of Minneapolis. This marketplace serves about 2,500 country elevators in 4 States, and about 125 firms engaged in processing, marketing and transporting agricultural products from this region.

It is one of three contract markets for grain in the United States, and, as prescribed in the Commodity Exchange Act, has been so designated by the Secretary of Agriculture.

The board of directors of the Minneapolis Exchange recommends H.R. 6006 not be approved. It is unthinkable we should ever find it necessary, or desirable, to enact legislation prohibiting futures contract making at an established regulated public market.

If producers and consumers, as well as those engaged in marketing and distribution of a product, find futures contract trading at these institutions useful to them, they should be allowed the privileges of competing in an open public market.

In April 1966 this committee heard testimony on H.R. 11788. Many witnesses explained trade uses of organized contract markets and those reports offer an excellent frame of reference for the committee members as they consider H.R. 6006.

Futures contract trading in many forms is an essential part of American business. It should be allowed to continue in potatoes just as it is now practiced in more than 2 dozen basic commodities used and consumed by people everywhere. It may be necessary to regulate trade, but it should never be necessary to prohibit trade. This committee may wish to consider legislation to place other markets under the jurisdiction of the Commodity Exchange Act as was done with some of the organized exchanges in 1938.

Markets as such do not engage in trade, they do not set prices. Instead they are responsible to report prices negotiated in open competition between buyers and sellers in the market.

From time to time irresponsible charges are made by uninformed individuals, and these reports ought not to be considered evidence against the record of public markets. Men of integrity, men with wide business experience, men who meet their public responsibility, sit on the boards of directors of these marketing institutions and freely

give of their time to develop policies which can in the long run improve the efficiency of distribution of foods, fiber, and metals.

The record of performance of these institutions is a credit to the business community and I urge this committee to give proper consideration to this record. I think it is appropriate to ask this question: "From what marketing experiences do the critics of these institutions speak?" It is my contention they act on misinformation and neither economics nor logic support the case of the critics. To assist potato producers, trade and commerce in that product should be expanded, not restricted.

For these reasons, H.R. 6006 should be rejected by this committee.

Mr. MATSUNAGA. Thank you very much.

Mr. WATTS. I have some statements that I would like to put into the record that I will not read, from witnesses who could not be here because of other business. The first is a statement by Louis Wesnofske of Hicksville, Long Island, N.Y., against H.R. 6006; a statement by—

Mr. MATSUNAGA. Without objection, it will be included in the record.

Mr. BURTON of Utah. What is his position—what is Mr. Wesnofske's occupation?

Mr. WATTS. Mr. Wesnofske is a potato dealer and grower in Long Island, N.Y.

I have another statement by Mr. Remi Wesnofske, of Bridgehampton, N.Y., who could not be here. He is a grower of potatoes.

I have a statement by Joseph M. Coleman, of Riverhead, Long Island, N.Y., vice president in charge of potatoes of the I. M. Young Co. I have a statement from Ernest F. Tark, of Freehold, N.J.

Mr. MATSUNAGA. These statements will be received for the record as if read.

(The statements will follow:)

STATEMENT OF LOUIS WESNOFSKE, HICKSVILLE, LONG ISLAND, N.Y.

I want to give you my reasons why futures trading is of great importance to the potato industry. Four years ago and three years ago, when prices were low, the price I, as a shipper, was able to get on the board for Maine potatoes was the most profitable one I could get all year. In the past two years, with high prices, the futures board showed us long in advance that prices would move upward steadily. We were able to ship accordingly and make a lot more money for ourselves and our growers with this information. In addition, those potatoes we hedged on the board through futures sales were also profitable. The futures prices ran 25¢ to \$1.00 over the cash market almost all of both years, giving the farmers and shippers a magnificent sales outlet if they wished to use it.

In bad years, those opposed to futures used to say that futures caused the low prices. I used to say it was a 10% overproduction, not futures. Now that prices have been high for two years I do not know what arguments they are using against futures, but I am sure that such arguments cannot hold water. The use of futures is just too valuable to all of us in the potato business all over the country.

You can go all over the country, from Maine to California, and find successful and unsuccessful farmers. I find over the years that those who take such opportunities as the use of futures gradually gain over their competitors. My brother, Remi, who is now the biggest potato farmer in New York state, started out during the Depression with just the shirt on his back. He has used every progressive means possible, including futures, to build up his operations and to protect his investment and he has succeeded magnificently. Those who understand and use futures seem to prosper steadily and seem to me to be the progressive, thoughtful men in our industry.

STATEMENT OF REMI WESNOFSKE, BRIDGEHAMPTON, N.Y.

I have been growing potatoes since 1928 and have the experience of growing and selling in the Depression, during World War II, and since the war. I farm 840 acres on Long Island and 300 acres in Crescent City, Florida, thirty miles from Hastings.

I wish to take a very strong stand against H.R. 6006. I have used futures steadily since 1952 and for fourteen years found it an increasingly important part of the management side of the potato business. It is useful in financing, in protecting our investment, and in protecting inventory against loss. Futures trading is one of the very few highly effective and valuable financial aids offered to our industry in the post-World War II era. The number of potato buyers is shrinking every year and each buyer left consequently has greater buying power than ever. The farmer has no way of accumulating supplies and concentrating his sales power to offset the increased concentration of power in the buyer. Futures trading not only give us the information we need for better sales conditions, in these circumstances, but it allows us to hedge also for protection of our sizable investment each year in our growing operations.

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 very badly hurt indeed.

This year the growers in Maine have prospered enormously for the second year in a row, doing better than any of the other areas. I cannot see what proof can be offered by those who want futures eliminated that will offset this great prosperity, which speaks for itself.

STATEMENT OF JOSEPH M. COLEMAN, RIVERHEAD, LONG ISLAND, N.Y., VICE
PRESIDENT IN CHARGE OF POTATO SALES, I. M. YOUNG CO.

The I. M. Young Company, packers and shippers of potatoes, has sheds in six areas of the Long Island potato-growing district. We are major distributors of Long Island potatoes. I wish to register my very strong opposition to H.R. 6006, the bill to do away with potato futures trading. We ship about 5000 cars of potatoes a year and we use futures as a means of hedging our very large investment in potatoes. With this protection we can afford to hold inventory and ship to market in an orderly way that works out best for the farmer, for us, and for the consumer. Futures have become an important part of our operation. I cannot see how their elimination could help anyone and it would hurt hundreds of potato farmers and distributors in all parts of the country.

Each year more and more farmers use futures as an insurance hedge, and each year the volume of trading increases. I think this alone shows the increasing importance of futures to the potato industry. We have just finished two of the best years in the history of the potato business and the existence of futures helped us immeasurably in our marketing and merchandising programs. I hope that whatever the feeling is in Maine, that futures as an institution of great value to us in the potato business will not be eliminated on a national basis.

STATEMENT OF ERNEST F. TARK, FREEHOLD, N.J.

I operate as Battleground Farms, at Freehold, New Jersey. I have been in the potato business since 1934. Growing and shipping potatoes is my principal business today. I wish to express the opinion that futures trading is of great benefit to those of us who grow potatoes in the various sections of the country.

I do not believe that the futures market controls the Maine potato deal, as some of those in favor of H.R. 6006 testified before you. The backbone of the potato industry is supply and demand, and supply and demand set futures prices as well as cash prices. Futures are of importance because they show both present and anticipated supply and demand conditions, both important to us.

In addition to being a source of important information, futures are important in our dealings with processors. Ten years ago about ten per cent of all pota-

atoes went in the processed form. Now almost forty per cent of potatoes go processed. Retailers do not like fresh potatoes because of the waste. Consumers do not like them because of the work.

With the skyrocketing of processing, futures become ever more vital to the potato industry.

Let me say also that there has been a change in potato buying. There used to be thousands of individual potato buyers, literally. Now, more and more, there are fewer buyers who are each buying for more and more retail outlets. The buying strength is getting concentrated in fewer hands. Without futures this could make for a buyer's market, which would seriously hurt the farmer. The hedging value of futures is important, too, to protect the farmer against lower prices. In bad years, the Maine farmers who showed a profit used futures. In the past two years of high prices, futures led the way to the most profitable sales patterns for farmers who cared to watch futures prices. All in all, this institution has proved itself of enormous value to all of us in the potato business.

Mr. WATTS. I have a communication here addressed to the Honorable Spark Matsunaga, chairman of the Committee on Domestic Marketing, from George W. Tallman and Daniel C. Bensinger, Pennsylvania potato growers, and others interested in the potato business. I have 36 signatures on this statement.

Mr. MATSUNAGA. Without objection, the statement will be included at this point in the record.

(The letter dated May 12, 1966, follows:)

MAY 12, 1966.

To: Honorable Spark Matsunaga, Chairman, and the Committee on Domestic Marketing

From: George W. Tallman and Daniel C. Bensinger, Pennsylvania potato growers, and others interested in the potato business

Subject: Opposition to H.R. 6006, a Bill to Eliminate Futures Trading in Irish Potatoes.

We, the undersigned, oppose H.R. 6006, to abolish futures trading in Irish Potatoes because we believe that the trading of commodity futures contracts for Irish Potatoes in the New York Mercantile Exchange serves the potato growers, wholesalers, retailers, and processors of potatoes in a matter that is not available through any other service. This trading should therefore be continued for the benefit of our business and the business of many others who use this Exchange.

In this market, as in no other one, a price for the current month's delivery of potatoes and for future months deliveries is established daily by public outcry of bids and offers by buyers and sellers of potatoes. Every bid and offer and every actual purchase and sale is made in this marketplace by the outspoken word and all prices at which the trades are made are public knowledge immediately, available the world over by wire service. This price can then be used as a basis for potato business anywhere, since the commodity unit is a standard, U.S. Government inspected carload of potatoes at a specified delivery point, and therefore its established price can be converted by simple arithmetic to a delivered price at any other point of shipment in the country.

The use of the futures contract purchase and sale, by growers, processors, potato dealers or stores, wholesale or retail, is just as necessary to the potato trade as the trading of grain futures contracts is to the grain grower, dealer, miller, or feed company.

We, as Pennsylvania potato growers, can protect ourselves against price fluctuation for our crop of potatoes by the use of hedge buying and selling. In Pennsylvania we also obtain more than 80% of the certified seed potatoes that we use from the State of Maine.

Pennsylvania is Maine's largest customer for this seed; therefore, the use of the Maine potato contract is most appropriate for us in hedging against price fluctuation for the seed that we need.

Pennsylvania has more than 96 potato chip processing plants. By buying and selling potato futures, potato processors can truly hedge their supplies against price variations that can make losses for them. By the function of public establishment of price, the processor can also use it as a basis for the establishment of contract prices for the special kinds of potatoes that he needs.

Potato dealers and wholesalers, and retail stores, many of the latter using as much as a carload of potatoes a week at a single supermarket outlet, can protect against wide swings in the price at consumer level by the use of a true hedge in the potato futures contracts.

We who have signed this statement are only a few of the people who believe the use of potato commodity futures is just as necessary to an orderly food industry as is the trading of grain futures. We are certain that the widespread use of this market by the people interested in the potato business is the means whereby more order can be brought into the sometimes disorderly business of potato marketing, just as there exists an orderly pattern to the distribution of grain for food.

Witness, therefore, our signatures :

George W. Tallman, Tower City, Pa.

(There followed the names and addresses of 33 individuals. This list may be found in the files of the committee.)

Mr. WATTS. I have a declaration in opposition to H.R. 6006 before the House Subcommittee on Domestic Marketing, from the State of Massachusetts with 60 signatures of potato growers and those in the potato industry.

Mr. MATSUNAGA. Without objection, the statement will be included in the record at this point.

(The declaration of opposition follows:)

DECLARATION IN OPPOSITION TO H.R. 6006 BEFORE THE HOUSE SUBCOMMITTEE ON DOMESTIC MARKETING, MAY 16-17, 1966

We, the undersigned wish to express strong opposition to H.R. 6006. And our opinion represents that of all the growers in this area. We feel very strongly that potato futures trading has brought stability into our industry, one in which by its very nature there are natural ups and downs of cash market prices that would keep us constantly upset if we could not hedge and thus assure ourselves of a certain price on a given portion of our crop. In the past few years, the futures price has run fifty cents to a dollar over the cash market virtually all year, adding great strength to the cash market and further aiding the potato industry. We feel certain that this price insurance has saved hundreds of growers from selling too cheaply and added millions of dollars to the growers' incomes. Unfortunately many growers do not fully realize or understand this invaluable, relatively new institution of potato futures and those who do not understand it are being led to oppose futures by a small group of Maine buyers who wish to keep growers from having a futures price to point to at buying time as an argument for holding out for higher prices. We sell potatoes to wholesale and chain customers and you can be assured that far from upsetting buyers, futures give them, too, a solid understanding of what the future holds for them and a chance to place hedging purchases for their protection against higher prices. The argument that futures cause rapid price fluctuations is ridiculous. Potato cash prices have changed over three dollars in a single week, specifically early last summer at a time when the futures board was a very minor factor because the May delivery was completed. The price in the cash market dropped from over \$6 to about \$3 in one week. Futures prices can only change a maximum of 35¢ a day or \$1.75 a week by Exchange rules, and they have never done this in the entire history of potato futures trading, going back to 1941.

Because potato futures help farmers take a lot of risk out of their operation, and because futures allow distributors and processors to even out their prices and avoid loss, the big winner is the consumer. When an industry can get rid of the fear of unexpected disaster through rapid price change, it can make good profits without exorbitant mark-ups. This allows for steady, regular prices that do not go up or down rapidly at the retail level. Through the knowledge the retailer or processor gains from futures prices, and through hedge trading if he wishes to bother, the processor and retailer can operate in great safety and with small profit margins.

It is our hope this Subcommittee will not listen to the arguments of a small group of men from a single area but will listen to the interests of farmers, proces-

sors and distributors all over the nation and see fit not to act favorably on H.R. 6006. The provisions of this bill would put the potato industry back 25 years, into great chaos. We feel all those of us who want and need futures should be given equal weight with the small, vociferous group of interested people militating in Aroostook County against potato futures. And we assure you that literally hundreds of farmers, bankers, and allied interested groups in Maine are against H.R. 6006.

(There followed the names and addresses of 62 individuals. This list may be found in the files of the committee.)

Mr. MATSUNAGA. Are there any questions?

Mr. TEAGUE of California. How do you account for the fact that apparently such a large percentage of the Maine potato producers, and growers favor this proposed legislation?

Mr. WATTS. You mean they favor the bill to abolish futures trading?

Mr. TEAGUE of California. Yes. How do you account for that fact?

Mr. WATTS. Well, I find that on a careful analysis of this so-called large percentage I find that it amounts to less than 50 percent of them, because with the propaganda that has been in effect against the New York Mercantile Exchange for now 8 or 10 years, that nearly 50-odd percent, a small percentage even answered—even voted in this thing—and of that percentage about 88 percent voted against the exchange, that is, of those who voted. So I find that it is hardly 90 percent.

Mr. TEAGUE of California. All right, thank you.

Mr. MATSUNAGA. Along the line of the question that was asked by my colleague, Mr. Teague of California, do not most polls conducted result as in this instance, where only 50 percent or so answered the questionnaires and 90 percent of those who answered indicated that they were in favor of abolishing the futures trading in potatoes?

Mr. WATTS. Well, I would account for it by the fact that a great many of the votes against the futures trading were not because they do not understand, but they were asked to vote against it by interested parties. I think that the attitude of a small segment of the trade has been that the futures market mitigated against their buying potatoes cheap. I think that most of these people who are against the futures trading, those who have testified against it, have been dealers—they grow some—they buy from their neighbors, and they complained that futures trading limits them—they cannot do business until the Board is opened. If I produced potatoes, I would want to know what the price is that I will get or an indication of the value in the futures market, and there is dissemination of this information. A lot of these people do not like that. They would like to buy the potatoes a little cheaper than the Board indicates.

Mr. MATSUNAGA. According to your testimony, Mr. Watts, trading in potato futures has served a very useful purpose in the potato industry. If this is so, how do you explain the fact that only Maine potatoes are involved, that the other areas of the producing industry have not gone into trading in futures in potatoes?

Mr. WATTS. Well, a Maine contract is one which is profitably traded in by the industry, by the merchants, and by the producers and by the dealers, and it is an excellent contract. What happens to Maine potatoes, or what happens to potatoes anywhere in the coun-

try happens to all of them. There cannot be any wide variety of price, except in specialized qualities and the like.

I have here in the statement the crop reporting board report of the Department, which contains a list of prices for July, for example, for all of the States that produce potatoes, or sold potatoes during that time, or that particular period of July, and when one section moves, usually they all move except for the special qualities that are needed for certain purposes. It is a highly specialized potato in that industry. But the Maine contracts have proven to be very good as pilot contracts for the entire industry.

Mr. MATSUNAGA. Mr. Greigg.

Mr. GREIGG. I wanted to ask Mr. Watts this question: I was interested in the table on page 7 of your statement. It mentioned just Maine, why not Idaho? You have fluctuations in prices that have such an advantage of one over the other.

Mr. WATTS. We would like very much to have a national potato contract. And we plan to someday have it, because this market is growing, and as it grows, we will have a wider participation from all areas of the country.

Mr. GREIGG. It would seem to me, Mr. Watts, if this is beneficial to the State of Maine, these people in Idaho should be pursuing the same course for the kind of thing that is shown on page 7 of your statement. Would you like to comment on that?

Mr. WATTS. There is participation from Idaho in our markets. They use it as a price hedge.

Mr. GREIGG. But not to the extent that Maine becomes involved?

Mr. WATTS. No. I think this is greatly to the advantage of Maine to have this market. We will widen the market as soon as we find that there is enough participation from other parts of the country. I believe that is coming very sharply.

Mr. GREIGG. What is the overall number of Maine potato growers trading on the Mercantile Exchange in New York?

Mr. WATTS. Last figure we have is 1,300 who were involved in the market in futures marketing. According to the Commodity Exchange Authority they list a certain number of dealers or co-ops. We have found that a lot of the dealers hedge for their shippers, so that if a co-op has an open interest or a short interest or long interest, whichever it happens to be, of, say, 300 cars of potatoes, there may be 20 or 30 or 40 individual producers in that hedge field. We have other witnesses who will be able to give you more figures on that in this regard.

Mr. GREIGG. One additional question, Mr. Watts. Would you deny that the exchange can be manipulated?

Mr. WATTS. Yes; I would deny that.

Mr. GREIGG. As to the price of the potatoes, to be able to force the price of the potatoes up and down—and has this not actually happened in the past?

Mr. WATTS. No.

Mr. GREIGG. It has not?

Mr. WATTS. No.

Mr. GREIGG. That is all.

Mr. MATSUNAGA. Mr. Burton of Utah.

Mr. BURTON of Utah. Thank you, Mr. Chairman. Is it not true, Mr. Watts, that the Idaho growers historically and traditionally get a bigger price for their potatoes?

Mr. WATTS. Yes; for certain qualities of their potatoes.

Mr. BURTON of Utah. A few months ago the president of the Idaho Potato Growers sat in the same chair that you are sitting in and said that they did not want any part of this, because they were doing much better without participation. He had statistics indicating that the Idaho growers were far better off than the Maine growers.

Mr. WATTS. There are the figures of the U.S. Department of Agriculture that I read to you.

Mr. BURTON of Utah. I do not know where he got his figures, but he had them pretty well documented. I remember that he said that the Idaho price for potatoes over a period of years had been historically higher than the Maine prices for potatoes and that they are not participating in commodity trading exchange.

Mr. WATTS. There is an Idaho contract in Chicago that they do not use but the only figures that I have I got from the U.S. Department of Agriculture.

Mr. BURTON of Utah. What do your figures show, that the Idaho prices are higher or lower?

Mr. WATTS. Lower for potatoes.

Mr. BURTON of Utah. That the Idaho prices are lower?

Mr. WATTS. Yes.

Mr. BURTON of Utah. I want to follow up what the gentleman from Iowa said. Do you deny it is impossible for persons to manipulate the prices of potatoes? Was there not a case of one man who bought \$20 million worth of potatoes, something like that, and put the price up, and, apparently, did it with the help of the Maine potato growers? There was definitely a case introduced into our record like that, Mr. Chairman. Is there anyone here on the committee who disputes that point?

Mr. MATSUNAGA. There was a case of that nature that was cited.

Mr. BURTON of Utah. Are you aware of that case?

Mr. WATTS. Oh, yes, indeed. This fellow who proved to be an excellent customer for Maine potatoes had a processing plant in Maine, and he needed potatoes and he bought them.

Mr. BURTON of Utah. He did force the price up?

Mr. WATTS. He did not force the price up. The market went up.

Mr. BURTON of Utah. Why did the market go up?

Mr. WATTS. Because the potatoes were short.

Mr. BURTON of Utah. Was it because he had purchased such a big lot of potatoes?

Mr. WATTS. He had a big position. The market went up because of supply and demand. He was just one part of the demand. That was all. He happened to accept delivery of about 1,900 cars of potatoes which were all used in his processing plant at Presque Isle, Maine. Some of them were shipped out, I presume.

Mr. BURTON of Utah. I am sure that your memory is very much better on this than mine. The testimony that we received at the time was that the price did go up, because one buyer bought 1,900 cars full of potatoes.

Mr. WATTS. I have a table of these various prices, Mr. Burton, as to the prices that were paid. These are for 1964-65.

Mr. BURTON. of Utah. I cannot help you out on the dates because I do not remember it.

Mr. WATTS. It is on page 11 of my statement.

Mr. MATSUNAGA. What you are saying is that by manipulation he controlled the supply and demand situation?

Mr. WATTS. Oh, no; he did not manipulate or control it at all. He accepted delivery of 1,900 cars of potatoes.

Mr. MATSUNAGA. He did buy 1,900 cars of potatoes?

Mr. WATTS. Yes.

Mr. MATSUNAGA. Through the futures market, did he not?

Mr. WATTS. Yes. That was an excellent case of anticipatory hedging. After all, the man needed potatoes. The prices show how firm the market was all during the season 1963-64.

Mr. MATSUNAGA. What use would a man have for 1,900 cars of potatoes, other than for speculative purposes?

Mr. WATTS. He bought the potatoes because he needed them in his plant.

Mr. MATSUNAGA. Are those the facts of the case?

Mr. WATTS. Yes.

Mr. BURTON of Utah. Will you yield at that point, Mr. Chairman?

Mr. MATSUNAGA. Yes.

Mr. BURTON of Utah. I have before me a statement which was presented on February 3 by Mr. Bryand, executive vice president of the Maine Potato Council—and he is a member of the Maine Potato Commission. He says at one point in his statement, Mr. Chairman, and I quote him now:

Since we last presented information to the Congress and perhaps the most spectacular of the many spectacular performances, occurring on the New York Mercantile Exchange. When in May 1964 an operator took delivery of all the potatoes delivered on the May contract. This involved 1,939 cars with a valuation of more than \$4 million. It was approximately twice the previous high delivery in the history of any market and attracted attention throughout the whole potato industry.

This action triggered a terrific advance in price to the profit of this one operator, but with very little value to the average grower because his crop was then sold out. Naturally, growers favor an action that brings about high prices, but if one man can take action that would spectacularly drive prices up, then it is equally true that one man or a combination of men working together can take action to drive prices through the floor, and this has happened in the past.

I think that in fairness, I will let Mr. Watts comment on that.

Mr. WATTS. In the year in question you are talking about this gentleman, this organization that took 1,900 cars of potatoes.

Mr. BURTON of Utah. This statement says one operator.

Mr. WATTS. All right. The California and Idaho crops were late. He could not get his potatoes so he used the hedge market for an anticipatory hedge and he got his potatoes to the New York market until they changed delivery systems, and it was an excellent deal—it was an excellent deal for the man who took delivery. He was able to supply his people, his customers, with reasonably priced potatoes.

Mr. BURTON of Utah. Will you yield further, Mr. Chairman?

Mr. MATSUNAGA. Yes.

Mr. WATT. All of these potatoes, with the exception of a few cars, went to his processing plant for frozen french fries.

Mr. BURTON of Utah. What you are saying, then, is in contradiction to what Mr. Bryant, vice president of the Maine Potato Council stated?

Mr. WATTS. I do not mind saying that at all.

Mr. BURTON of Utah. He says that it did not work to the advantage of the Maine Potato producers. He says that they had already been sold out but it did not affect the price of potatoes otherwise.

Mr. WATTS. I do not think that Mr. Bryant is privy to all of the information in Maine. I think that the price that a great many Maine growers got was beautifully increased for them because of the market. Sometimes we sell out too early; sometimes we do not. That is life.

Mr. MATSUNAGA. Are there any further questions?

Mr. WATTS. I might add, Mr. Burton, if you will pardon me, sir, that the Commodity Exchange Authority was on it all of the time. There was no manipulation involved at all. They were quite satisfied with the deal.

Mr. BURTON of Utah. I am just trying to point out that this committee is sitting in judgment on a very important bill that affects a good many farmers. They are not from my area. We have had testimony on what the bill will do and will not do. And all I am trying to do is to get information, to find out the prices. I am sure that is all the committee is trying to do.

Mr. WATTS. I appreciate that, sir.

Mr. TEAGUE of California. Will you yield?

Mr. BURTON of Utah. Yes.

Mr. TEAGUE of California. Furthermore to the best of my recollection, in my many years on this committee, this is the first time we have not had a recommendation one way or the other from the Department of Agriculture on this bill. We have a serious and challenging judgment to make here.

Mr. BURTON of Utah. One other statement here which was presented at the same hearings that I have reference to, by Mr. Vernon G. James, president of the National Potato Council, and he says in reference to some transaction I remember having related to us here, and I quote, addressing himself to the chairman:

Mr. Barnes gave you testimony. I was well aware of what was going on about as early as anybody when one man took the delivery of some 1,700 cars of potatoes.

He has a different figure:

Bless his heart, he raised the market just at the time that I was getting ready to harvest my potatoes, and that was fine. We on the Eastern Coast, particularly enjoyed a good market. And we really needed that one. But let us look at it from the other side of the coin.

Suppose that this man had these 1,700 some cars and somebody else had them if he did not have them and they were available on the market, and suppose that he had put the 1,700 cars of potatoes on the market, and we would have had the reverse effect and it would have been really bad.

So he, apparently, profited out of the price rise from this one large operator in potatoes, but he was cognizant of the fact that had the reverse economics occurred, those carloads had been dumped, he would have really suffered.

Mr. WATTS. Mr. Burton, he imagines that the opposite might be true. After all, it is a fait accompli, the man needed the potatoes, the

market was firm, he accepted delivery, he had an anticipatory hedge, but I do not think that any speculator would take any 1,700 or 1,900 cars of potatoes and dump them on the market, not in a May deal when everything is over—there was no place to go—no further hedge. You might say that this could happen, but it did not happen and it does not happen. The markets are not ruined by the futures trading by deliveries on the futures contracts. It was not ruined at all. As a matter of fact, it serves a very useful purpose for people who need potatoes and cannot get them otherwise if they want Maine potatoes.

Mr. BURTON of Utah. I would like to pursue one other point with reference to potatoes, and I am reading from our hearings now, the testimony of Mr. Bagnell of the State of Alabama, and he says, to this chart that he introduced into record, entitled, "Wholesale Potato Prices, Free on Board Shipping Point, Idaho, Compared With Maine Crop Years 1946-47 to 1962-63," starting in 1946-47, that the price of Idaho potatoes was \$2.37 per hundredweight, and the price of Maine potatoes was \$2.13, and in 1947-48, the price of Idaho potatoes was \$3.89 and the price of Maine potatoes was \$2.93. We will not go through the whole chart. It is here for anybody who wants to look at it and you can look at it, Mr. Watts, when I am through. In 1955-56 the Idaho price was \$2.67, and the Maine price of \$2.58.

And jumping now to the final year of the chart, 1962-63, the Idaho price of \$2.29, and the Maine price was \$1.37. And the percent of Maine to Idaho was 60 percent and the percent of Maine to Idaho varies from 90 percent to 75 percent, to 110 percent, 69 percent, 105 percent—those are the highest—in fairness to all concerned—and the lowest that I can see here is 52 or 47 percent. Following the introduction of this chart, Mr. Bagnell says:

It shows that the average that Maine got in relation to Idaho in the present futures period was 88 percent. The average is 69 percent. Whether I am right or not right in that, it certainly does account to some extent for the Maine growers' resentment which is, as I have said, something that I am driving at.

It happens that in that particular field we have something that I think shows that, at least, a substantial part of this is due to futures trading. This consists of two newspaper clippings from responsible market reports. They are both dated April 25, 1964. One is from Pocatello, Idaho, and it says, among other things:

"Prices on all packs have been raising steadily the past ten days to two weeks as demand has been excellent. The market is fully \$1 higher than it was last year at this time."

And that is according to the newspaper. I am not quoting from him. Then, further quoting from him:

In contrast to that, a reporter from New York, reporting on the mercantile's activities—he is explaining a 20-cent price decline that occurred overnight:

Both are on the same date in the New York report. And I now quote:

Heavy commitments have been built up. Those who have bought and are unable to take delivery have been liquidating. This brought about a price decline this week.

These are the figures that we have for Idaho. Apparently they are in contradiction to yours. This is a statement by Mr. Bagnell from the National Potato Council. I could go on through this and find the

the statement of the man from Idaho in here, but it is just in complete contradiction of what you have told the committee this morning.

Mr. WATTS. Mr. Burton, the answer to that is that on page 7 of my statement I state that these are average prices received by the farmers.

Mr. BURTON of Utah. Let me find that.

Mr. WATTS. These are from the U.S. Department of Agriculture.

Mr. BURTON of Utah. I surely do not dispute the figures that you have but they are different from what we received earlier. There is not any question about that. Maybe we ought to check these out. I yield to the gentleman.

Mr. GREIGG. I just want to say that I, certainly, support the comments made by Mr. Burton and Mr. Teague when they emphasized how important it is that this committee make a determination as to what is in the best interests of the farmers in Maine, for example.

I think the real question before this committee at the present time—and I do not feel that we really have had a very satisfactory answer this morning—is why Maine, as far as the exchange is concerned, that all other areas growing potatoes are not part of the exchange operation? The small State of Maine represents only 15 percent of all of the potatoes grown in the Nation. I have not had a satisfactory answer as to why special attention is provided for this State and all of the others are not involved. This is the basic question, as I see it, before the committee.

Mr. BURTON of Utah. I have no further questions of Mr. Watts. I will yield back the balance of my time unless he cares to make comments on what has been said.

Mr. WATTS. The only comment I can make is that this is a private contract. It is an indication of a value. The futures market is really just an educated guess, you might say, of what the future holds for certain industries of certain products.

Mr. GREIGG. Mr. Watts, then, does the exchange, in your opinion, offer the best outlet for the merchandising of the Maine potatoes?

Mr. WATTS. It is not a merchandising contract. It is a future contract.

Mr. GREIGG. Does it represent the best outlet?

Mr. WATTS. It represents, generally speaking, the value of the potatoes in the United States, just the same as the egg spot board represents the value of eggs in the United States.

Mr. GREIGG. That is all, Mr. Chairman.

Mr. MATSUNAGA. Are there any further questions? If not, thank you again, Mr. Watts, for your very comprehensive statement.

Mr. WATTS. Thank you very much.

Mr. MATSUNAGA. We will have to go into those different figures and decide which figures we are going to believe.

The next witness is Mr. Anthony Zambito of Elba, N.Y., a potato and onion grower.

We still have six other witnesses, and only one-half hour in which to hear them. Do you suppose that you could expedite your statement by summarizing it and having your complete statement entered into the record as though read?

Mr. ZAMBITO. It is not very long. I would prefer to read the statement, in view of the interest shown in the subject of onions.

Mr. MATSUNAGA. Please proceed.

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 onion, potato, and lettuce growing and shipping operation.

Eight years ago many in the onion industry rejoiced at the action of Congress abolishing onion futures trading. That joy, for the most part, has turned to sorrow and onion growers have now lived to regret that congressional action.

Confidently, onion growers in the spring of 1959 embarked on a new era in their futureless industry. In excellent financial condition, as a result of the highly profitable 1958 season—the last involving futures trading—growers envisioned a long, happy period of uninterrupted prosperity now that their maligned industry had been freed of that “cancer,” futures trading.

The first shock came in the fall of 1959. The long-dreamed-of, futures-free utopian onion deal turned out to be a nightmare as growers suffered heavy financial losses. How losses could occur in their now unmolested industry, free from evil futures market speculators and manipulators, was a puzzle to many.

Antifutures crusaders, however, quickly assured them that 1959 had been a fluke.

But 1960 was another loser and now for all except the most gullible onion growers, the painful, rude awakening began.

Because of a freeze in Texas, 1961 was profitable to most northern onion growers. However, during this marketing season several of the more popular futures market myths were shattered, among them the myth that wide price fluctuations were the product of onion futures trading. Prices for onions to growers in our area started out at \$2 per hundredweight that year. On news of the freeze in Texas prices advanced sharply to \$8 per hundredweight. During the wait-and-see damage assessment period the market gyrated violently between \$4 and \$8. When it became apparent that damage in Texas was not so severe as had been anticipated, the market collapsed and many stored onions had to be dumped.

As prices rose in 1961, onion buyers began working on a hand-to-mouth basis. Last-minute ordering with conditions for immediate deliveries became the practice. Unequipped smaller growers found themselves unable to sell on an even basis with larger producers. Some growers who were satisfied with prices during the freeze scare were unable to sell and ended up dumping onions.

By contrast, with a futures market all producers, regardless of size, have an equal opportunity to sell at any price level. And so the 1961 onion deal at least battered, if not shattered, the myth that futures trading provided a competitive advantage for large growers over small producers.

Since 1961 there has been a gradual but relentless attrition of onion growers until the immediate past season which was one of the worst in onion industry history. With the cost of producing, storing, and grading onions averaging approximately \$2.30 per hundredweight in our area, onions sold throughout most of the marketing period in the range of \$0.70 to \$1, and there was one sale at the ridiculous price of 5 cents per 50-pound crate of onions. The 1965 season left onion

growers in our area debtridden, demoralized, and disillusioned, with most of them keenly aware that a serious mistake was made when onion futures trading was discontinued.

Yet today serious consideration is being given to eliminating potato futures trading. Interestingly, the situation in the potato industry today is similar to the situation in the onion industry 10 years ago when hearings were held on onion futures trading. As was the case in the onion industry, the potato industry is in good financial condition. As in the onion futures hearings, much conflicting testimony is being presented regarding potato futures trading and its effect upon growers. Now, as then, arguments against futures trading are ambiguous, contradictory, and inconclusive. Many of the same charges which have been proven baseless in the onion industry are now presented by those opposing potato futures.

Nearly all of those who testified against onion futures trading made the allegation that the volume of onions and potatoes was too small and the commodities too perishable to be traded on a futures market. But none explained satisfactorily why the volume of onion and potato production and the degree of perishability of onions and potatoes render these two commodities unfit for future trading.

In my opinion, the fact that these commodities cannot be carried forward from one season to the next makes it even more desirable to have a forward pricing mechanism such as futures trading, to afford producers a greater opportunity to sell at a profit in their comparatively limited marketing period.

Dave Smith, who in 1956 testified against futures trading as an onion and potato producer, pointed out that the onion industry had never asked for Government price supports, marketing agreements, or handouts of any kind and he said:

All we want now is freedom to safely grow and market our crop.

In 1965, 8 years after future trading was abolished, onion growers for the first time in history did ask for Government assistance because of the depressed conditions, and the Government did for the first time institute an onion-purchasing program. It is interesting to note that since the elimination of onion futures trading, Mr. Smith has discontinued growing onions but he does grow more potatoes, for which there is still a futures market.

Frank Calarco, a prominent onion grower in our area, stressed the point that the futures market was responsible for increasing onion production thereby causing lower prices. A look at onion production figures quickly discredits that argument. Here is table I:

<i>Production of onions, 1,000 per hundredweight</i>	
Year:	
1944-48	16,300
1949-53	16,500
1954-58	16,700
1959 (1st year after futures were discontinued)	18,611
1960	19,072
1961	17,320
1962	19,039
1963	18,882
1964	17,864
1965	20,772

In 1956, Edward Baldwin, then president of the Genesee-Orleans Vegetable Growers Association, in addition to pointing out that onion

farmers had never before asked for Government assistance and making the usual charges of manipulation, stated :

At Elba, N.Y., we have 256 total, active onion producers.

And he implied that the number would decrease if future trading was not abolished. Last week it was determined by actual count that in 1966 there are only 49 onion growers on the Elba muck and to anyone who views the situation objectively, it is clearly apparent that the lack of futures trading has been a contributing factor in the fantastically rapid decline in our number of our onion growers.

I would be as irresponsible as some of the critics of onion futures trading if I were to imply that the number of onion farmers would not have declined even with a futures market, or, that restoration of futures trading would solve all or most of the problems in the onion industry today. The onion industry, like the rest of American agriculture, is undergoing dramatic changes. And with these changes come problems and challenges especially in the area of marketing. While forging ahead with a space age production technology, onion growers by eliminating futures trading, reverted back to horse and buggy day marketing.

Onion growers were hurt by elimination of onion futures trading just as I believe potato growers would be hurt by elimination of potato futures trading.

There are many occasions, when onion growers gather and bemoan their current state of financial disruption, that those of us who opposed the elimination of onion futures trading are tempted to say, "I told you so." But somehow we feel like the driver in the automobile accident who was right—but is dead.

Thank you.

I have two newspaper articles that I would just like to quote very briefly from and then submit them for the record, if I may.

Mr. MATSUNAGA. You may submit them for the record.

Mr. ZAMBITO. Can I show what they are about?

Mr. MATSUNAGA. Yes.

Mr. ZAMBITO. One is from the Daily News of January 22, 1966, the third paragraph says:

A cutback in production and return of the futures market were viewed today as a means of alleviating a disastrous onion price situation in the rich Elba Muckland area.

And the final paragraph says:

Onion growers in nearby Wayne County recently appealed to Washington for assistance in disposing of a surplus crop of 150,000 bushels.

The second is from the Produce News of January 22, 1966, and reads:

Professor Raleigh, of Cornell, urges return to futures trading in onion deal.

Mr. MATSUNAGA. Thank you very much. These will be made a part of the record at this point.

(The two newspaper articles above referred to follow:)

[From the Produce News, Jan. 22, 1966]

PROF. RALEIGH, OF CORNELL, URGES RETURN TO FUTURES TRADING IN ONION DEAL—
WITH INDUSTRY 34 YEARS HE SUGGESTS 2 OTHER REMEDIES FOR LOSSES

ROCHESTER, N.Y., JANUARY 21.—Prof. George Raleigh, of the Vegetable Crops Dep't of Cornell University, was honored this week with a plaque and, in a

45-minute talk, recommended earlier acreage reports, artificial drying of onions and the return of Futures trading in onions.

Presentation of the plaque and Prof. Raleigh's comments took place during the New York State Horticultural Show at the War Memorial Building, here, on Wednesday.

Prof. Raleigh, who has been associated with the onion industry in New York State for 34 years, plans to retire in 1966. In his talk after receiving a plaque honoring him for his service to the industry, he enumerated three ways to keep from having disastrous years such as the New York State onion industry is suffering from this year.

SUGGESTIONS LISTED

Dr. Raleigh's suggestions were: first, to have the USDA Crop Reporting Board issue its estimated acreage reports on June 1 instead of in August, giving growers an opportunity to disc up onions and replant to other crops if they feel too many onions have been planted; secondly, to minimize the neck rot problem, he suggested artificially drying all New York State onions at harvest time; thirdly, he suggested that it would be a big help if onion growers had a Futures board at their disposal, as have potato growers.

Prof. Raleigh pointed out that the Futures board would not serve the industry if growers used it for speculation. He said the purpose of a Futures board is for growers to hedge, to sell a portion of their crop while it is being grown for protection.

HEDGES OFFER PROTECTION

He pointed out that, in a year like this year, growers are selling at prices that bring them only 10¢ for the entire contents of a bag of onions, that the use of a Futures board earlier in the year could have put enormous sums of money in growers' pockets through the protections of hedges at better prices in the way the potato growers now hedge a portion of their crops.

There will always be years of oversupply, years of ups and downs, Prof. Raleigh said, but, with earlier crop reports, with dried onions and with the protection of hedging on a Futures board, it would be possible to avoid real disaster.

If onions in New York State are artificially cured with heat and neck rot becomes a minor problem, then the industry could turn to types of onions that have a higher yield than the present rot-resistant varieties which could up production 50% per acre and lower unit costs. Prof. Raleigh said he hoped that studies would be made of the possibility of drying and of using higher yielding varieties.

N.Y. STATE MUCK EXPENSIVE

Even if New York State finds the right varieties, however, Prof. Raleigh does not look for a profitable dehydrated industry in New York State. He feels that New York State muckland is too expensive, compared to cheaper muckland in other States, where onions can be grown for dehydration.

[From the Batavia (N.Y.) Daily News, Jan. 22, 1966]

ONION PRICE IN UPTURN EASES ELBA LOSS FEARS—VIEWS DIFFERING IN WAYS TO GET BETTER RETURNS

A cutback in production and return of the futures market were viewed today as a means of alleviating a disastrous onion price situation in the rich Elba muckland area.

A sudden jump in the onion market Friday brought a glimmer of hope to Elba growers, but the price is still very low for this time of year. As late as Wednesday prices were down to 70 to 90 cents a hundredweight, one of the lowest prices in history for this time of year.

On Friday, the price of onions almost doubled, jumping to \$1.25 a hundredweight at Elba. Growers said a psychological effect may have taken place and that the increase was a natural result since the price was "ridiculously low" and some producers were starting to move them to get the salvage price.

BIG IMPROVEMENT

While the \$1.25 price is far from good, it is considerably better than the early week offering. How to prevent such low prices again is one of the questions heard frequently on the muck these days.

Anthony T. Zambito of Zambito Bros., one of the large onion producers, takes the view that a cutback in production is the main answer to the situation.

UNPRECEDENTED PRODUCTION

"We had the largest production in history at Elba this year," he noted, quoting figures that showed 2,378,000 50-pound bags of onions were produced in the muckland area. That compares with 1,960,000 bags last year.

Some growers are looking into the possibility of legislative action, but there isn't much hope for relief this year. He said suggestions have been a national marketing order for onions, acreage controls and possibly withholding some of the crop.

"None of these is a solution, however," Mr. Zambito commented. "The hard, cruel reality is that fewer onions must be grown and, of course, this means that some people won't be in the business."

MARKETING BEHIND PRODUCTION

Advanced technology in the growing of onions has pushed the production to record levels from comparable acreages, but the technology of marketing has not kept pace.

"We have learned how to grow more onions, but we haven't learned how to sell them."

Mr. Zambito, long a proponent of onion futures, believes a return of the futures market would bring relief to the Elba onion growers. Futures markets in onions were outlawed several years ago as a result of action by many onion growers who felt it was damaging the market.

CHANGE THEIR THINKING

"A lot of people thought the futures market was hurting them, but several have since changed their minds. A lot of people come in and ask what can be done to get the futures market back," the Elban said.

The price of 70 to 90 cents a hundredweight was the lowest in memory of Mr. Zambito for this time of year.

"We have had times near the end of the season when prices dropped out or onions were dumped, but never at this time of year," he commented.

Latest reports indicate that 1½ million bags of onions are now in storage in the Elba muckland area.

STORAGE ADDS TO COST

With the low price the grower is also faced with grading costs of 25 to 30 cents a hundredweight, leaving him 40 cents a hundredweight. Out of that figure, he must pay storage costs of 15 cents a bag.

The current price compares with prices of \$2.50 to \$2.75 a hundredweight a year ago. The highest price Mr. Zambito recalls is \$16 a hundredweight several years ago.

"This is a real squeeze and it's driving some farmers out of the business. Several growers have indicated that they will be out of it next year."

As if the price squeeze were not bad enough, another problem is hurting those who could fill foreign orders. They can't get space on the ships.

"We have some orders for export, but can't find the space on the ships so we have to let them go," Mr. Zambito commented.

EFFECT OF TEXAS

Apparently the only way good fortune may come to the muck area is by somebody else's misfortune. Texas acreage in onions is said to be down and there are reports of bad weather in that part of the nation. These usually are marketed in March.

"This might help a little," Mr. Zambito indicated, "but growers aren't counting on it. They won't feed bad, however, if the Texas crop does fail. With things as bad as this, it's every man for himself."

Onion growers in nearby Wayne County recently appealed to Washington for assistance in disposing of a surplus crop of 150,000 bushels.

Mr. MATSUNAGA. The next witness is Prof. Roger W. Gray, from the Food Research Institute of the Stanford University.

The other witnesses are Mr. Clarence Perkins, Mr. Wesley Hessler, Mr. Francis J. Reardon, and Mr. Tom Findlen. We have just about 20 minutes left for the five of you. Is there anyone here who cannot be heard tomorrow? I take it then that we will just put some of you on tomorrow. Is there any objection by any of those whose names I have read, being rescheduled for tomorrow? Is there any objection? (No response.)

Mr. MATSUNAGA. If not, we will now hear Professor Gray, and then the other two witnesses who want to testify, and we will see how far we can get, and then if we need to go over until tomorrow, we will have the others testify then.

Mr. TEAGUE of California. Let me say this, Professor Gray, would it be convenient for you to be here tomorrow?

Mr. GRAY. I did not plan to be here tomorrow. I would prefer not being here tomorrow.

Mr. MATSUNAGA. Is there any objection from the committee members? If not, please proceed.

**STATEMENT OF ROGER W. GRAY, PROFESSOR AND ECONOMIST,
FOOD RESEARCH INSTITUTE, STANFORD UNIVERSITY**

Mr. GRAY. Mr. Chairman and members of the committee, I wish to express my gratitude to this committee for allowing me to address myself to a subject that I find interests me.

Nearly all of my research and teaching efforts for the past 12 years have been devoted to commodity futures markets. Prior to that time I spent 3 years on a study devoted exclusively to the economics of the potato industry in the United States, which was published in 1954. Several of my publications in recent years have dealt with onion and potato futures trading. The most recent of these was a 1964 publication entitled "The Attack Upon Potato Futures Trading in the United States," which incorporated much of the evidence I had presented at hearings on S. 332 in 1963. I also had the privilege of testifying before this committee a short while ago on H.R. 11788, another bill dealing with futures trading.

There are three reasons why I have reintroduced myself to this committee in such elaborate terms. First, I wish to make it plain that I have a continuing and longstanding professional interest in just the matters that concern you here and now. I have examined all the prior testimony on onion and potato futures trading before both Houses of Congress, and have conducted extensive research into these areas. None of my research into onion and potato futures trading has ever received financial support from the markets or anyone connected with the markets. The New York Mercantile Exchange is paying my expenses for the preparation and presentation of this statement, as they did in 1963 for the Senate hearings, but that is all. They did not influence my prepared statement in 1963, nor have they changed one word of the present statement.

The second reason for the elaborate introduction was to address a question which was raised in 1963 and has been again injected into the record of these hearings. In the colloquy between myself and then Representative McIntire, from Maine, who was a guest at the Senate hearings, he referred to my "academic philosophies of futures trading" at which point I interrupted to say that I had based my statement on evidence—not on an academic philosophy. When he countered that the evidence on the other side was also quite realistic, I denied this because I had just demonstrated that their evidence made bad uses of facts and was not realistic. In a similar vein, Mr. Herschel Smith, of the Maine Potato Council, said earlier at the present hearings:

We anticipate that there will be a great deal of theoretical evidence presented along the lines of that in the 88th Congress, but we know that no amount of theory can change the documented facts which exist showing the need for this legislation.

Since my own earlier statement is presumably embraced in what Mr. Smith calls "theoretical evidence," I now submit to you that the situation was exactly the reverse of what his statement suggests. My own statement was documented with evidence, whereas the arguments which I attacked were shown to be unsubstantiated theories.

This brings me to the third reason for my introductory remarks. I wish to submit into evidence before this committee three published articles which have a direct bearing on the whole issue before you, and to quote briefly from two of these on this issue of "theory," or "academic philosophy" versus "evidence" or "documentation." Professor Working, writing in 1963 about the prohibition on onion futures trading, said:

The argument the Committees found more persuasive than evidence from the price record proves, on close examination, to be incomplete and misleading.

In my 1964 article concerning potato futures markets, I said:

The opponents of the futures market have presented futures trading as a complicated arrangement which can be defended "in theory" but does not work out "in practice", yet they have displayed no reluctance to advance certain unsupported theoretical propositions. Two elements of the attack which fall in this category concern the so-called "perishability" of the commodity in question and the alleged narrowness of the contract specifications.

I respectfully urge that the member of this committee peruse these two articles with one question in mind: Which side has presented evidence and which has presented unsupported theories?

Turning now to the arguments which you have heard for the elimination of the potato futures market, it seems to me that the best way for me to try to assist you is to proceed as follows: First, to summarize those arguments which were made in 1963 and were countered by the evidence presented at that time, and subsequently elaborated in one of the publications I have just handed you. ("The Attack Upon Potato Futures Trading in the United States.") Secondly, to bring the quantitative evidence up to date, in order to see whether it has continued to support the conclusions I drew from it in 1963. Thirdly, to consider certain aspects of the argument now being made which may not have been resolved in earlier published findings.

First, as to the arguments made in 1963:

1. Perhaps the central theme of the 1963 attack was that Maine's competitive position had deteriorated during the era of futures trading, which was somehow attributable to futures trading. This theory was presented by Mr. Bagnell, who has appeared before you this year to present the same theory.

I presented evidence showing that—

(1) The deterioration in Maine's competitive position relative to Idaho had been going on for more than half a century, long before there was a futures market; and was due to different growing conditions, different types of potatoes, and population shifts;

(2) Mr. Bagnell computed his deterioration from the price support period, during which Maine enjoyed an enormous artificial market, selling potatoes to the Government;

(3) Maine's competitive position relative to comparable States had actually improved;

(4) Maine's potato economy has had its most stable era since the futures market grew to importance.

2. A recurrent theme was that the futures market benefited speculators to the detriment of the potato economy. You have also listened to this argument during the course of the present hearings.

I computed the results of trading over the most recent 10 years, which showed that speculators in potato futures had lost money on balance, while hedgers, representing the potato economy, had made profits.

3. It was also argued that the market lacked the capacity to absorb the amount of hedging that might be done. I demonstrated that it had unused hedging capacity, and had in fact in several years absorbed enormous increases in hedging without price effect.

4. It was argued that hedging, which was admittedly advantageous to those who practiced it, was too costly or complicated for the average grower.

I met this argument by estimating the costs and benefits of the simplest routine hedging programs.

5. Finally, there were presented by the American Farm Bureau Federation a group of unsupported theories: (a) that futures trading was unsuited to a perishable commodity; (b) that the Maine contract was too narrow; (c) that relative lack of processing made potatoes unsuited to futures trading; and (d) that price movements resultant from speculation had a deleterious effect.

Each of these arguments has been refuted in my article just handed to you. In the interest of conserving your time here, I simply refer you to the article; but will be glad to have questions on any such points from you.

Now, as to updating of the evidence presented in 1963: Certain evidence was presented in my 1963 testimony which included the latest available data, which was for 1962. Extending that evidence to include the latest data now available, for 1965, does not appreciably alter any of the conclusions drawn in 1963. It is true that the 1964-65 results were unfavorable to hedgers, but I treat that later in my statement. Such evidence was shown in charts 1, 2, 3, 4, 5, and 6 in table 4 of the article handed you a few moments ago. The data required to

update those charts and that table are shown below in this prepared statement, but I shall not read them as they need to be considered together with the charts and table.

Then, as to additional aspects of the current attack: This committee is also entitled to have its attention called to certain inconsistencies, fallacies, unsupported allegations, or weaknesses in the arguments which it heard on February 3 and 4.

Perhaps the most flagrant misinterpretation of facts and misuse of evidence occurs in the testimony of two of the witnesses who deplored the price rise of 1964-65 because hedgers, being short in futures, lose money on their future contracts when prices rise. One witness estimated this loss at \$3 to \$4 million and another estimated it at nearly \$8 million. This is a completely spurious argument against the futures market.

It misrepresents the nature and purpose of hedging. The hedger has ownership of real potatoes as well as a short futures contract. For every dollar he "lost" in the futures price rise, he made a dollar, more or less, from the advance in price on the cash market.

If he sold potato futures at \$3, that was the equivalent of about \$2.25 for his actual potatoes in Maine. When the futures went up to \$5 or \$6, his actual potatoes in Maine increased in value commensurately. These people who deplore his loss in futures not only ignore his gain in actual potato values, but they speak as though the potato grower should benefit from every price advance but not suffer from any price decline. In fact, his basic reason for hedging is to establish a reasonable price, and let someone else assume the risk of price change. No market mechanism has ever been devised which will allow sellers the benefit of price advances while protecting them from price declines. The contribution that this successful futures market has made is that it enables the hedger to choose the price if he likes it, and to forego speculative gain in exchange for protection against speculative loss.

It is also true that the carrying charges for storing potatoes tend to widen in high price years, as they did in 1964-65, when the grower who stored his potatoes at harvest time, hedged in the May future, was assured an additional 1.30 to 1.40 per hundredweight for this storage.

Consider further what would have happened in the 1964-65 crop year in the absence of a futures market. Growers would have had no hedging medium, hence they would not have retained ownership of potatoes as long as they did with hedge protection. The result would have been lower early season prices and higher late season prices, with the profits from the price rise accruing, not to potato growers, but to speculators in actual potatoes who bought them early and held them late. Now, it is undoubtedly true that some potato dealers would have benefited greatly from this situation, to the detriment of potato growers and consumers alike—which may provide you with some clue as to who really backs this legislation.

To be sure, any grower who omnisciently anticipates such a price rise would be far better off just speculating on potato values. But such a grower should not waste his Midas touch in potato farming. He should sell his farm, take his crystal ball to the World of finance,

make his fortune, and retire to a park bench where heads of state could find him when they needed his advice. Gentlemen, the evidence consistently shows that the perennial sponsors of this legislation who come before Congress to deplore the plight of the poor potato grower are shedding crocodile tears all over your committee rooms. In 1963 their concern was for the majority of growers who did not hedge, this year they have bemoaned the futures market losses of those who did hedge in a year of rising prices.

Those who have singled out 1 crop year to show that potato growers might have made more money without a futures market are ignoring the evidence of all the other crop years since the futures market came into prominence. That evidence shows that the grower who hedged was consistently better off than the one who did not and that the opportunity to hedge has been available on even terms to all who might choose to avail themselves of it. They also ignore the fact that any grower who anticipates a price rise is free to take advantage of it, with or without a futures market.

A second argument which was reiterated several times in the hearings before this committee goes to the effect that the futures market encourages inefficient producers to stay in business in Maine, thereby contributing to lower prices. At least four witnesses told you this on February 3 and 4. In appraising this argument, you may wish to read the colloquy between Senator Muskie and myself in 1963, in which the Senator, following the arguments made at that time, quite properly questioned me as to whether the futures market was driving Maine growers out of business.

Testimony on H.R. 904 was that it had driven out 1,400 Maine growers in 7 years. You may wish to ask yourselves, gentlemen, why the argument for this bill in 1963 was that the futures market drove Maine producers out of business and in 1966 is that it keeps too many Maine producers in business. The truth is that neither effect has been demonstrated.

Another glaring contradiction occurs over the question of trading volume. In 1963, the concern, as I noted earlier, was that trading volume would be inadequate to absorb any major increase in hedging trade. This year, Mr. Bagnell, among others, deplored the rising volume of trading.

The market is cast in the role of the poor rejected suitor who was either "too thin or too fat." To deplore the fact that trading volume is seven or eight times as large as Maine potato production is to deplore what occurs on every thriving futures market. There is ample evidence in published studies that the markets with consistently high levels of speculation afford the best hedging opportunities.

You also heard testimony from an onion dealer—true, he is also a grower, but anyone who handles 25 percent of the Michigan crop, 32 percent of the Wisconsin crop, and 10 percent of the Texas crop is primarily a dealer. He gave his opinion that onion growers are better off without the futures market. Two of the articles which I submitted into evidence deal with this question, not by presenting the opinion of one large onion dealer, but by displaying the factual price record.

The record shows clearly that the seasonal range of cash onion prices was wider before and after futures trading than it was during

the futures trading period. It also shows that late-season price ranges were lessened by the operation of the futures market. Both of these futures market influences were beneficial to growers as well as consumers, but of course not to dealers.

Several witnesses from States other than Maine also came to testify in support of this legislation. If they believe that the increasing use of futures by the Maine potato economy has given it a competitive advantage, then their position is consistent with that belief, but inconsistent with the position taken by the Maine interests. I can readily understand why those who have any monopoly advantage in existing markets would resist the spreading influence of a competitive market. Producers and consumers, however, stand to benefit from the further growth and influence of this futures market.

The president of the Maine Potato Council asserted to you that other potato areas across the country have less instability than Maine has. Yet I quoted from a USDA study at the 1963 hearings which showed that Maine's former erratic pattern of price and production response had been eliminated during the futures trading period; whereas, in other geographic subdivisions the instability had persisted.

Parenthetically, the U.S. Department of Agriculture witness this morning failed to mention this study.

In 1963 the argument was reiterated that speculators drove the market down. In 1966 Mr. Bryant said that the only people interested in futures were on the buying side.

One grower-shipper from Maine complained to you that the farmers watch the board, making it difficult for him to adequately service the chains. Is this not a concession that the board protects the farmers? It might be better for the shipper, to be sure, if the farmers lacked that protection.

To summarize my conclusions: the evidence has consistently shown the potato futures market to be a viable, normal, and useful futures market. The USDA has published numerous analyses of this market, and consistently found it to be a normal futures market. It has nevertheless come under persistent attack. You have been asked to listen to the same assortment of unfounded allegations as have been recited before congressional committees several times in recent years. Where novel allegations have been introduced this year, they either contradict the earlier allegations or they are self-contradictory.

This sustained attack upon the potato futures market is a well-organized, anticompetitive effort. It has been characterized throughout by the presentation of arguments and opinions instead of evidence. The Congress of the United States is entitled to evidence.

The miraculous technological revolution in U.S. agriculture has, to a certain extent, at certain times, burdened some farmers with overproduction. It may also have benefited some potato-producing regions relative to Maine. Nevertheless, the Maine potato grower, with his fine Caribou loam soils, his natural rainfall, and his Yankee perserverance, remains in a strong position.

The Congress has on occasion extended various kinds of assistance to farmers, including Maine potato growers, partly in the belief that the marketplace does not always reward them fully for their efforts. This is one matter. It is quite another matter when the Congress is

asked to destroy a useful and legitimate business in the supposed interest of another enterprise.

I, for one, believe this to be a profoundly immoral and undemocratic approach—that is my belief as a citizen. As an economist, it is my studied professional conclusion that it would do more harm than good to the supposed beneficiaries.

Mr. MATSUNAGA. Thank you very much, Professor Gray. Thank you for a very fine statement. The documents you have referred to, will be made a part of the files of the subcommittee.

(The documents entitled, "Onions Revisited," "Futures Markets Under Renewed Attack," and "The Attack Upon Potato Futures Trading in the United States" will be found in the files of the committee.)

Mr. MATSUNAGA. The bell has rung, but I think it will be a few minutes before a quorum call, so we will proceed now with the other two witnesses who have indicated that they will not be able to be here tomorrow.

Our next witness is Mr. Clarence Perkins of McBrides, Mich. We will be glad to hear you now, Mr. Perkins.

STATEMENT OF CLARENCE PERKINS, McBRIDES, MICH.

Mr. PERKINS. Mr. Chairman and members of the committee, I grow about 350 acres of potatoes. I am opposed to H.R. 6006. It is directly opposed to our much-preached-about free enterprise system. It will close off the privilege of a hedge position to a grower which can be the insurance policy in his business.

It will eliminate the tremendous source of market information that comes daily from the New York Mercantile Exchange. Powerful chains and big shippers have their own private wire services continuously gathering market information and stand to gain the most if trading in Maine potatoes is stopped.

Prices quoted on the New York Exchange are public and published in newspapers throughout the United States and Canada. This not only guides prices in round white potatoes, but is free advertising for Maine potato farmers. It has been argued by a national farm organization that potatoes are "perishable," and, therefore, not suitable to futures trading. This indicates a complete lack of understanding, and I call your attention to the trading on the Chicago Board of Trade in 17 various commodities, all perishable by degrees; among the more perishable are butter, eggs, cattle, hides, frozen pork bellies, et cetera. They are all being successfully traded.

The proposed bill, H.R. 6006, is unfair to Michigan. I would like to have any round white potato qualify for delivery in New York City or Detroit, or elsewhere. Agriculture is receiving less and less of the consumer dollars; but having lost its political power, it is being made the whipping boy of the administration because food prices have moved up a fraction of a cent.

Potato growers need every marketing tool available to compete with the various segments of the economy. Let's keep the Maine futures contract, or the door open to make a new one. This completes my statement.

Mr. MATSUNAGA. Thank you. Are there any questions?

Mr. TEAGUE of California. You being a Michigan farmer, how would you be affected, one way or another, by this? Why do you take the position opposing this legislation?

Mr. PERKINS. We compete directly—our prices compete directly with those of Maine, in Detroit, Mich. We compute our prices on the basis of the Maine potatoes delivered in New York. We had a yardstick a few years ago where we said that Maine 50-pound bags delivered in New York City equaled the price of our 10-pound bags on our trucks at our gate. And this also, gives us a chance to hedge in the round white potato, which is what we produce in Michigan. Our prices are very similar.

Mr. TEAGUE of California. Then, is it your position that if futures trading were abolished in Maine potatoes, the Maine potato prices would be lower or higher in competition with your own?

Mr. PERKINS. I doubt that, that it would effect it, but our one biggest disadvantage is that we would not have the market information that we get every day, you see. We do not have the comparison.

Mr. TEAGUE of California. This is your primary interest, the fact that you get this market information?

Mr. PERKINS. We can hedge in the Maine potatoes.

Mr. TEAGUE of California. Do you do any hedging yourself?

Mr. PERKINS. Some.

Mr. TEAGUE of California. What percentage of your total crop?

Mr. PERKINS. It varies, year by year, because of the prospects.

Mr. TEAGUE of California. Maybe 10 percent?

Mr. PERKINS. More, sometimes.

Mr. TEAGUE of California. Thank you.

Mr. GREIGG. Mr. Perkins, are you affiliated with any farm organization?

Mr. PERKINS. Yes; I am.

Mr. GREIGG. Which one?

Mr. PERKINS. I am the chief officer of the Potato Growers Association. I am the president of it. We have a shipping organization.

Mr. GREIGG. Are you affiliated with any other farm organization?

Mr. PERKINS. No; except the Farm Bureau.

Mr. GREIGG. You are a member of the Farm Bureau?

Mr. PERKINS. Yes.

Mr. GREIGG. I do want to say to you that I take exception with your statement about the administration making a whipping boy out of you. I am far more interested in facts than I am interested in any statements that have been made. The fact is that you now have a 4-year farm program. The fact is that the net farm income is better today than it has been in many, many years. Farm income will increase another billion dollars this year. We are going to reach a level that will be higher than at any time in our history, with the exception of 2 postwar years of 1947 and 1948.

Mr. PERKINS. I am sorry that I do not have with me some information which I had in my suitcase—I did not bring it here, of some prices that came out, reported the other day, and I had some editorials which are saying that the grower, the farmer, is still getting less of the consumer's dollar than he got several years ago.

Mr. GREIGG. Yes, but I am not discussing that. I feel the farmers should have the fairest shake possible, but I want the record to show

that net farm income today is higher than it has been before, with the exception of those years mentioned. I want the record just to show that. Thank you.

Mr. TEAGUE of California. We will have time to get into that later, but I do want Mr. Perkins to know that that particular statement does not affect anyone on this side of the aisle. [Laughter.]

Mr. PERKINS. I am sorry that I did not document it. I did not bring it with me.

Mr. GREIGG. Thank you, Mr. Perkins, for being here.

Mr. MATSUNAGA. Our next witness is Mr. Wesley F. Hessler, of Rockford, Mich. He is a potato grower and shipper.

STATEMENT OF WESLEY F. HESSLER, ROCKFORD, MICH.

Mr. HESSLER. Mr. Chairman and members of the committee, I am a potato grower and shipper. We grow about 80 acres of potatoes and supply a local chain of 13 grocery stores their Michigan potatoes from approximately August 1 to May 1 each year.

We pack consumer-size packages, namely, 4-pound, 8-pound, 20-pound, and 50-pound bags and make regular deliveries direct to these stores twice weekly.

Since 1959, we have specialized in growing and marketing potatoes and have dropped all other appreciable agricultural enterprises. Although the family has been in the potato business for 80 years or more, we previously had other enterprises so as to be diversified with our income. However, the investment and management required in today's world, makes it highly unprofitable to be very diversified.

I found back in 1958 that there was a definite relationship between the price of Maine potato futures and our cash market. This relationship seemed to be that the price of the nearest Maine futures contract, delivered in New York, would about equal our f.o.b. price. Since that time I have found that 20 cents one way or the other is about all that we vary. Upon observing this relationship, I could readily see that here was a tool that I could use to guarantee a profit in a one-crop farming system.

Going back to our relationship with the supermarket chain it is obvious that to serve their needs properly as well as Mrs. Housewife, we need to sell our crop regularly in the amounts they require even though the market condition may indicate that a later date would be a much more advantageous time to sell. In a case such as this the purchase of futures contracts allows us to effectively delay the sale of our potatoes although the actuals have been sold.

By the same token, I may feel that "right now" is the time to sell the crop, and yet to supply our customer I have to hold some of the potatoes many months. Through the use of futures contracts I may effectively sell our whole crop today.

Over the past 7 years the use of this tool has greatly improved our financial returns from growing and marketing potatoes.

There is another real advantage to futures contract trading and that is in obtaining market information. There is certainly no source of potato information in this Nation as up to the minute as that offered by the brokerage houses. A few minutes after 10 o'clock each morning a cost-free telephone call tells nearly every detail of what is happening

in the potato business in the United States and Canada and occasionally what is happening in other countries when it is apropos. This is a great asset to me in determining what price I will sell actuals for. Many times I have to guarantee a price 2 weeks in advance. The futures market information assists me greatly at this point.

My last and final point may be the most important of all to you gentlemen. I have used the Maine potato futures in our operation because it is the only contract available on round white potatoes. I really have no quarrel with the gentleman from Maine if they want to eliminate trading in Maine potato futures. However, I feel that it is a grave mistake and a mighty injustice to the rest of the industry to pass a law banning futures trading in all Irish potatoes. I can't help but feel that if trading in Irish potato futures is completely eliminated that the Congress will be taking from the potato industry and me personally an important tool of the free enterprise system. Perhaps we should have a contract for all round white potatoes delivered at New York or Detroit with freight differential adjustments.

Thank you very much, gentlemen; this concludes my statement.

Mr. MATSUNAGA. Thank you for your statement. You are in the same position as Mr. Perkins, that you find the potato futures market of great usefulness in marketing your own crop?

Mr. HESSLER. Yes, we do.

Mr. MATSUNAGA. But if the Maine potato growers feel that they are at a disadvantage as compared to the growers in other areas of the United States, don't you feel that they deserve some sympathy from you as a grower of potatoes?

Mr. HESSLER. I envy the Maine potato grower in being able to sell futures contracts and to deliver his own potatoes. It seems like this would be an ideal situation for the Maine potato grower. I can only use one-half of his advantage in the futures trading, because I cannot deliver my own potatoes, but the fact that we have this relationship in price between the price our round white and the Maine round white allows us to use it in sort of a secondhanded way. We can still accomplish the price objectives but, actually, we cannot deliver our own potatoes. I can see that it would be a real advantage to me if I could sell potatoes on the futures board and deliver my own potatoes. I think that would be of great advantage to us. And we, in Michigan, would like to have something like that.

I would like this committee, at least, to reserve the right of the industry to have some sort of an Irish potato contract.

Mr. MATSUNAGA. Any questions, Mr. Teague?

Mr. TEAGUE of California. No questions.

Mr. MATSUNAGA. Any questions, Mr. Greigg?

Mr. GREIGG. No questions.

Mr. MATSUNAGA. Thank you very much, Mr. Hessler. We have remaining two witnesses. It is a quarter past 12 now.

You will be back tomorrow morning. We will hear you then. Is that satisfactory to you, gentlemen?

(No response.)

Mr. MATSUNAGA. Then, until 10 o'clock in the morning, this committee stands in recess.

(Whereupon, at 12:15 p.m., the above committee recessed, to reconvene at 10 a.m. on Tuesday, May 17, 1966.)

PROHIBIT TRADING IN IRISH POTATO FUTURES

TUESDAY, MAY 17, 1966

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

The subcommittee met again at 10 a.m., pursuant to recess, in room 1302, Longworth House Office Building, Washington, D.C., Hon. Spark M. Matsunaga (chairman of the subcommittee) presiding.

Present: Representatives Matsunaga, Foley, Greigg, Teague of California, and Burton of Utah.

Also present: Martha Hannah, staff; John J. Heimbürger, general counsel; and Kitty Bernhardt, staff.

Mr. MATSUNAGA. The subcommittee will come to order.

Today we continue public hearings on H.R. 6006.

Our first witness will be Mr. Francis J. Reardon, a potato grower and shipper and distributor of potatoes in Maine. Mr. Reardon is from Charlestown, Mass.

STATEMENT OF FRANCIS J. REARDON, CHARLESTOWN, MASS.

Mr. REARDON. Mr. Chairman and members of the committee, I am a shipper and distributor of potatoes in Maine and elsewhere. I have also been a farmer and at one time was the largest potato farmer in Maine, and had as many as 40 warehouses. Before futures trading I used to buy potatoes from farmers below the cost of production before the potatoes were planted. This was the way farmers got money for seed, fertilizer, and other needs. They had to sell very cheap because they could not get anything from the banks or fertilizer people with only potatoes as collateral. The price included bags, storage, and insurance. If prices went up after harvest, I was the one who made the profit, not the grower, at least on as much of his crop as he had to sell to me.

The people who want to get rid of futures are the heads of sales organizations who want to go back to buying cheap—they are competing with me up in Maine and with other shippers, and they now have to buy from an informed farmer who can sell to the board for financing instead of to a shipper such as myself or these dealers who want to get rid of futures. These dealers saw, very early, the threat to their way of life and they have tried to stir up farmers against futures. They are a small group of selfish men leading a tireless fight here in Congress, among farmers, and in farm groups, working end-

lessly to get resolutions here or there. A major farm organization, for example, came before this committee with the frank statement that it was representing a single sales organization in Maine. I think this committee should bear in mind that this sort of backing obviously comes from a small group of men and does not represent even much of the Maine industry, much less that of the Nation.

Throughout the United States today, as well as in Maine, farmers are hedging and getting protection and advantageous financing. The farmer today is building his own storage. He no longer needs me and my 40 warehouses. He holds the potatoes, sells them out himself and makes the big profit himself. This has made a new era of prosperity for the thousands of potato farmers in the country, many of whom do not yet realize that futures are the reason for their prosperity. Yet even in Maine, over half the farmers now use futures and they use them more widely every year.

Thank you.

Mr. MATSUNAGA. Thank you very much, Mr. Reardon.

Mr. REARDON. I would like to go on a little further, Mr. Chairman.

Yesterday there were a couple of questions asked on the balloting in the State of Maine. I am familiar with that. I am a farmer and a shipper, and I know that a lot of other farmers and shippers never got any of these ballots. The ballots were sent around. One-half of the people did not know whether they were signing rightly or wrongly on the ballots. So I do not think that the ballot is very much, when they say that it amounts to 90 percent in Maine.

Mr. MATSUNAGA. Are you presently raising potatoes, Mr. Reardon?

Mr. REARDON. No. I have sold out to this man who bought the 1,900 cars of potatoes. I sold to him at the time that he bought the 1,900 cars of potatoes. I had 2,100 acres of land, and 12 warehouses where he stored a lot of those potatoes. About that same time he bought the 1,900 cars of potatoes in Maine, he bought 2,200 cars of potatoes for one of his outfits in the State of Idaho and in California.

Mr. MATSUNAGA. If you do not raise potatoes you do not expect to be polled, do you?

Mr. REARDON. What did you say?

Mr. MATSUNAGA. If you are not a potato farmer, you do not expect to be polled, do you?

Mr. REARDON. At this time when these polls were taken, I was raising potatoes. I have raised potatoes up until this year.

Mr. MATSUNAGA. Up until this year?

Mr. REARDON. Yes. I have 700 acres of land in Delaware that was in that, and I still have big investments in it.

Mr. MATSUNAGA. What about the State of Maine—when did you last grow potatoes in the State of Maine?

Mr. REARDON. In 1964.

Mr. MATSUNAGA. So that the poll in 1965 could not very well take you into account, could it?

Mr. REARDON. The poll was in 1964, was it not—1964 and 1965?

Mr. MATSUNAGA. What time in 1964 did you quit potato farming in the State of Maine?

Mr. REARDON. When I went out? I never quit farming in Maine, because I have a lot of money advanced to people in Maine. I have

one outfit this year that has over \$600,000 advanced to them, to put out fertilizer to these people in Maine. A lot of my people up there say that they have never got any of these cards.

Mr. MATSUNAGA. Are there any other questions?

Mr. TEAGUE of California. No.

Mr. MATSUNAGA. Thank you very much, Mr. Reardon.

Mr. REARDON. Thank you.

Mr. MATSUNAGA. Our next witness is Mr. Tom Findlen of Fort Fairfield, Maine.

STATEMENT OF TOM FINDLEN, FAIRFIELD, MAINE

Mr. FINDLEN. Mr. Chairman and members of the committee, at the time that I wrote this statement the weather was quite bad and because I was going to be planting. I did not expect to be here, but then the weather cleared up and I decided that it was important to come down here. The way that I wrote it at the time it was on the basis that I was not going to be able to be here.

Mr. MATSUNAGA. You may proceed.

Mr. FINDLEN. I farm 300 acres of potatoes in Fort Fairfield, Maine. I am sorry that snow and rain have delayed our planting period and I cannot be present today in person. Running my farm is a full-time job; and I wish to point out that potato futures have become important in our lives. In the period from 1940 to 1950 we had acreage control and price support. This program was removed in 1950 and for 2 years we were so afraid of overproduction that everyone underplanted and we had a good market. Then everyone suddenly did overproduce, and in the 1953-54 season I lost \$54,000 on 54,000 barrels of potatoes, a terrible loss. I determined to see if I could use futures trading to prevent such a loss from ever occurring again. I found through experience that once a farmer takes the trouble to learn how to use futures he can hedge and guarantee himself a reasonable profit if he uses his judgment concerning it. The practice of futures trading provides a practical solution to the farmer's problem of marketing his potatoes at a profit.

The best argument against H.R. 6006, I think, is the enormous extent to which farmers now use futures. Futures are used for buying fertilizer, for obtaining financing, and to protect our investment on potatoes that are either in the ground or in storage. In this way, we protect our businesses and our homes. In addition, the futures prices guide the small farmer in selling to a large buyer. This is an important added protection that does not involve actual trading, but involved priceless information we get every day for nothing by watching board prices. Our banks in Maine now give excellent loans based on futures trading and help maintain futures accounts for growers. It is a very healthy situation.

I should like to add that we get very good cooperation from the board of directors of the exchange. We farmers are listened to. We have representation on the board and our ideas are often enacted into new trading rules. In addition, let me say that the opposition to futures in our area has been misrepresented to you and that the hundreds of farmers who use futures is an example of how valuable futures are to them—as they are to me. We want and need futures for continued profits and prosperity.

Thank you.

Mr. MATSUNAGA. Thank you, Mr. Findlen.

How long have you been using futures?

Mr. FINDLEN. Since 1954.

Mr. MATSUNAGA. Since 1954?

Mr. FINDLEN. Yes.

Mr. MATSUNAGA. And how does your business compare, since you started using futures, with that prior to using futures—how does it compare?

Mr. FINDLEN. Prior to using it, you see, you had those low-price periods in there before, well, 1954, and you were taking quite low prices, 19 cents a hundredweight. Now the cost of production is quite high. That is not the cost of production. You are losing money on it.

Prior to 1955, at that time, the banking institutions did not put up the money for you. And you needed adequate financing. This is just beginning to get introduced. I called it in its infancy.

From 1954 on when it became apparent that these banks would put up the money for the margin, maintaining the additional deposit that is required. They would get the money back. The farmer would have his potatoes sold at the price that he had them sold for.

Prior to that time, sometimes it might take a larger volume of money to maintain their hedged position. You just did not have it in your pocket, the money that you had to have. You had to have money.

Now all of the banks in our area participate in hedging the farmers. They put up the deposit and maintain the margin. I have had up as high as 40 cars hedged with the Northern National Bank which puts up the deposit in a note form. I do not even have to think about it after that. They put up whatever extra margin is required to maintain the contract. And nobody asks me about it. I get an audit each month from the accounting company. A copy of that goes to the Northern National Bank, so that each one of us knows my position—I know how much money is in there. And in the spring when the whole thing washes out, that all gets paid back. That guarantees that the money that I borrowed to raise the crop, it will get back to them. It makes a very good banking arrangement.

I am, by the way, a director of the First National Bank. We do the same thing in the First National Bank with the growers.

Mr. MATSUNAGA. Are you a gentleman farmer or do you really farm?

Mr. FINDLEN. From the color of my face you can see that I am out in the wind. I am an overall farmer. I have a brother in partnership with me. He is home taking care of the planting. We only planted 2 days before I came down. You can see a little grease around this thumbnail here where I was getting the machinery ready. It is still there.

Mr. MATSUNAGA. In other words, you are a farmer-banker?

Mr. FINDLEN. No; I am a dirt farmer—that is what I am, a dirt farmer.

Mr. MATSUNAGA. As compared to those who did not use their futures, if you have any within your area, how does your business compare with theirs?

Mr. FINDLEN. Could I give you an example of a farmer that I know about? I am not going to tell you who he is, but I will tell you his financial circumstances.

Mr. MATSUNAGA. Is his farm of comparable size to the size of your farm?

Mr. FINDLEN. I grow 300 acres. This man grows 100 acres of potatoes. Right now he owns in storage 9,000 barrels of potatoes. These potatoes are deteriorating quite a lot—they are sprouting which takes place as warm weather comes in. The price of potatoes is all right. About right now potatoes are selling for \$3.90 a hundred-weight in Maine. His problem is this: Those potatoes are deteriorating and he cannot ship them under U.S. 1, due to pressure bruises and other conditions. He owes the bank quite a lot of money. His problem is that he has not paid back the money yet. He has these potatoes in storage. Due to the frost that we had last fall, it produces a less good potato, and he sold those quite cheap. He is in financial trouble. I do not know what he is going to plant or not. He does not use futures trading, but he did gamble and said the price was going to be good. We are all optimists in the farming business. We say that it is a little better a little later. We do that.

Mr. MATSUNAGA. Those that use the futures, if you claim do better, why is it that 90 percent of the farmers of Maine voted against it?

Mr. FINDLEN. This figure of 90 percent is not correct. Ninety percent of these people are not against futures trading. You see, if they were against it you would not have that much farmer participation in it.

We took a rough survey and by "we" I mean those who worked for the New York Mercantile Exchange—one of their people—we did not believe this 90 percent figure, and so the best way to find out who is using it and how many are using it is to go around to the individual brokers in the area and ask them how many farmers they have hedging and how many cars are being hedged by the group of people. We found that the co-ops all use this, this hedge program, which is a part of their business. And they would be a large hedge. The fertilizer companies use it. The machinery companies use it in a large hedge. But the individual farmer that is actually buying the tractor puts up so many cars of potatoes and then hedges them over on the Board. This has value in use. And I say that those people are using it and must think it is fairly decent.

There is a lot of hoodwinking going on in Maine, sir. These farmers have been told—and I have listened to the same type propaganda—that "You farmers should be the ones to determine your price and not those speculators in New York" until they have made some people go against it, because of this misinformation.

Mr. MATSUNAGA. Any questions, Mr. Teague?

Mr. TEAGUE of California. No.

Mr. MATSUNAGA. Will you proceed?

Mr. FINDLEN. You want me to proceed along this same line?

Mr. MATSUNAGA. Yes.

Mr. FINDLEN. We found in the survey that there were about 1,300 farmers who had been participating in it, to the extent of 1, 2, 4, 5 cars, 10 cars, and that aggregated around 17,000 cars of potatoes that were involved in the whole structure there. This was in 1954-55.

A survey of a similar type was taken a year earlier. And there were 1,100 farmers who were participating in it. This is just a survey.

Last year I think that there were 13,000 cars involved in this survey. That means that there is a lot of farmer participation.

The reportable positions that you get from the Commodity Exchange Authority are on those of 25 cars and up. I come under a reportable position as one farmer. But there are a lot of farmers up there who grow 40, 50, 60 acres of potatoes, and only sell 4, 5, 7 cars of potatoes. They are added in on the speculative short position in the Commodity Exchange Authority report.

I suppose that some place, perhaps some time and perhaps soon maybe we should find how many of those people are actually saying "yes." I do not believe this other one because it was under what I call duress. This was the matter of speculation and manipulation price gyration, and that it is no good for you farmers. We had depressed prices when the first vote was taken, besides that. And I suppose that next we will take a rap at the processor as time goes on, if prices are cheap. We will blame them when it is below the cost of production.

That is something that I do not like, prices that are below the cost of production. When it comes up to the price that I like, the price that is good for me, with some profit involved, I shall sell potatoes on it. And if the price gets down below the cost of production, we will damn the processors. The farmer usually damns the thing that causes the prices to get lower than what they think they ought to be. That is the way my head works. I do not like it when somebody does not give me the price that I think I ought to have.

People that you talk with say that fluctuation is no good and that they want stabilization. If so, then we need acreage controls and price supports, but the trouble is then that we go over to the bank and put them into storage, and it costs the Government too much money. You cannot have both. You cannot have price stabilization without controls. If you are on the open market you all get price fluctuations without futures trading.

Last July prices were \$6 a hundredweight, and my daughter was screaming to high heaven, she was screaming her head off when she had to pay 95 cents for 10 pounds of potatoes. I agreed with her. A week later they were selling for \$3.50. That is price fluctuation. It may reflect a price situation where the price is probably a little bit too high. I like high prices myself. I like \$5 a hundredweight, but on the other hand we have to have some sense in this. The consumer does need a fair break, at least.

Mr. MATSUNAGA. Has the margin of profit for the grower been greater, as in your case, say, after the use of futures in trading or was it greater prior thereto?

Mr. FINDLEN. Could I step back before 1950 and give you an example there? That is when it was under control. Under control the margin of profit was very good. It was very stable and very good. Now we have—we had overproduction from 1950 on and they called it perennial overproduction for a while. The only place that you could get a profit, for all practical purposes, was to future sell some-

thing. The actual market through this whole season was below the cost of production. That is why this area and many of the other potato-growing areas had a very difficult job each year getting hold of enough material and enough money to plant the next crop. We were in a low-price period. I am in hopes now that we have enough people in the United States so that we will not have overproduction as we used to have it in the potato business, but I suppose that some day we will just plant some extra potatoes and we will get too many again.

When I get the money in my pocket you know what I do as a farmer—I will increase a few acres, I think. This is usually what happens. That is why Idaho increased. And Maine may this year with the money, after 2 years, increase their acreage, also.

Finally, we will probably get into overproduction again, but I do not think that we will get into these big overproduction years due to the population increase that we used to get into.

Mr. MATSUNAGA. Thank you.

Are there any other questions?

Mr. TEAGUE of California. I have no questions.

I would like to say to the gentleman this, that I have a completely open mind on this very difficult problem. I think that you have made the most convincing case of anybody so far from your point of view. I want to compliment you on it.

Mr. FINDLEN. Thank you.

Mr. MATSUNAGA. Thank you very much.

Our next witness is Mr. John L. Baxter, Jr., president of the Snow Flake Canning Co., Corinna, Maine, and assistant general manager of Lamb-Weston, Inc., Portland, Oreg.

STATEMENT OF JOHN L. BAXTER, JR., PRESIDENT, SNOW FLAKE CANNING CO., CORINNA, MAINE; ASSISTANT GENERAL MANAGER, LAMB-WESTON, INC., PORTLAND, OREG.

Mr. BAXTER. Mr. Chairman and members of the committee, both of the above-named companies are potato processors. Snow Flake is a wholly owned corporate subsidiary of Lamb-Weston, Inc., and in combination, they are the third largest potato processors in the country, Lamb with a plant in Idaho, and Snow Flake a plant in Maine, both manufacturing frozen and dehydrated potato products. I am appearing before your committee in opposition to H.R. 6006.

In speaking in opposition to this bill, I will speak from the standpoint of Snow Flake Canning Co. For the record, however, I will say that Lamb fully supports the Snow Flake position; and would like trading expanded to include a contract for Idaho Russet Burbanks.

At Snow Flake we have used the potato futures exchange in connection with our business regularly every year since 1950. We have used futures trading to stabilize our costs and for hedging, both from the long side and from the short side. Raw potatoes are the largest single cost item in our finished product, representing from a third of the total cost in the case of frozen potato products, to a half in the

case of dehydrated potato products. Processed potato products are commodity-type goods, and sold on a large-volume, low-markup basis. The industry is fiercely competitive mostly on a price basis. There are three major producing areas, and several very large and some smaller, companies in each area. The industry produced 1,200 million pounds of frozen potato products in 1965 and about 200 million pounds of dried potato products. While under some circumstances, the finished product price responds to a change in raw potato prices, it is usually a delayed action, and because the industry is so large and so competitive and spread through so many different potato-producing areas, does not necessarily change with the change in raw potato prices in any particular area. Potato price fluctuations can be regional, whereas the price for processed potato products is a national price. Generally this price is a function of the costs of the area having the lowest raw potato cost.

Thus potato processors are part of a huge national industry, which competes more from price than from franchise, and the basis of this price competition is largely raw-potato cost. A processor's margin can be wiped out with what is considered to be a routine and nominal price change in raw potatoes.

Processors contract for potatoes in the spring, before the crop is planted. We generally like to contract about one-half of our requirements, because at that time, we do not know what the actual cash market for potatoes will be from the following September through June, which is our operating period. It could be significantly lower than our contract price. If our growers, for reasons of their own, do not wish to contract ahead for this quantity of potatoes, then we buy the balance on the futures exchange, and thus, are covered for this portion of our requirements. We need an approximately equal quantity in each month—September through June. If our growers prefer to contract for delivery in certain months, rather than certain other months, we protect ourselves by buying futures in those months in which they are reluctant to contract. Each of these cases is a long-side hedge. The grower then receives the market at the time of delivery of the potatoes, which is, according to his independent judgment, the better and more profitable choice for him. On the other hand, our growers respond very strongly to spring contracts. They might want to contract more potatoes than we consider it wise to be committed for under a firm price. With the availability of a futures market, we do not have to "shut them off" or "prorate" them. We can accept the contracts, and sell them back on the futures market immediately. The grower has been able to carry out his business decision, because we were able to carry out ours. This is, of course, a short-side hedge.

Another means we have of contracting, is by using the futures market as a price determinator. In this arrangement, the grower in the spring will guarantee to sell to us a certain number of cars of potatoes, to be delivered to us in certain months, without specifying a price. He then has the privilege of taking any price at which we can trade in that month on the futures exchange, up to the month of delivery. If he has not priced his commitment by then, he is paid the average price at which that option is traded during the delivery month. In this ar-

rangement, he has the maximum opportunity to exercise his judgment and knowledge of the market, and secure the best return for his crop. We are protected, because we are carrying a long position, which we liquidate when he sets his price. If we do not have a long position, because we consider prices to be too high, we can still pay him his price, because we can sell the purchase short in the future market, and thus be in the position of having arranged for a supply of potatoes with which to run our plant, while not having committed ourselves to a price, because we have resold on paper what we bought in actuals.

As I have said, we generally contract only one-half of our potato requirements, because in the spring we are not yet clear as to what the actual market will be at time of processing. As the crop develops, we may determine that planted acreage is actually lower than forecast, and that there is significant damage due to drought. In this situation we can protect ourselves by buying potatoes on the futures market as a hedge against higher prices later on. In the case of severe and sudden damage, such as freezing weather, we can purchase a large number of cars in almost minutes on the futures exchange, and thus protect ourselves, whereas it would take weeks to contact the 300 growers in our area to contract further supplies with us at that precise time.

Since potato processing is seasonal, that is September through June, we are building inventory all through the processing period to keep our customers supplied when we are not operating. We might be manufacturing inventories from potatoes that are very high prices, which will be sold, when potatoes will, in our judgment, be very low priced. Under these conditions, we can protect our finished product inventory by selling potatoes short on the futures exchange in the later months.

All of the above procedures we consider to be vital to the success of our business. Practically all of our other costs are stable and predictable. Raw potato costs are very unstable and difficult to predict. The potato futures market, like the soybean market, cotton market, wheat market, and many others, affords both growers and processors an opportunity to stabilize their costs and carry out a successful business venture in spite of what is, at times, a widely fluctuating price situation. The only sensible, practical, and workable place to carry this out, is through a Government-regulated commodity exchange.

Thank you.

Mr. MATSUNAGA. Thank you very much, Mr. Baxter. Yours has been an educational presentation for me, at least, as to how the processors fit into the entire picture. I thank you very much.

Are there any questions?

Mr. TEAGUE of California. No questions.

Mr. FOLEY. No questions.

Mr. GREIGG. No questions.

Mr. MATSUNAGA. Thank you again very much.

Our next witness is Mr. Jack Roth of Caribou, Maine.

Do you have a statement?

Mr. ROTH. Yes, sir.

Mr. MATSUNAGA. You may proceed.

Mr. ROTH. Thank you, sir.

STATEMENT OF JACK ROTH, CARIBOU, MAINE

Mr. ROTH. Mr. Chairman and members of the committee, in addition to some of my other duties, I am chairman of the Maine Advisory Committee to the New York Mercantile Exchange. The advisory committee is a group of farmers who asks and discuss the problems related to the futures market. I have a few statements that have not been included in the record that have been given to me, and I would request that they be added to the record. I will leave them with the reporter.

Mr. MATSUNAGA. They are statements from whom?

Mr. ROTH. They are from growers in Maine. One statement here is from Mr. Everette B. Harris, president of the Chicago Mercantile Exchange.

Mr. MATSUNAGA. Without objection, the statements may be included in the record at the conclusion of your statement.

Mr. ROTH. They consist of the statements of Frank H. Totman, Sr., of Houlton, Maine; Louis Solomon of Caribou, Maine; Lester E. Rand of Fort Fairfield, Maine; and Mr. Albert Theriault of Caribou, Maine, as well as that of Mr. Harris which I previously mentioned.

Mr. MATSUNAGA. You may proceed.

Mr. 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 carlot of potatoes a year, 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 January 1965 we had approximately 900 carloads 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 himself 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 above the cash market constantly, offering growers a chance to hedge at profitable prices, as compared to selling their potatoes on the cash market for considerably 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 so-called old days, long before formal futures trading was thought of, when prices were low, there would be times when no sales of potatoes could be made at any price. The buyers just disappeared. Now with the futures market there is liquidity and always a price available. 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 activities, 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 spend 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 market with iron-clad contracts can only result in benefit to the Maine potato industry.

Under the circumstances, I respectfully request this committee reject H.R. 6006.

Thank you.

Mr. MATSUNAGA. Thank you very much, Mr. Roth, for your statement.

Mr. ROTH. Thank you, sir.

(The statements referred to follow:)

STATEMENT BY EVERETTE B. HARRIS, PRESIDENT, CHICAGO MERCANTILE EXCHANGE

Mr. Chairman, members of the committee, my name is Everette B. Harris. I live at 524 Parkwood in Park Ridge, Illinois, a suburb of Chicago. Since June 1, 1953, I have been president of the Chicago Mercantile Exchange, an organized commodity Exchange, second only to the Chicago Board of Trade in futures trading volume, and the nation's largest Exchange trading in perishable commodities.

For almost five years prior to my present position, I was secretary of the Chicago Board of Trade. I was born a fourth generation farmer in southern Illinois.

I am a graduate of the University of Illinois with a master's degree from the University of Chicago. I also did graduate work at American University and taught economics in evening schools of the University of Chicago and DePaul

University for five years. I spent eleven years in the Federal Government, three in the Department of Agriculture and eight in the Labor Department.

That briefly is my background.

In opposition to HR 6006, which would prohibit futures trading in potatoes, I should like to state the following brief points and give my considered judgment based on many years spent in commodity exchange management:

1. The ill-conceived bill prohibiting futures trading in onions, the first such law passed in U.S. history, has had one good effect. It has given us an opportunity to see in actual practice for the first time that such legislation is completely destructive and in no way constructive. Authentic studies on record by Professor Roger Gray and others show conclusively that gyrations and instability in onion prices before and after the operation of our successful onion futures market have been greater than during the periods of relative price stability which occurred in the trading years.

2. Futures trading at the New York Mercantile Exchange in potatoes, as in the case of the many agricultural commodities traded on other organized exchanges, provides the following valuable services and benefits to producers, processors, and consumers:

(a) Price stabilization (elimination of extreme peaks and valleys).

(b) Indication of trend of prices which will help producers in their planning.

(c) Provide needed price insurance (hedging opportunities).

(d) Are a great incentive toward standardization and quality control.

3. A freely trading futures market is not only valuable for hedging and needed speculation by those who *voluntarily* care to participate but also serves non-participants by providing up-to-the-minute reliable price information based on supply and demand to farmers and others through farm radio broadcasts, farm television programs, daily newspapers and other media. They are thus apprised not only of the current level of prices to help them in their marketing judgments but the best indication ever invented of what prices will be six months or a year hence. Complete and reliable price information is obviously one of the greatest tools a farmer can have in determining that he is obtaining full value for his produce at the time of sale.

4. Reliable studies have conclusively shown through the years that in the case of commodities where a futures market is available, the price is higher to the producer, lower to the consumer, and more stable throughout the year than in the case of commodities without futures trading. Evidence indicates that this is due to intensified open competition and fuller price dissemination.

5. It would seem reasonable to further regulate—if evidence indicates the necessity—rather than eliminate a genuine American business for political or other ill-defined reasons.

6. Arbitrary prohibition of futures trading in potatoes or any American farm commodity is of dubious constitutionality.

7. Now that burdensome agricultural surpluses are tending to disappear in the face of urgent international food needs, with the happy attendant decrease in high-cost price support and storage programs, we can now benefit more greatly than ever from the efficient price rationing mechanism provided by futures trading.

8. Elimination of the potato futures market will no more help potato prices than breaking a thermometer would change the temperature. Supply and demand forces make prices and make them in a more stable and efficient manner when the useful marketing tool of futures trading is available.

9. Enactment of this bill will help no one and hurt many.

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 guide post 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 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 over 18 years, and handle approximately 2000 cars of potatoes a year on behalf of 100 to 150 potato growers.

Our growers use the Board extensively; strictly for hedge purposes. They are encouraged in this endeavor by their banks and loaning agencies, who in turn are more than willing to put up the money for the initial margin and all maintenances.

I am deeply concerned about the future of the one-hundred-acre farmer here in Maine, should this bill be passed. The farmer will have lost his last bargaining instrument and he would be at the mercy of the processors, who would dictate what they would pay him for his potatoes. You can rest assured that it would be very little. The farmer couldn't say: "I can do better than that by hedging my potatoes on the Board."

Since I have been in the potato business, there has been a great transition. Our buyers today are limited. Most of the business is from chain stores, and they are not interested in buying futures.

I am convinced that many of our growers have been brain-washed by a few individuals on our Maine Potato Council who believe that the small farmer should have no part in the economy of raising potatoes here in Aroostook County, and the ballot that was used by the Council, in my estimation, was a padded one, in that it provided only for a place to vote against futures, and no place to vote for it.

Because of the above statements I urge you sincerely to act unfavorably toward this bill to eliminate Potato Futures Trading.

STATEMENT OF CARL R. SMITH, NEWPORT, MAINE

My name is Carl R. Smith formerly a farmer of Exeter, Maine, now retired and living in Newport, Maine. I have two sons and two grandsons now growing potatoes in Central Maine, each operating individually on family sized farms.

From 1935 to 1940 I was a member, then Chairman of the State Triple A Committee. I was Agricultural Commissioner of the State of Maine from 1941 to 1945, from which office I resigned to become an official of the Bangor and Aroostook Railroad.

During all these years I have worked closely with the Potato Interests of Aroostook County and Central Maine. We have many problems. The most serious of which is the marketing of our product. We can and do raise potatoes successfully but our marketing, in the past was far from successful. There are in the neighborhood of fifty sellers to one buyer. This situation offers the growers no bargaining power.

Some years ago the futures trading of Irish Potatoes came into existence. At first the farmer did not understand how to use this futures board to his advantage. Many still refuse to understand. Many have learned and they have found that the proper use of futures trading makes the difference between a profit and a loss for the year.

I know of no year when a farmer could not have hedged his potatoes at a profit at some time during the season. The prices on the futures market are available to all at all times. When a contract is made both the buyer and the seller is protected. The small grower has the same opportunity as the large grower.

I feel that it is a great advantage for a grower to know how the men who deal in potatoes feel about the prices months in advance. If they were more optimistic than I (were I a grower) I would sell some potatoes and let them take the risk and if the price went up instead of down, I would sell some more, and not cry because some one else might make a profit on potatoes that I produced. This deal is a life saver for the small farmer.

I started growing potatoes in 1917. Never have I known in all this time a two year period with such favorable prices as have existed for the 1964 and 1965 crops.

If the future trading is as detrimental to the potato grower as the Elimination Committee (so called) of the Maine Potato Council claims, how does it account for this favorable two year period?

When this committee says that the futures trading in Irish Potatoes has got to go, and they offer nothing to take its place, they are not serving the best interests of the Maine farmer. I call this destructive thinking and destructive action. Many honest farmers have been hood winked by the misinformation that has been circulated by selfish interests. These farmers, especially the small farmers, do not realize what a great asset they have in this futures market. Where else can the small farmer be protected? All my life, my deepest interest has been in the Maine farmer on the family sized farm. I think this bill to prohibit futures trading is detrimental to him. It asks him to give up his greatest asset and offers him nothin in return. That is why I am opposed to this bill and respectfully urge this committee to return an unfavorable report.

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 market place 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 unfavorably on the McIntire bill.

STATEMENT OF FRANK H. TOTMAN, SR., HOULTON, MAINE

I am Frank H. Totman, Sr. President of the A. E. Mooers Company, Inc., Houlton, Maine: Growers, buyers and shippers of potatoes. We also finance Fertilizer, seed and spray material to farmers who wish to contract these items for a certain number of Barrels of U.S. # 1 potatoes to be delivered to our Warehouses at digging time. The A. E. Mooers Company, Inc. owns and operates eight public potato storage houses in the Houlton area. We handle about 1000 cars and trucks per season.

I have been in the Fertilizer and Potato business since 1922. From 1922 to 1945 I was Vice President in charge of sales for a large Fertilizer Company operating in the Potato sections of Virginia, Maryland, Pennsylvania, New Jersey, Long Island, up state New York, Connecticut, Rhode Island, Massachusetts and Maine. In 1938, I was transferred to Maine and have operated there ever since, growing, storing, buying and shipping potatoes.

For years I sold potatoes on a so-called Cash Futures basis. Buyers would come to Aroostook to purchase cars of potatoes for futures delivery putting up \$100.00 to \$200.00 per car deposit. In those days there were 1000 buyers and 50,000 farmers. Those were lean years and many farmers and buyers went broke.

Then came the chain store buyers and processing companies. The potato business was changing fast. The New York Mercantile Exchange offered a Potato Contract in Maine. Here was a chance for us to protect our credit accounts in Maine. I became a member of the New York Mercantile in 1952. In 1955 our company applied for a Clearing House Membership. We were accepted and today handle several hundred Mercantile Contracts for our Aroostook County Clients. In 1957 I was appointed to the Mercantile Board of Directors, the first Maine man to serve on that distinguished Board. I served on that Board from 1957-1962 when sickness forced me to resign and Jack Baxter took my place. During my tenure the Maine Potato Committee of the Exchange was very active in presenting suggestions to improve the Maine Potato Futures Contract. The Board of Directors and its successors, Board of Governors, was always cooperative and today over 1300 farmers are using the Mercantile Contract for hedging purposes. I do not think there is a better commodity contract in existence. If it can be improved, I am sure the Board of Governors would consider any practical change.

Unfortunately, there are those individuals in Aroostook County who would make a political football or whipping boy out of the New York Mercantile Exchange. They make false charges about manipulation and control—none of which have yet been proved. Some of these do-gooders actually use the Mercantile themselves.

Nobody forces a farmer to sell on the Mercantile. The protection is there if he wants it and may I say here, many of them do. If a farmer wants to hedge, any commercial bank will finance his hedge for him, providing he is worthy of credit. Government lending agencies recognize the importance of hedging part of the crop and Production Credit and Farmers Home Administration make money available for this purpose.

Doesn't it seem odd to you gentlemen that the proponents of H.R. 6006 have not, as yet, offered a substitute for the Potato Futures Contract. How do they propose to satisfy the credit requirements of growers in Aroostook County? Do they really want to put the industry back 10 or 15 years? Do they feel competent to handle the requirements of Processors inventories by daily street sales? Do they expect Government Loaning Agencies to pick up the tab? or force the grower into acreage control with no guarantee of price the farmer will receive? Will they furnish the growers with the crop and weather and marketing information which is now available to them through the efforts of the New York Mercantile Exchange.

No, Gentlemen, they do not intend to do this. What they intend to do is send the farmer back to the dark ages—the days when the favored few received Washington information, Crop Reports. Government purchases and Contracts twenty-four hours before it was general county news. Many a dollar was taken from the farmer in this process. Today the New York Mercantile disseminates Crop reports, weather conditions, market prices as soon as issued. The farmer therefore is as well posted today, through the efforts of the New York Mercantile, as any buyer or shipper.

Processors today are actively soliciting contracts for 1966 and 1967 delivery. Some of these contracts are on a flat price, others offer an option to the grower whereby he may elect, by notifying the buyer in writing, to accept as base price, a Mercantile quotation at which his volume can be traded for the monthly option applying to the month of delivery anytime between the date of his agreement and the first day of the month of delivery. From this quotation shall be deducted specified costs to arrive at the base price to be paid by Buyer. This option indicates Processors anticipate purchasing part of their requirements from the farmer on a Mercantile Contract. Information reaching me indicates several hundred contracts have been signed by one Processors on this basis. Maine Processors this year consumed approximately 35% of the 1965-1966 crop. Here again the New York Mercantile offers a Potato Contract which can be used to the benefit of Grower and Buyer.

Gentlemen, the passing of H.R. 6006 will be a step backwards for all industry closely associated with the consuming Public. Farmer, Grower, shipper and processor lose a medium of protection. The defeat of this bill is worthy of your vote.

Mr. MATSUNAGA. As I understand it, it seems that Maine produces only 15 percent of the total potato crop of the Nation. How do you

explain the fact that in trading in potatoes the growers in the other areas of the Nation have not gone into trading in futures?

Mr. ROTH. First of all, all areas are not alike in their marketing habits or marketing practices or the markets to which they reach. I do not think that I can fully answer that question. I think that Maine lends itself to a futures market a little better than do other areas. It is a concentrated area. It services a particular area of the country. I think that the problems in other areas are totally different. There might be a larger processing industry in Idaho, for example, where the ability to hedge is taken up by the processor. I do not know what happens in the valley, the Red River Valley, which has other problems.

The potato market situation in all areas is not identical, by any means. I think that the State of Maine lends itself to the futures market much easier than perhaps other areas. That is the only explanation I have. It just happened to start in Maine and it became successful.

If I may, sir, in connection with this question of the ballot that has been talked about a great deal, the statistical 90 percent of the 50 percent who voted, I am sorry that we do not have a sample of the ballot that was used. It is a very interesting ballot. I am sure that most of our elections would not expect to use ballots of that nature whereby the ballot is weighted in favor of the person, in other words, if I were running for office I would send a ballot out in my own favor. I think this is the type of ballot that was used in this poll. In other words, I question the use of this ballot.

Besides, if I wanted to do something with a ballot, I think that I might get some unbiased group to count the ballots. I am not suggesting that they did not count them right, but I am suggesting that perhaps the opposition ought not to be looking over the shoulder of the counters of the ballots.

Mr. MATSUNAGA. Then the balloting was done by the Maine Potato Council, was it not?

Mr. ROTH. Who are definitely opposed to futures trading, it would seem to me.

Mr. MATSUNAGA. It consisted of those who favored as well as those who opposed it, did it not, sir?

Mr. ROTH. Except that the administration people who are running the Maine Potato Council, as a matter of policy, are opposed to futures trading.

Mr. MATSUNAGA. But in the absence of any other poll we have nothing to go by, have we?

Mr. ROTH. Unfortunately, no. I would not question it honestly, but I question its efficacy as an indicator.

Mr. MATSUNAGA. As a broker, as a dealer, has your percentage of the take been less or greater with or without the use of futures trading?

Mr. ROTH. Well, I don't say that it has been said that we dealers would be a lot better off without the futures board, because these people from whom we buy potatoes would not be as knowledgeable in the market as they are presently.

As to the question of the take, this is always a very interesting accusation against brokers. I think brokers are a valuable part of our whole economic system. If you supplant me as a broker, the amount

of money that I might earn as a broker, you would have to substitute somebody else in this who distribution system. So whether I do it economically or the grower does it and they do it themselves through their own co-ops and through their own distribution structures, the costs are no different.

Mr. MATSUNAGA. If the word "take" is objectionable to you, you may use another term.

Mr. ROTH. Well, I think that it is an objectionable word.

Mr. MATSUNAGA. What is your share of the whole process?

Mr. ROTH. Are you comparing it with some total, the value of the entire carload of potatoes, for example?

Mr. MATSUNAGA. Yes; the sum total.

Mr. ROTH. For example, this year a carload of potatoes right today is worth \$2,000. And our take would be \$50. This is in the actual handling of the potatoes and the financing of it.

As far as the merchantile exchange take is concerned, our gross take is \$22, out of which, of course, all expenses have to be paid.

Mr. MATSUNAGA. This is relative to trading in futures or in direct cash sales?

Mr. ROTH. There are two different aspects. In trading in futures as a broker we have a brokerage fee that is set up and this is not done arbitrarily. As you know, the brokerage fees are set up by the exchange. That is one fee for the trade and it is an in-and-out trade. It is not just one way. It is a complete round turn on the contract.

Mr. MATSUNAGA. But you do have a comparison of percentages, do you not? Do you do better in dealing in futures or dealing in cash sales?

Mr. ROTH. Well, I would say that we do better in the cash business than we do in the futures brokerage business, because it is a different type of business. We are dealers, and it is in conjunction with fertilizer and in conjunction with financing. It is a different type of business.

Mr. MATSUNAGA. You do not have a percentage?

Mr. ROTH. We do not work on a percentage basis. It is a fixed amount per contract, regardless of the price. As a matter of fact, during times when prices are cheaper, of course, the competition is tougher and many times we have to cut back, but as prices rise our so-called "take" is not any greater.

Mr. MATSUNAGA. What about the "take" of the grower, is it greater in futures dealing or in cash dealing?

Mr. ROTH. This is part of the confusion that exists. I mean, they are two different contracts. The futures, dealing in that, we will relate to the cash at the expiration of the period of time, so that actually a grower is involved in both, not simultaneously. When he is hedging he will be in the futures market. When he removes his hedge he becomes a cash seller of his potatoes. In other words, they follow as the expiration of a contract comes up. Then he becomes a marketer of the cash potatoes that have previously been put on the futures market.

Mr. MATSUNAGA. If I sound stupid, you will excuse me. The reason I am pursuing this line of questioning is that the proponents of H.R. 6006 have told us that while prices may increase through the use of

potatoes futures, the take of the grower does not increase, that the benefit does not accrue to the consumer, but is enjoyed by the speculator and the broker, and not by the grower. This is what we are trying to determine, whether this is so or not.

Mr. ROTH. Well, this is not so, because of opportunity of the grower to sell at the given price is there at all times.

I think that if an examination of the sales price of the futures on the part of the grower were thoroughly made I think it would be determined that he does not sell futures unless it is to his advantage, which means a price at a profit.

The speculator who intends to make his fortune speculating in potatoes—and, incidentally, I notice that the Commodity Exchange Authority has said that on balance the speculators come out on the short end of the stick in this particular market—if the speculator makes more money than the grower does in this particular, that is, in this particular market, it certainly does not affect the consumer's price, so that the entire operation from beginning to end, it is the speculator who is the one who is carrying this risk. There is nothing in the book that says that he will make a profit, but there is something in the book that says that the grower will make a profit when he knows the price he is selling at and he knows what his cost is. We are primarily interested in the grower, because our future and our past and our entire history is based on the grower's ability to stay in business and to be a good, efficient operator.

So this red herring of the speculator entering this picture to the detriment of the grower is not true. Nobody forces the grower to sell these potatoes at any time. As a matter of fact, as far as this legislation is concerned I see no need for this legislation. All of these 1,300 growers, all they have to do is to stop using it. Nobody is forcing the grower to trade on the futures market.

Mr. MATSUNAGA. So that raises the question of the growers themselves who want the futures trading abolished. Why do you not stop it voluntarily? We are told that it is like horseracing, you start gambling and cannot stop.

Mr. ROTH. We had prohibition and that did not stop anybody from drinking.

Mr. MATSUNAGA. Like opium smoking.

Mr. ROTH. We cannot legislate these things. If there are social evils here we do not legislate them out of existence.

Mr. TEAGUE of California. I have a cousin who is one of your local bankers. Have you any idea how he feels about H.R. 6006? His name is Sam Collins.

Mr. ROTH. I sit on the board of the trust company of which Sam Collins is the president—the Aroostook Trust Co., as a matter of fact, it favors futures trading as a matter of policy. Why they are not here to say so may be because there are many, many reasons.

Mr. TEAGUE of California. I might say that I have confidence in his judgment. I have an open mind on this. If you can get Sam to write me a letter it might have some influence on my final judgment.

Mr. ROTH. You will have a letter from Sam, because I know his feelings on this future trading proposition. The Aroostook Trust Co. has never had as much pleasure in doing business with farmers as they

have since futures trading has been an important part of our economy, because that grower who comes in there to borrow on a fixed price, they have never had any defaults with them.

Mr. TEAGUE of California. I would like for Sam to write me a letter—not written just from the standpoint of the business of the bank, but what he thinks is in the best interests of the farmers in that area. Will you let me know on that?

Mr. ROTH. I am certain that his interest will be in the best interests of the community and not the bank.

Mr. TEAGUE of California. That is what I would like to know.

Mr. MATSUNAGA. Is not the bank a part of the community? [Laughter.]

Mr. ROTH. If there were a dispute between the two, I am sure that Sam's interest would be in favor of the community.

Mr. TEAGUE of California. Will you do that when you get back, to have him write me about this?

Mr. ROTH. Yes.

Mr. GREIGG. Mr. Roth, you have developed a pretty strong case for the potato futures market. Since onion futures stopped about 8 years ago, has any legislation been proposed, to your knowledge, to start it again?

Mr. ROTH. I hear an undercurrent. I am not familiar with the onion business, but I do hear an undercurrent from some very unhappy onion growers as to whether something could be done about repealing the previous legislation. I think they are extremely unhappy about it. I am not too familiar with the onion business.

Mr. GREIGG. I am just trying to draw a comparison. We have not had any futures trading now for a period of 8 years in onions, and yet I have not come across any indication that anyone is pushing hard for legislation to restore futures trading in the onion markets. I am trying to draw a comparison why it is so favorable in one area, and why we have not seen a legislative push in this other area. I want to know if you want to comment on this?

Mr. ROTH. I think the results of the poor onion years are just beginning to make themselves felt. This is my own opinion. I do know that onion prices have been terribly low in the last several years, and that some of the growers who were very anxious to get rid of futures trading in onions are very unhappy. I have spoken to them, but I am not too familiar with that business. It is totally alien to me.

Mr. FOLEY. I have no questions.

Mr. MATSUNAGA. Thank you very much, Mr. Roth.

Mr. ROTH. Thank you.

Mr. MATSUNAGA. You have certainly given us a very good statement.

The next witness is Mr. Leo Daigle, Presque Isle, Maine, a part-time employee of the New York Mercantile Exchange.

STATEMENT OF LEO DAIGLE, PRESQUE ISLE, MAINE

Mr. DAIGLE. Mr. Chairman and honorable members of the committee, I am Leo Daigle, Presque Isle, Aroostook County, Maine. I am a potato grower—300 acres—I sell International trucks to farmers and operate a small potato processing plant and make potato

starch. These businesses are operated in my name by my sons. I point out these businesses, because I am directly connected with the mercantile exchange, and if there was the opposition that the supporters of this legislation claim I would not be in business very long, because I trade with farmers. I am employed by the New York Mercantile Exchange in Presque Isle, Aroostook County, Maine, in charge of an information and public relations office. I work at this on a part-time basis. I could keep busy without this job. I grew my 40th crop of potatoes in Aroostook County last season. I have worked with potato growers in Maine in various salaried positions for 20 years and some 6 years in nonsalaried positions such as member and chairman of the Aroostook County USDA Production Marketing Committee, and member of the Maine Potato Commission.

I received an award from the USDA, I believe it said, for excellent performance, but let's call it good performance for my services.

I was executive vice president of the Maine Potato Council for almost 2 years. I feel competent to interpret the needs and the attitudes of potato growers in Maine.

I took the job with the mercantile because I felt that there was a great need of understanding of futures trading among Maine potato growers. Progress has been rather slow because I have been trying to do in a short time what should have been started 10 years ago.

I have met with a lot of propaganda against the mercantile from a group who for political and personal reasons chooses to capitalize on the emotions of growers rather than appealing to their judgment.

I sincerely feel that futures trading has become an integral part of the marketing of the Maine crop and that if eliminated would take at least 10 years to develop a system that would equally replace it.

The enactment of Federal legislation, in my mind, is serious and expensive business and there has to be a reason. I have divided this into four parts. First, is it necessary to protect the mass of consumers? The supporters have stated that the prices to consumers would not be affected. This is one statement on their part that I agree with. Secondly, is it necessary to protect potato growers in the country? Potato growers of the country have turned down two Government programs that might have afforded them protection—acreage allotments and a national marketing agreement. The USDA also puts out acreage guides for growers' guidance. How well are those followed? Potato growing business is a competitive business, it has been plagued with surpluses for years and competition gets to be quite ruthless. I cannot conceive of any area wanting to help any other area, like dumping some of its potatoes to let another area have the market in cases when there are too many. This should explain why the National Potato Council supports this bill. It is composed of potato growers from all areas and they know that the mercantile helps many growers in Maine. They say, "If Maine growers want to commit industrial suicide, let's help them." Mr. Bryant of the supporters has stated in his testimony that the mercantile helps some growers, who would not be financed without it, and is asking Congress to decide who should not grow potatoes. The country produces 270 to 290 million hundredweight. Maine produces 15 percent of this amount. How much would a 15- to 20-percent cut in Maine affect national

prices? In 1964 Maine had an abundant crop and sold at the highest prices in history.

Mr. Bryant stated to the National Potato Council annual meeting that if it was not for the mercantile, Maine would be through shipping in April and leave the markets for Florida, Alabama, North Carolina, and California. Potato producing is competitive business and no area will cede its market to another area if it can help it. A. & P. does not send customers to the Safeway Stores. Mr. Bryant proposes to have Maine hold the umbrella for competition.

Publicity recently came out of Idaho stating that Idaho plans to be in the market 12 months in the year by treating and holding potatoes in cold storage. Why has Maine spent so much money experimenting with controlled storage and sprout inhibition to lengthen its marketing season?

If Congress should decide that it would be desirable to cut production in Maine, it could do it without this bill. Simply by curtailing the appropriations for Farmers Home Administration.

I have established, at least to my satisfaction, that this legislation is not necessary to protect potato growers of the country. I hope that some of you will agree.

Thirdly, is this legislation necessary to protect potato growers in Maine? Trends in all enterprises are for more volume and less margin. I believe that Maine should grow more potatoes, not less. Maine growers should try to own as many potatoes as cheaply as possible, and try to sell all of them for as much as they can get. There is a rapid trend in Maine to large production units. It is getting rougher and rougher for the family-size farm to stay in business. The elimination of futures trading would accelerate the trend.

There are already over 2,000 cars sold on the mercantile from next year's crop, which is not planted yet. Some of those were sold for financing reasons, but many were sold for security. Supporters of this bill claim that growers are forced to sell below cost of production. Cost of production is an individual figure, which is known to each individual. If a grower knew that he could not produce the potatoes for the price he is selling them, he would not sell them and also would not plant them.

At the National Potato Council meeting Mr. Bryant praised the intelligence of potato growers. Why does he think that Maine potato growers have to be protected from selling their product below their known cost of production?

The merchantile tells growers every day of the year what he can sell his potatoes for at a certain time. Without the mercantile, independent contracting would be done at buyers' prices because it is always customary to have more sellers than buyers. The mercantile brings in buyers and what industry does not need more buyers? The buying of Maine potatoes for the market is getting concentrated more and more in the hands of a few.

In the State we have six processors, who now use more than 30 percent of the production. This is sufficient volume to control prices. It is a rare occasion when processors have to compete against each other for supplies. They do not even have to get together to control

the price. If one decides to drop his price the others soon follow and the same for the raising of the prices. Processors do a lot of pre-season contracting and they wait for each other to announce his price. With the mercantile in operation they have to be close to mercantile prices or else growers would sell on the mercantile.

This is no indictment against the processors. They are very necessary and a very contributing part to the production of potatoes in the State of Maine. But it is the situation.

My fourth point is, do growers in Maine want the mercantile out? According to the famous, or I should say infamous, 90 percent, they do. Let me tell you how the 90 percent was arrived at. The Maine Potato Council had been pointing its finger at the mercantile as the cause of the problems of growers, putting out a lot of propaganda and publicizing that it, the council, was against the mercantile. Then it put out a ballot, which had to be signed. Many who were not against the mercantile did not want to be on record with the council for something that the council was against, being afraid to be put on a blacklist of the council, so they refrained from voting, and those who are not afraid to be shown to be against the mercantile all voted.

I will submit that there are many growers who do not like the mercantile. One of the reasons is that no potato grower ever made a mistake. It is always somebody or something else that is the cause of their predicament. The 90 percent against was never true and much less true today, but it certainly was a magic figure and the Maine Council never neglected using it. Let us say we have a group of 10 growers assembled together. But with that propaganda and the figure of 90 percent, each thinks the others are against it, so that it does not even be dared to be brought up. In the group there might be half of them for the mercantile, but each one of them thinks that the nine others are against it, so he does not dare to discuss. Many bankers, sales agencies, machine dealers, fertilizer dealers and other organizations use the mercantile and are in favor of it, but do not dare to speak up on account of this 90-percent image—afraid to lose business. This false propaganda has made it unpopular to be for the mercantile. If it were possible to conduct a secret vote, I am sure the results would be very disappointing to the sponsors of this bill.

If there was so much opposition to the mercantile among growers, why did 70 percent of them use it in the 1954 marketing season? The statement that growers sell potatoes and they do not know they are going to go on the mercantile, just does not hold water. I could explain why, but I want to save time.

Regarding the testimony of the supporters, I feel competent to disprove any part of it, if time permitted. All except Mr. Bagnell's, which I could not understand. I could hardly tell on whose side he was. He has a broker calling a mercantile buyer to get some potatoes down here. I thought a buyer had some potatoes coming to him. At one point he states that futures trading helps farmers in Alabama and North Carolina to sell their potatoes. Mr. Bryant claimed that it was hurting farmers in Alabama, North Carolina, and all the South. They had better get together.

Gentlemen, this is a Maine problem. We do not need the support and advice of potato growers from competing areas. We do not sup-

port and advice from national organizations. We do not need this Federal legislation.

If 90 percent of Maine growers are against the mercantile, as the Maine Potato Council claims, let the council go back home and get the 90 percent of the growers to pledge themselves not to sell potatoes for delivery on the mercantile. Let it be known that only 10 percent of the crop is available for delivery on the mercantile and it will be a brave speculator that would dare to sell one car. Growers are in the possession of the most lethal weapon to kill this evil thing. Idaho growers do not use it. The New York Mercantile Exchange has a contract for Long Island potatoes. Growers do not use it. There is an explanation for each, but it would take time to give it.

Thank you.

Mr. MATSUNAGA. Thank you. You are omitting the last sentence?

Mr. DAIGLE. Yes.

Mr. MATSUNAGA. The record will show that the last sentence was not read from the written page. [Laughter.]

Are there any questions?

Mr. GREIGG. From your long experience in agriculture in your home State of Maine what would be your opinion as to the affiliation of the vast majority of the growers in the State of Maine with the various farm organizations?

Mr. DAIGLE. I would say that membership in the national organizations is not too big in the State of Maine—not too great.

Mr. GREIGG. With what national farm organizations are they affiliated?

Mr. DAIGLE. The Farm Bureau would be probably the biggest. I do not think the membership—I am talking about the potato growers in Aroostook County—is not too high.

Mr. GREIGG. Would you say that the vast majority of the growers, the farmers in Maine, are affiliated with the American Farm Bureau Federation?

Mr. DAIGLE. I am not in a position to say that. I do not think that the majority would be, however.

Mr. GREIGG. The American Farm Bureau Federation testified in support of this piece of legislation. Do they speak for these members, or do you feel they are not speaking for the members?

Mr. DAIGLE. I do not feel that they are speaking for the membership.

Mr. GREIGG. Do you think there is a different attitude among the rank and file on this question?

Mr. DAIGLE. Yes.

Mr. GREIGG. Thank you.

That is all, Mr. Chairman.

Mr. MATSUNAGA. What about the other farm organizations? I believe that we have the National Grange here, too, testifying on this.

Mr. DAIGLE. There is some Grange membership in Aroostook County. You might have found me a little rough on the National Potato Council who is the chief supporter of this legislation. I am a potato taxpayer where the council spends a large part of this tax money for this, and I am not satisfied with the way that it is being spent. So this accounts for my testimony. The council claims to represent all

growers. I have mailed to each member of this committee a bulletin that was put out by the University of Maine, by Dr. Oliver Perry which is a survey of the attitude of the growers. The bulletin claims that only 37 percent of Maine potato growers sell potatoes that belong to the Maine Potato Council. You have had that in your files, that bulletin.

Mr. MATSUNAGA. Mr. Daigle, seeing that you are a member of the mercantile exchange, you might make a comment, or you may have the answer to this question which was raised by Mr. Watts who testified yesterday. In his testimony Mr. Watts yesterday stated that the average price received by the Maine farmer exceeded that of the Idaho farmer, and yet we have had testimony to the contrary from the proponents of H.R. 6006. Are you familiar with the figures presented yesterday by Mr. Watts?

Mr. DAIGLE. They are——

Mr. MATSUNAGA. That was on page 7 of his statement.

Mr. DAIGLE. They are U.S. Department of Agriculture figures on Maine potatoes, compared with some of the major producing areas like Idaho and the Red River Valley that show the average price to the growers in Maine very favorably. Some of the years it is a little bit under, and most of the years the growers in Maine have received more.

Mr. MATSUNAGA. This is what I am getting at: Is it not true that the Maine growers grow a No. 1 potato and that the price is based on the No. 1 potato as it pertains to the Maine growers, whereas the price as applied to the Idaho growers applies to a mixed grade, grade No. 1 mixed with inferior grades?

Mr. DAIGLE. Of course, there are a lot of things in this marketing of potatoes. The Idaho markets mostly a long potato which is a Russet. They have a market there which should bring the average price to the grower for his crop. Idaho ships on the fresh market 30 percent of its crop, so that they can be very selective—they can ship the cream of their crop and process the others, but the total, where they have a smaller percentage of the U.S. No. 1, they have a high percentage of U.S. No. 2, which follows, and is marketed. And, especially, in Idaho it is marketed to the processors.

In Maine we have a high percentage of U.S. 1, and what we take out from the crop that are not U.S. No. 1, brings very, very small returns. So that the average would compare.

Mr. MATSUNAGA. If that is the case, where the Maine growers deal primarily in No. 1 potatoes, these figures from the U.S. Department of Agriculture might be misleading, because as I say, it is like taking the average of a Cadillac dealer's sales, and taking the average price of one who sells both Cadillacs and Chevrolets, and saying that the man who sells Cadillacs and Chevrolets has sold at an average price less than the dealer who sells only Cadillacs. That would not be a comparison at all, a fair comparison.

Mr. DAIGLE. I think that the average return to the growers should even out, should average out, because, as I mentioned, Idaho has a better marketing system and commands a better price, because they are so selective. They ship the best grades into the New York market. And that should reflect to the Idaho grower. They command a big margin. The Idaho potatoes sell for much more money in New

York than Maine potatoes. And that, I claim, is a weakness on the part of our organization that is supposed to look after the marketing of Maine potatoes.

Mr. MATSUNAGA. Idaho does not deal in futures trading.

Mr. DAIGLE. No, they have a contract available. I think it was mentioned here in the question, why do not all areas trade in futures? To trade in futures you have to have futures. You have to have future time. And Maine is in the market 10 months. And we hope it will be in the market 11 and 12 months. So there is a future there. This is futures trading. So there are futures in there. Idaho could do the same thing. In Idaho, most of the potatoes that are marketed, are of a special grade, and to trade in futures you have to have uniform, universal units. Like in Maine, you have 60-pound bags of U.S. No. 1 potatoes. Idaho has a lot better grade that sell in a lot of small packages, so that they do not sell you a plain U.S. No. 1 potato. That is my explanation why they do not avail themselves of the contract.

Mr. MATSUNAGA. How many crops a year does Maine produce?

Mr. DAIGLE. One crop.

Mr. MATSUNAGA. One crop. And it takes 10 months to grow one crop?

Mr. DAIGLE. I beg your pardon. We harvest those potatoes and put them in storage. They are harvested in a matter of 2 weeks, about the last of September and the first part of October. They are put into storage and then we market them throughout the whole season.

Mr. MATSUNAGA. From the time that you plant the potatoes, how long does it take before you can harvest them?

Mr. DAIGLE. Five months.

Mr. MATSUNAGA. But you have just one crop a year?

Mr. DAIGLE. Yes. I beg your pardon, it is 4 months to grow the crop.

Mr. MATSUNAGA. Four months?

Mr. DAIGLE. Yes.

Mr. MATSUNAGA. So that there are 10 months of opportunity then?

Mr. DAIGLE. That is right. It gets cold up there, they are stored in insulated warehouses, with some of them having heat put into them. In time they will sprout, but we are developing chemicals and so forth to treat them so that they will not sprout.

Mr. MATSUNAGA. Are there any further questions?

Mr. GREIGG. One additional question, Mr. Daigle. You say at the bottom of page 4 of your statement that you do not need support and advice from national organizations. In support of this legislation we have heard from the American Farm Bureau Federation, we have heard from the National Grange, we have heard from the National Council of Farmer Cooperatives, we have heard from the Idaho Potato Growers, we have heard from the National Potato Council, and we have heard from the Maine Potato Council. Can you name any other representative organizations which are better qualified to judge what kind of marketing procedures are best for the growers?

Mr. DAIGLE. Well, in none of this testimony have you found any study by economists, I believe. And national organizations—well, maybe I should not say that, but they come and make a statement with-

out any reason or any study. This is a problem. They are claiming that the trading on the mercantile exchange affects the income of these potato growers. Some claim that it affects the income of the potato growers over the country. Some claim that it affects the income of the potato growers in the State of Maine, but there has been no study made of this.

Mr. GREIGG. Is it your contention that none of these organizations consult with economists?

Mr. DAIGLE. They have not brought it out in their testimony.

Mr. GREIGG. That is all, Mr. Chairman.

Mr. MATSUNAGA. We thank you, Mr. Daigle, for your testimony. I do not think that the farmers will be happy to read your testimony relative to their lack of independence, or about their being afraid to be put on the blacklist and, that they therefore, voted as they did in the poll. The farmers that I know are the most independent people I know of. They are not afraid of any blacklist. I cannot see it your way.

Thank you, anyhow.

Mr. DAIGLE. Thank you.

PRESQUE ISLE, MAINE, May 24, 1966.

Hon. SPARK M. MATSUNAGA,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN MATSUNAGA: I testified against H.R. 6006 and don't feel that I gave a satisfactory answer when I was asked about the membership of the National Farm Organizations in the potato producing area of Maine.

Enclosed is a bulletin¹ showing the result of a survey by Dr. Perry of the University of Maine. This kind of survey is considered scientifically correct. The bulletin contains a lot of valuable information and to make it easy for you to pick out the information that might affect your opinion on H.R. 6006, I have penned some comments in the margins.

Neither the Grange nor the Farm Bureau are very active in organizational matters in the area. Reason for large membership in Farm Bureau is due to advantages offered by lower rate insurance programs.

I sincerely believe that the representatives of these organizations who testified in favor of the bill assumed a lot of responsibility themselves. Have not heard of any official meeting where the matter was discussed locally.

This was my first appearance before a congressional committee and I appreciated the courtesy extended to me by all members.

I would like this included in the hearing record.

Sincerely,

LEO DAIGLE.

Mr. MATSUNAGA. Our next witness is Mr. Philip Jacobs, a potato grower from Caribou, Maine.

STATEMENT OF PHILIP JACOBS, CARIBOU, MAINE

Mr. JACOBS. Mr. Chairman and members of the committee, I was born and raised in Caribou, Maine, and started potato farming for myself in 1939; this has been my occupation since that time. Last year I grew foundation seed and sold the larger potatoes on the mercantile and the balance to the seed trade.

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

¹ The bulletin entitled "Attitudes of Aroostook Potato Growers Toward Marketing and Processing" by Alvah L. Perry, Maine Agricultural Experiment Station, University of Maine, may be found in the files of the committee.

a hedge to protect profits. For one thing, it helps get better credit arrangements with banks, fertilizer companies and all other people who handle 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 and last year, 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.

Mr. MATSUNAGA. Thank you very much, Mr. Jacobs, for your very precise and to the point statement.

Mr. JACOBS. I would like to address something to Mr. Greigg, because I have known the Collins family for a good many years. I trade at the Aroostook Trust Co. Just for his information the loan I have is a very small amount of money, but I owe the trust company around \$4,200. I borrowed it on the crop. And to their benefit as well as my own benefit, I sold five cars on the mercantile exchange. They have a system there. They are glad that you come. After they lend you the money, if the market goes against you, and they have to put a margin, they just hold up one finger. That means that you get the check to back up the trade.

I think a misconception is that the farmers use this vehicle to sell all of their potatoes. Most of the farmers sell a very small percentage of their potatoes on the mercantile exchange. The other potatoes are sold to processing plants. They are sold to dealers, too.

Mr. MATSUNAGA. What percentage of your crop do you sell through the mercantile exchange?

Mr. JACOBS. This last year, out of almost 7,000 barrels—we go by barrels up there—I sold probably 1,500 barrels on the mercantile exchange.

Mr. MATSUNAGA. Out of how many?

Mr. JACOBS. Pretty close to 7,000 barrels I sold approximately 1,500 barrels.

Mr. MATSUNAGA. Just a little over 20 percent.

Mr. JACOBS. That is correct.

Mr. TEAGUE of California. It was not quite clear to me that the farmers market only a small percentage of their crops on the mercantile exchange.

Mr. JACOBS. I would say a very small percentage.

Mr. TEAGUE of California. Thank you.

Mr. MATSUNAGA. Thank you very much.

Mr. JACOBS. Thank you.

Mr. MATSUNAGA. Our next witness is Mr. Raymond W. Dow of Caribou, Maine.

STATEMENT OF RAYMOND W. DOW, CARIBOU, MAINE

Mr. Dow. Mr. Chairman and members of the committee, I am a grower and shipper of certified seed potatoes, growing 175 acres and shipping approximately 110 to 115 cars during the season.

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 new practices, 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.

It is my belief that futures trading helps to strengthen the farmer's position by giving him another market for his potatoes at prices usually higher than the processors, or the street buyer. This year's prices on the New York Mercantile Exchange were higher all year than any of the farmers could get elsewhere. This not only helped the Maine farmers, but because Maine kept strong, it enabled Idaho and other potato-growing areas to keep their prices up.

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.

Thank you.

Mr. MATSUNAGA. Thank you very much, Mr. Dow, for your precise and forthright statement.

Are there any questions?

Mr. Dow. Thank you.

Mr. MATSUNAGA. Our next witness is Mr. A. E. Mercker, agricultural consultant from Washington, D.C.

Mr. Mercker?

STATEMENT OF A. E. MERCKER, AGRICULTURAL CONSULTANT,
WASHINGTON, D.C.

Mr. MERCKER. Mr. Chairman and members of the committee, I want to thank the committee for the opportunity given me to appear before you and present my factual statement with respect to H.R. 6006.

My name is A. E. Mercker and I have had several years' experience in selling produce before entering Government service where I was for 36 years. I am one of those accused of being tainted by experience.

I started as a market news representative and later became a fruit and vegetable inspector in the terminal markets and at shipping points. I was chief of the division of markets for the State of New Jersey. In 1929 I was asked to handle the educational potato marketing programs for the U.S. Department of Agriculture after the very disastrous year of 1928. In this capacity I worked with the potato growers and their committees throughout the United States. Later I handled the potato programs until they expired with the 1959 crop. In 1956, I retired from Government service and became executive director of the National Potato Council, which position I held for almost 8 years before retiring from that position. I am now working as an agricultural consultant, having as one of my clients the New York Mercantile Exchange. However, I am appearing here on my own behalf.

I will say this, that they did not ask me to appear, and they have not even seen pages 4, 5, and 6 of the statement I am presenting now. I changed it last night.

I had previously appeared before this committee testifying in connection with futures trading; however, my testimony had been interpreted to be in support of similar legislation. I want to state here clearly that I also recommended several changes to the board of directors of the New York Mercantile Exchange. I do not recollect what all of these recommendations were but I do know that the Board considered them seriously and adopted nearly all of them.

Some of the suggestions were—

- (1) The withholding of deliveries in any one month until after the close of the trading in that month's futures;
- (2) The tightening up of the grades to be delivered;
- (3) The designation of more delivery points, including the taking of delivery in Maine;
- (4) Requiring an adequate period of time when deliveries were made before the expiration of the free demurrage period;
- (5) Providing for ex-pit trading whereby buyer and seller could get together and come to agreement on the price;
- (6) The appointment of Maine potato growers and shippers on the board of directors of the exchange;
- (7) The appointment of one such member to the executive committee of the exchange;
- (8) The compilation of all publications in pamphlet form of the rules and regulations in connection with trading and delivery;
- (9) The inclusion of the application of a through rate to several cold storage warehouses; and
- (10) The earlier closing of the trading date of each month's trade.

I found the officers and directors appreciative and sympathetic to all constructive suggestions that would improve their operations.

Potatoes in the United States are big business. In 1964 the crop was valued at \$755 million and the grocery bill paid by the consumers was about \$2.25 billion. Consumers used 112 pounds per person out of the 1963 crop, which is about 8 percent of the 1,440 pounds of food consumed by the average individual. Because of the small potato crop in 1964 about 104 pounds per person was consumed.

Potatoes are produced in every State but production is concentrated in about 20 States. In 1965 Idaho produced almost 21 percent of the

total crop; Maine produced 14 percent, followed by California, New York, Washington, North Dakota, Minnesota, Wisconsin, and Colorado, in that order. Washington ranks first in yield per acre, followed by California and Maine. Maine led in yield per acre for many years until new acreage came into production in the West.

The potato crop requires less than 1 percent of our total cropland, and since 1951 the acreage has remained rather stable, within a range of 1.29 million acres to 1.54 million acres. Yields, however, have tended upward from approximately 151 hundredweight per acre in the early 1950's to slightly more than 200 hundredweight in the mid-1960's.

Potato production has shifted. From 1866 to 1920 New York State led in production, with Maine in first place in 1921. However, grain prices collapsed and the grain-producing States greatly increased their potato acreage and production, with Minnesota in first place from 1922 to 1928. In 1928 a record potato crop was produced which was sold at a great loss. In 1929 Maine became the leader in potato production and maintained this position through 1956. Since 1957 Idaho has been the leading producer.

Since consumers are enjoying high incomes they are willing to pay a premium for a quality product and this currently is a determining factor in their selection of potatoes. This demand for a high-quality product at a premium price has stimulated production of the Russet Burbank-type of potato which now is the leading variety grown in the United States. It has also stimulated the demand for processed potato products on the part of the restaurateurs because of its quality and ease in preparation, and by the individual homemaker because of the convenience in preparation. This in turn has resulted in the production of this variety of potato in many other States.

Later on I have a table showing the change. I go back to 1937-39 average. They are figures I have accumulated over all of these years, some in Government and in later years I have been making these surveys myself.

During the period from 1937 through 1939 11 States produced an average of 28.5 million hundredweight of Russet Burbanks, 128.8 million hundredweight of Round Whites, 46.1 million hundredweight of Round Red, and 11.2 million hundredweight of Long Whites, for a total average production of 214.6 million hundredweight. In 1965 about 119.5 million hundredweight of Russet Burbanks were produced in 22 States, and 115.4 million hundredweight of Round Whites; 33.6 million hundredweight of Round Reds; and 20.4 million hundredweight of Long Whites.

Production has been maintained in the East and North Central States but there has been a tremendous expansion in the Western States due to the availability of land that has been opened recently by congressional action; the finding of water that could be pumped from reasonable levels; the building of processing plants to process potatoes for food purposes; and the production of a dependable supply of desirable varieties for fresh and processing purposes.

FEWER POTATO FARMERS

The number of potato farmers, however, is continuing to decline, and in a 25-year period, from 1934 to 1959, the number of farmers

producing potatoes in the United States declined by 78 percent; in Maine by 82 percent; in Idaho by 67 percent; and in Massachusetts by 95 percent. New Hampshire showed a decline of 89 percent, and Vermont, 87 percent. You may wonder why I take those two little States of Vermont and New Hampshire and include those. In those States we have individuals who originated some of the finest varieties, the highest quality varieties that we have, including the Early Rose and the Green Mountain which was originated by O. H. Alexander, of Charlotte, Vt., and which, to my way of thinking, was the highest quality variety potatoes to this date.

The decline in New York, which has a low freight rate, and where in the western part of the State one-half of the potatoes go for processing for potato chips, the decline was 93 percent. In Minnesota, Michigan, and Illinois the declines were 86, 92, and 83 percent, respectively. The trend is continuing as the 1964 Census of Agriculture shows a decline in the number of potato farmers in Maine, Massachusetts, and Minnesota of 30, 50, and 63 percent respectively, from the 1959 census.

The potato grower must be an alert, efficient businessman. He must know chemistry, physics, mathematics, and genetics, as well as being a good bookkeeper, plant nutrient expert, and he even must know estate planning, income tax procedures, marketing policies, and crop production. His investment in mechanical equipment to plant, cultivate, and harvest 50 acres of potatoes is about \$50,000 and when he has that much invested in such equipment he can plant 150 to 200 acres of potatoes with the same equipment, so the trend toward fewer, more efficient farmers is likely to continue in all of the commercial-producing areas of this country. Clearly the decline in the number of farmers is due to these many factors and not to the trading in potato futures.

Maine developed its resources and increased its production of potatoes because of good soil and a favorable climate, and very long days of sunlight. The Green Mountain variety was predominant and probably the highest quality variety ever produced in this country. The environment was so good that Maine was the leading seed source and produced the largest quantity of high-quality seed for which it found a market in the potato-producing areas east and south of the Mississippi River. It is still the leading producer of certified and foundation seed.

The table-stock producer and some seed producers were largely financed by the shipper or supply agency who furnished the grower fertilizer, equipment, and some cash with which to produce his potatoes. The trade was made on the basis of delivering a portion of his crop to his creditor with the general proviso that the creditor would also have priority on the grading, packing, and selling of the remainder of the crop for a brokerage fee, or give the creditor the first option to buy his potatoes.

Probably from 50 to 60 percent or more of the finances to produce the Maine crop were supplied in this manner up to World War II when the potato price-support programs enabled the growers to make better financial arrangements with the banking agencies as the program assured them of a definite price. When these programs termi-

nated with the crop year of 1950 many growers realized that they could make such trade on a competitive basis by obtaining funds from the bank or local production credit association by hedging part of their crop on the New York Mercantile Exchange. These hedges place them in a much better bargaining position, particularly after a year of low prices when they have lost heavily on their crop. They tend to give the grower a greater degree of independence to be able to hedge a portion or all of his crop on an open market where bids are made from persons from all over the country and from persons in some foreign countries. The hedge can be used by small growers. These hedging operations have not stimulated plantings as the Maine potato acreage has remained at about 145,000 to 150,000 acres.

During the three decades, starting with 1920, there was an aggressive group of Maine handlers who took advantage of making shipments by boat from Searsport and Winterport, Maine, to Atlantic and Gulf States ports. The ocean rates were much lower than the rail rates and the railroad in Maine handling a larger proportion of the potatoes had a very low rate on potatoes to Searsport. This enabled the marine shippers who were venturesome to ship their potatoes by water. This gave Maine a wider distribution. Shipments by water became so great in the middle 1930's that the connecting lines of railroads protested to the Maine railroad and wanted to lower their own portion of the rates. This was not approved of by the railroad in Maine, which is an intrastate road, and it countered by appreciably raising the rates from shipping point to the port. In spite of this, and because of the scarcity of rail transportation during World War II, subsidies were granted to shippers who continued their arrangements to transport potatoes by boat. However, during the last 10 years this method of shipment has practically ceased as we have no handlers willing to take the risks of contracting for a boat.

Transportation by truck also made great advances by hauling potatoes out of Maine and the leading railroad carrier met this truck competition by incentive rates that were lower than the regular rates for heavy loads. This carrier was the first one to adopt this method of reducing freight rates.

The Maine potato growers were the first to develop a program to advertise their potatoes. Members of the committee, I want to say that I wrote that bill. I also wrote the one in Idaho, and they practically adopted that legislation, making some changes. They enacted State legislation assessing a tax on the first sale of potatoes. This method provided them with funds to advertise their potatoes. Concurrently, the then commissioner of agriculture, Carl Smith, promulgated State of Maine potato grades which have a much lower tolerance for defects and under and over size than the grades established by the U.S. Department of Agriculture. These were packaged in their famous blue, white, and red bags and called "Super Spuds." They were graded and sized, having a size range for the home consumer of about $2\frac{1}{4}$ inches minimum and $3\frac{1}{4}$ inches maximum, and their chef's special brand was developed for the restaurant trade and consisted of potatoes of about $3\frac{1}{4}$ to 4 inches in diameter. I may be a little off on those sizes, but I am talking from memory from a long time back. These good practices greatly enhanced the esteem on the part of the

merchandising trade for Maine potatoes, but lately the quantities so packed have not been proportionately as large as they were in the earlier years, and other competing areas are now packaging their potatoes on the basis of the tighter specifications.

During the 10-year period of 1933-42, before futures trading became active and before the price support period, the Long Island potato farm price averaged a higher price than the Maine potato crop in 7 years, was equal to the Maine crop in 1 year (1941) and the Maine crop price was higher in 2 crop years, 1938 and 1942.

I want to apologize to the committee and those present, because those pages were not in my original document. I put them in this morning. That is why I said that the New York Mercantile Exchange did not see most of this page and the next page.

If we take the 14 last crop years (1951 through 1964) after the price support period terminated we find the gap closing, with the Long Island price higher in 6 years, equal to the Maine price in 1 year, with the Maine price higher in 7 years. This was really a remarkable achievement on the part of Maine to receive prices higher than Long Island in 50 percent of the crop years, compared to 20 percent of the prewar 10-year period. Maine also marketed nine of these crops under a marketing order program during the period of November 15, 1954, through June 30, 1963.

With respect to Idaho, during the 10-year period of 1933-42 Maine received a higher price than Idaho in 8 years; they were equal in 1, and lower in 1 year. It should be remembered, however, that Maine had the advantage of low rail-water rates in most of these years, and also was greatly improving the quality of the grades shipped to the fresh market by adopting the Maine grade standards. If we take the 14 last crop years (1951 through 1964) or the nonprice support period, Maine received a higher price for 10 of these crops, or during 71 percent of this period, and less during 4 of these years; namely, 1952, 1953, 1960, and 1962. Idaho's higher prices in 1960 and 1962 may partly be accounted for by the fact that about 17.8 and 17.6 million hundredweight, or 41 and 38 percent of the respective crops, were used for food processing, not including those used for processing potato starch and flour. The processors actively bid for potatoes which strengthened the whole Idaho price structure.

Idaho has operated continuously under a market agreement since August 6, 1948, to date, and sells the fresh market the best-appearing potatoes in carefully sized individual packages which may contain 4- to 6-ounce potatoes, 6- to 8-ounce, 8- to 10-ounce, 10- to 12-ounce, 6- to 14-ounce, or 10-ounce or larger in packages of generally a multiple of 5 to 25 pounds, 50 pounds, or 100 pounds; or in a paper carton containing 50 pounds net weight. A large proportion of cars are loaded with different weight packages and different sizes of potatoes in order to sell straight carloads to small dealers and retailers in all markets, including the small markets.

As an aside, gentlemen, certain carloads which go to a very, very little town, say, Waterford, Va., which is a town of 250 people. The Idaho shipper requested that the daily market news report not show any destination on those reports, because as soon as one carload goes to a small town, half a dozen other shippers would look to the records

and see who it is in that town and would start quoting them, so that they discontinued showing any destination report on their daily market news reports.

The use of potatoes for food processing is now a big factor in the potato business. Prior to 1940, very few potatoes were processed except for potato chips and some potato starch and flour. World War II stimulated the production of dehydrated potatoes. After the war processors continued limited operations to produce for the civilian market. This was not easy. In 1957 about 28.6 million hundredweight were processed for food, about 17.4 million hundredweight for potato chips, 8.6 million hundredweight were used for dehydrated and frozen food products, and the remainder of 2.6 million hundredweight for hash, stews, soups, and other products. In 1964 a total of 66.4 million hundredweight were used for processing, or about 28 percent of the crop. Of the quantity processed, Idaho processed 32 percent of the total and 61 percent of the dehydrated and frozen production.

I strongly recommend that the committee disapprove H.R. 6006, as such a measure would restrict the bargaining ability of the grower to bargain for his credit and market sales outlets. It would deprive him of much needed production and price information during a large part of the season, and it would destroy a highly competitive beneficial outlet when he sells his potatoes.

Thank you.

I have eight tables for your study and thought. Nearly all of the information was gotten from Government material, excepting the breakdown of the percentage by grades which I obtained from the marketing agreement reports which were in operation at the time.

Mr. MATSUNAGA. The tables will be made available to the members since sufficient copies have been distributed. They will not be made a part of the text of the record.

(The tables referred to will be found in the files of the committee.)

Mr. MERCKER. As an aside, I appreciate what Mr. Teague said yesterday about conservation of paper. I have one boy who is a paper salesman.

I thank you.

Mr. MATSUNAGA. Thank you very much, Mr. Mercker, for your very comprehensive statement.

Our next witness is Mr. Matt J. Williams, of New Sweden, Maine.

STATEMENT OF MATT J. WILLIAMS, NEW SWEDEN, MAINE

Mr. WILLIAMS. Mr. Chairman and members of the committee, I have been growing potatoes and peas since 1940. I grow 100 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. I have to finance myself and I find that hedging on the mercantile exchange takes care of that problem.

Thank you.

Mr. MATSUNAGA. Thank you very much, Mr. Williams. I certainly appreciate your precise statement.

Mr. WILLIAMS. Thank you.

Mr. MATSUNAGA. Our next witness is Mr. John Quincy Adams, III, chairman of the Coordinating Committee of the Food Industries, Inc.

**STATEMENT OF JOHN Q. ADAMS, CHAIRMAN, COORDINATING
COMMITTEE, FOOD INDUSTRIES, INC.**

Mr. MATSUNAGA. You do not come from Massachusetts, do you?

Mr. ADAMS. No; I do not. My father was a farmer in New York State.

Mr. MATSUNAGA. No relation to the John Quincy Adams?

Mr. ADAMS. Not in this country.

Mr. MATSUNAGA. Very well. You may proceed.

Mr. ADAMS. Mr. Chairman and members of the committee, I am chairman of the Coordinating Committee of the Food Industries, Inc., representing some 50 member organizations.

I might say that it is the largest committee of its kind in the world. We represent the marketing and distribution consumer interest in an area represented by about 10 million people locally and about 22,500,000 in the general northeastern area.

I am here to do all in my power to persuade you gentlemen of the Subcommittee on Domestic Marketing to act unfavorably on H.R. 6006, the bill to outlaw futures trading in white potatoes.

The function of our coordinating committee is to promote better conditions in the food industry at the level of storing, processing, and distributing. Success at our level means both reasonable profits to producers and reasonable prices to consumers. I should like to point out that we are the middlemen, a class which fills a highly important function. I should like to point out that in general farmers do not love middlemen. We are city people who make our living from storing, handling, processing, distributing, and selling foodstuffs. We have lived for generations under the guns of the farmers, who do not see the food industry as an integrated movement of product from farm to consumer, but whose thinking all too often ends at the end of their lane, where the highway to the city begins. It is our position that the potato futures industry seems, at least in the eyes of some people in Maine, to be standing in the same position, where it is accused of being parasitical and useless while, in our opinion, it is serving a vital and invaluable function. I do not believe that this agricultural subcom-

mittee would wish to legislate out of existence one segment of the food industry at the whim of another, especially if the plaintiff is a very small minority of a very large, national industry such as potato production.

Potato farmers stand accused of creating fluctuations in price, but those of us in the food industry see much wider price variations in commodities not futures traded, such as onions. I have taken the time to study potato cash and futures prices in recent weeks, in anticipation of my appearance here today, and this study gives me great zeal in expressing to you the great stability and strength I find. Our processor members note that they need potato futures as a way of making sense in their buying and selling operations, and many of them use futures to hedge inventories held for a year or more. Futures, through their very nature, not only work against unwarranted price fluctuations, but even permit the industry to protect itself against those fluctuations that do occur. Thus the price variation argument of the proponents of this bill appear to me meaningless and based on passion rather than logic.

We have studied also the statement of some proponents of the bill that futures trading allows for manipulation, basing their argument on the fact that a single man bought and took delivery of some 1,900 cars of potatoes in 1964. In the first place, any potato man should be thrilled to have anyone buy and take delivery of any number of cars. Prices were strengthened by this act. But to be very serious, if such a purchase were truly manipulation, why did the opponents of futures not bring charges before the CEA? We find that the answer is too obvious. This was not manipulation. It was an open and public purchase by a processor of supplies for his plant. Would it have been manipulation if he had bought these same cars privately? Of course not. By its very nature, processing requires enormous supplies of potatoes, bought either on the futures board or through private treaty with a grower or a number of growers or suppliers. Thus every year dozens of our processors are buying thousands of cars on and off the board and it is not manipulation, it is good American agribusiness.

We have checked with the CEA and the Department of Agriculture and they both find potato futures trading a healthy, useful, flourishing business that serves the potato industry faithfully and well. Potato futures are a broad, liquid market that does not stand accused of manipulation by anyone but a few gossips who have never brought any formal charges but have merely tried, apparently with some success, to cause confusion. In other words, both the argument about price fluctuation and that about manipulation turn out to be unsubstantiated talk. And I say this after careful probing into the realities of the situation.

We then are left with the fact that a group of people have approached the Congress from a county in Maine. They have gotten a few friends to appear along with them, in their behalf, and they then feel the Congress should outlaw a national economic institution on the basis of highly personal, emotional arguments. I can understand why they might want to do away with futures. It would give them certain temporary, local advantages in buying particularly, but

also in selling. They wish to buy from farmers who do not have a firm grasp of values or a futures market to turn to for protection. They will, without futures, be able to sell to retailers who have no futures market to point to in their bargaining procedures as a true indicator of value. But for those who wish to benefit from the darkness there is no lasting benefit. We live in an era that is learning to operate in the brightest possible light of information and communication, and potato futures are a manifestation of such progress. I leave it in your hands, gentlemen, to decide between the benefits of the information, safety, and progress inherent in futures and the temporary, local benefits to those in Maine struggling to extirpate futures from our American way of agribusiness. I can only say that from the point of view of the coordinating committee of the Food Industries, Inc., such a prohibition as this law calls for would be damaging to our members, hurtful to the potato industry of the Nation, and an infringement on reasonable private enterprise.

Thank you.

Mr. MATSUNAGA. Thank you very much, Mr. Adams.

Are there any questions?

I would have some questions, but we are really pressed for time, so I will call upon the next witness for today, Mr. A. A. Delorenzo of Hastings, Fla.

STATEMENT OF A. A. DELORENZO, HASTINGS, FLA.

Mr. DELORENZO. Mr. Chairman and members of the committee, I am a grower and shipper of potatoes in Hastings, Fla., and Elizabeth City, N.C. I am against H.R. 6006. I am here not as a defense for the New York Mercantile Exchange, but in defense of its function as a tool for marketing potatoes; and as a market for potatoes.

I would like to explain how we use futures in Florida. We in Florida sell primarily to processors, and they offer us a price each year on a take-it-or-leave-it basis. The futures price in New York gives us a basis for negotiation with the processors. We have to make contracts in late summer and early fall for delivery in April and May—we have a winter crop—and during the summer the futures boards offer an April and a May price.

The arrangement called for alternate sales of cars, one at \$3.50 per hundred pounds and the next at the open market price. The theory was that the grower and the buyer would both average their sales and costs out equitably. This worked until the contracts became more popular, and other growers began offering contracts to the buyers. The next step was a lowering of the price by 25 cents to \$3.25 on those sales, in the following years. Then the arrangement slowly deteriorated until buyers would buy only on contract at lower prices, thus in effect eliminating the open or competitive market to a great extent. The final result was culminated 4 years ago when the contract price had become \$2.75 a hundred with no open market commitments and the buyers requirements were fully contracted.

The point of this analogy is that a market of the statute of the New York Mercantile Exchange should not be sacrificed under any circumstances. The could happen in Maine with fewer buyers, since

buying is now much more concentrated in a few hands. And we use it in a unique manner which has not otherwise been done. We use futures as a hedge whenever we can, using it for protection. We buy futures when we feel our crop is threatened by unusual weather conditions, on the basis that if we lose our crop potato prices will go up.

The points I have tried to make all go back to the simple fact that in today's potato marketing practices there are very few people to sell to. And all these come under the category of "financial giants." And the need for public marketing and pricing as is made available by the exchange becomes not only a necessity, but a matter of survival, in the potato business.

Thank you.

Mr. MATSUNAGA. Thank you very much, Mr. Delorenzo. We certainly appreciate your coming all the way from Florida to testify before the subcommittee.

Without objection, the record will be kept open for 10 days for any further statements if submitted.

Unless there are objections, the subcommittee will stand adjourned until the call of the Chair.

Thank you.

(Whereupon, at 12:10 p.m., the subcommittee was in recess, to reconvene subject to the call of the Chair.)

(The following statements and letters were subsequently submitted to the committee:)

STATEMENT OF HON. WILLIAM D. HATHAWAY, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF MAINE

I would like to submit this statement to clarify and comment further on a few specific issues raised in this hearing in which the opponents of the bill presented their case.

THE POLLS

The question of the validity of the polls of growers taken by the Maine Potato Council received more discussion than any other issue debated. This is understandable because it indicates the overwhelming sentiment on the part of the Maine potato growers to rid themselves of the detrimental marketing mechanism of futures trading.

The records of the Maine Potato Council point out that it has conducted four polls on this subject. The first was in September, 1957 when Mr. Frank Hussey was the Executive Vice President of the Council. The second was in August, 1961 when Mr. Leo Daigle was Vice President. The other two were in May, 1962 and December, 1964 when Harold E. Bryant held the executive position.

All of these polls indicate substantially the same result. Returns were received from more than 50% of the ballots sent out and of those voting approximately 90% were in favor of the elimination of futures trading. The 1961 poll contained additional question to which nearly all of those replying indicated a willingness to be taxed 1¢ a barrel to finance the effort to eliminate futures trading. It was not found necessary to impose this tax since sufficient funds were furnished by the Maine Potato Council to finance the expense.

The 1964 poll was particularly significant as an indicator of the feelings of most Maine farmers in that it was taken during the most profitable potato season in Maine history. The returns of this poll favored the elimination of futures and thus refuted the argument by opponents of H.R. 6006 that growers only opposed futures trading when potato prices were low.

In attacking the telling significance of the polls, Mr. Jack Roth suggested that the wording on the ballots was "loaded"; he further suggested that they might not have been properly counted. He recommended having someone watch over the polls as they were being counted and tabulated.

Even though there is no basis in fact of any need for such poll-watching, it should be remembered that the files of the Domestic Marketing Subcommittee

contain a list showing the name and address of every person who returned and signed the ballots.

It was of interest that the 1961 ballot was conducted under the supervision of Mr. Leo Daigle, now employed by the New York Mercantile, who also questioned the validity and significance of the polls. His attempt to discredit the polls was based on the contention that inasmuch as only 55% of those to whom ballots were sent returned them only about one-half of the total number of growers actually oppose futures. This indicates a complete disregard for the accepted methods of conducting polls. A 55% return is unusually high and forms an ample basis for the conclusion that the analysis of this portion of the total number presents a clear picture of the sentiments of the entire potato-growing community in Maine.

In addition to the four polls taken by the Maine Potato Council, a similar sampling of opinion was conducted earlier by the American Farm Bureau Federation with results the same as the Council's. It is on the basis of this poll of their members that the Federation so heartily endorses the elimination of the futures market.

In a further attempt to discredit the significant message of these polls, the New York Mercantile Exchange conducted what they called a "survey." As far as the testimony of the opponents indicates, it appears that this survey consisted mainly of inquiries made to fertilizer dealers and brokerage houses asking for the total number of farmers on their books. These are added together and presented by the Mercantile as evidence that 1,330 farmers were using the futures market for hedging purposes. The fact of the matter is that, to a significant extent, this use of futures was simply enabling fertilizer dealers to sell fertilizer to farmers who would not have otherwise been considered eligible from a credit standpoint. This resulted in keeping losing potato operations in production.

This figure of 1,330 is also completely out of line with the official figures presented by the Department of Agriculture on December 31, 1964, when the total number of farmers hedging were shown to be 473 and more significantly October 29, 1965, when the total number of farmers hedging was reported to be 215.

The drastic decline in hedging activity is noteworthy in that while hedgers were decreasing in number, speculators were increasing sharply. On December 31, 1964, there were 2,332 speculators. Ten months later, this number had increased to 3,246. In the hedging classification, the opposite trend appears, hedgers decreasing from 723 on December 31, 1964, to 425 on October 29. These figures point out that the futures market is being taken over by speculators while hedgers are decreasing in number. While the specific causes of these trends cannot be precisely determined, it is highly probable that the disastrous results to farmers attempting to hedge in the rising market of 1964-5 on the advice of the Mercantile and its members caused them to give up hedging and shift over to open speculation.

ACTUAL FACT AGAINST THEORY

Mr. Wilkins of the Minneapolis Grain Market questioned the experience of the witnesses who appeared for the elimination of futures. He said: "From what marketing experiences do the critics of these institutions speak?" A roster of the trade witnesses from California to Long Island urging the elimination of the futures market will show a group of men of many years of experience and high responsibility in connection with the production and actual marketing of potatoes. This roster also includes every major farm organization in the United States.

Congressman Greigg correctly asked: "Who would be better qualified to judge the needs of the farmers than these farm organizations?" Arrayed against the elimination of futures speculation were witnesses whose only contact with potato marketing was with the operations of the Mercantile itself and with the operations of the brokerage houses dealing in futures on a commission basis for the public.

DOMINATION OF MAINE POTATO MARKETING BY FUTURES

The question was raised why futures trading had become so firmly established in Maine which grows only 15% of the Nation's potato crop while it is not employed as a marketing device in the other major growing areas.

One can only conjecture on this point. The Mercantile Exchange has conducted a very skillful public relations program which has included the opening of an office in Presque Isle and the appointment of a number of the influential traders from Maine to honorary positions on the Board of Governors of the Exchange.

It should be remembered that approximately 3 to 6 million dollars in commissions are made from this trading. Obviously this provides for an extremely well financed promotion program. The actual reason why individuals speculate in futures is difficult to pinpoint. There are a number of persons who are anxious to take a flyer in any activity where they hope there is a chance for a quick profit. Such individuals shift from market to market. They may initiate an unfounded rumor which will often result in a sharp price movement in this highly volatile market. New rumors spread through gossip sheets and the wire houses.

Customers men start promoting futures activity. From that point on, the process becomes very much a matter of "follow the leader" and the movement feeds on itself, moving faster and faster, until it comes to a climax which, in the case of potatoes, must occur in May of every year when the supply becomes exhausted and the delivery date arrives. At this time most potatoes are deteriorating and individuals holding contracts dump their interests, as occurs every year and which occurred in May of this year, thus causing erratic price movements with a wide range of 68¢ on the last day of trading.

It is obvious that such widely fluctuating price movements are the direct result of speculation and have nothing to do with the actual factors of supply and demand.

USE OF THE FUTURES MARKET BY FARMERS

A number of the opponents, including Philip Jacobs of Caribou, frankly acknowledged that a very small number of Maine farmers hedged their potatoes.

Yet, the dollar value of futures trading in potatoes on the New York Mercantile Exchange has reached the astonishing figure of \$1,490,000,000 in one year which is about 23 times the value of the total Maine crop. This is a clear case of the tail wagging the dog. Over 10 years ago a House Committee stated that when futures trading became greater in amount than the actual production of potatoes, futures trading should be eliminated. Futures trading has reached this condition.

Farmers who actually use the futures market, though they are fewer than the figure given by the Mercantile, probably often do not act out of free choice. Mr. A. E. Mercker, an opponent of H.R. 6006 this year, testified before this Subcommittee in April, 1963 as follows: "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 convinced that they would much prefer to have an efficient orderly marketing situation so that they would not have to resort to these measures."

The futility of a growers' boycott of futures trading is demonstrated by the fact that 258 of the 473 farmer hedgers shown by the USDA as being in the market on December 31, 1964 did drop out between that date and October 29, 1965, leaving only 215 still in the market. But this disorder still exists in April and May of 1966. The reason seems clear: during this same period speculators increased from 2322 to 3246. In other words, the 258 farmers dropping out were replaced by 914 speculators.

If not one farmer traded, the speculatively determined prices would still go out over the wires. The gossip sheets would still carry the rumors. The price of actual potatoes would still be affected and often completely controlled by the futures price. The commission "takes" by the Mercantile members would still be ample to make it a highly profitable activity for them and a disastrous activity for the legitimate elements in the actual potato industry.

The composition of traders on the New York Mercantile Exchange is illustrated by the figures furnished the Committee which made from CEA reports showing traders at the close of business October 29, 1965. They point out that out of 3671 total traders only 425 traders listed as hedgers which presumably would be principally potato growers in Maine. If every grower in Maine stopped using the Mercantile you still would have 3246 people in all types of occupations, living largely in the cities, who would be buying and selling Maine potatoes. This activity, in turn, would be bound to have a significant effect on the actual cash market in Maine.

COMPARISON OF MAINE WITH IDAHO

One opponent attacked figures showing that Maine's potato prices declined as compared to Idaho's as futures trading of Maine potatoes increased in volume. His criticism of the figure was based largely on the allegation that the base period—1946–51—was when there was a price support program in Maine. He gave no alternative figures and made no estimate as to the extent to which the proponents' figures were correct.

However, in looking at the tabulation setting forth this worsening of Maine's competitive position, it will be seen that, if the 5-year base period is ignored, Maine's prices still remained 76% of Idaho's during the 1951–56 period when futures were first used. This percentage declined to 69% in the next five years when futures trading was increasing to a high volume level. Maine's competitive position with Idaho dropped still further to 59% in the years 1961–63. The basic reason for this decline is evident—as futures trading has increased, Maine's competitive position has grown worse as a result.

FUTURES RESULT IN DISORDERLY MARKETING AND ADVERSELY AFFECT CASH PRICES

On April 24, 1964 a 20¢ price decline occurred in May futures. According to The Produce News this was caused by liquidation of large futures commitments on the part of traders not able to take delivery. Futures trading was heavy, totalling 4,933 cars. Brokers' commissions at full rates totalled \$100,000. On May 10, 1966 the May futures closed down 51¢ on Board trading of 5,748 cars (Brokers' commissions at full rates of \$125,000.)

These are only two instances illustrative of hundreds of situations where futures movements have distorted the true value. The USDA in its report of August 4, 1965 on H.R. 6006 says: "In some circumstances the prices established on the exchange are temporarily distorted away from freely competitive values."

Deputy Assistant Secretary Rodney E. Leonard, in testimony on May 16, 1966, said: "There are times when a futures market exaggerates price information."

While the sharp declines in futures are immediately reflected in the cash price given to growers, this is not true of reverse situations. Mr. Leonard, in discussing prices in April, 1966, said: "The May potato futures market rose sharply and a price bulge developed which was not reflected in cash prices in Maine. * * * In May, 1966 futures greatly exaggerated the New York cash equivalent price because of a dominant speculative turn in the market."

Mr. Leonard continued by saying that the USDA sought to dampen the influence of excessive speculation by establishing the 1964 speculative limits on trading in futures. Nevertheless, two years later in 1966 this action has in no way improved the situation.

Mr. Watts, an opponent, included in his statement a tabulation which he says proves that futures trading does not result in disorderly marketing. This tabulation appears on page 4 of his statement. The table on this page points out that in the month of September, for the 5-year period 1960–64, rail and truck shipments from Maine were negligible. Similarly in October, November, and December shipments were small, though increasing slightly each month. There is a lack of uniformity in regard to the amount shipped for any given month in each of the years mentioned. For example, in December the amount shipped ranged from 6.4 in 1961 to 9.7% in 1964. Mr. Watts evidently regards this as orderly marketing.

The important factor in this type of analysis is to determine at what times of the year Maine potatoes come on the market. This necessitates reading the table on p. 4 from top to bottom. You will see that beginning in October, when Maine potatoes can first be marketed in volume, shipments are quite light through December with only 20% of the total crop being marketed in those four months.

Beginning in January the movement increases but it is not until March and April that the volume becomes truly heavy. In those two months, before the season's climax and the annual crisis brought on by futures market, 40% of Maine's potatoes go to market. It is generally understood in the potato industry that this failure to spread the marketing out more evenly from October through April or May is the direct result of farmers postponing their marketing and keeping one eye "on the board", hoping for last minute high prices. This not only has a direct effect on the marketing of Maine potatoes but also is accompanied by the dumping of futures contracts so that the market must absorb not only actual potatoes but paper potatoes as well.

Mr. Jack Roth, an opponent, stated that "growers do not have to sell unless it is to their advantage." In actual practice, many fertilizer dealers in Maine sell fertilizer to growers under agreements that the grower will place a specified number of cars of potatoes on the Mercantile. In many cases the grower is given only one month to pick his time of sale, that month being the month of June. If the price never exceeds the cost of production in June, as has been the case many times, the grower is forced to sell below the cost of production which certainly is not to his advantage.

IF FUTURES ARE BAD, WHY HAVE POTATO PRICES BEEN HIGH THE LAST 2 YEARS?

Prices have been high because of a very satisfactory supply situation. National production has been more in line with demand.

The areas of the country not using futures enjoyed a greater share of the favorable prices than did Maine. The generally high prices were reflected in Maine despite futures trading not because of it. Maine farmers lost millions of dollars of possible profits on their 1964-5 harvest by trying to hedge by selling short on the rising market as urged by the Mercantile people.

Prices for potatoes in the country as a whole have been comparatively high for the past two years because of a short supply. Despite this in periods of high prices we find Maine not receiving its fair share of the market price as compared to other producing areas. To illustrate, I have attached a record of the daily prices for U.S. # 1's, f.o.b., loaded on cars, for the past season for four major producing areas—Maine, Idaho, Long Island, and Michigan. You will note that Maine, with the exception of a few days each year, continually lagged behind the other areas, U.S. # 1's are used because this is what is required by the New York Mercantile Exchange.

IF THE BOARD IS ABOLISHED, WHAT WILL BE THE SUBSTITUTE?

There will be no need for any substitute.

Despite misrepresentations to the contrary, prices are higher and more stable in the 85% of the Nation where potatoes are produced without the use of futures markets. This includes Long Island and Idaho where futures contracts are available but not used. Without futures, Maine would simply follow the marketing practices of the rest of the nation.

As stated in the USDA report of August 4th: "Operation of spot potato markets in other producing areas, less affected by futures trading, indicates that this function of crystallizing market information in these other areas is being performed satisfactorily between buyers and sellers."

As Mr. Leonard stated on May 16th: "... there is no reason to believe that the Maine cash potato market would cease to function if there were no futures trading."

The lack of any need whatever for a potato futures market is perhaps most clearly stated by Mr. A. E. Mercker in his statement before your Subcommittee on April 8, 1963 when he said: "I'm 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 now 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."

WHY ARE POTATOES LESS ADAPTED TO FUTURES TRADING THAN LESS PERISHABLE COMMODITIES

The proponents of H.R. 6006 have contended that because potatoes are much more perishable than more storable commodities, such as grain and cotton, they are poorly suited for futures trading.

This is very true.

Maine potatoes are a highly perishable crop which deteriorate quickly in the spring months after a long winter of storage. The greatest volume of futures buying and selling occurs in the spring months of April and May when the potatoes are rapidly approaching a state of deterioration.

The increased trading in these late months not only makes for the late marketing of often poor quality Maine potatoes, but it sets the stage for considerable fluctuation of the Board price. This fluctuation varies substantially from day to day and often from hour to hour.

With the awareness that the crop is soon to deteriorate and with the awareness that the delivery date is rapidly approaching, speculators often drive the Board prices up and down with rumors—usually unfounded.

These volatile conditions, not inherent in crops which are storable over much longer periods of time, make trading very attractive to speculators who dominate the market in April and May. For them the chances of making a quick profit are much greater than on a futures market where they cannot influence the price which is more stable and reflective of actual economic conditions. On a grain or cotton futures market speculators have a much greater interest in the marketing of the commodities and are much less capable of manipulating the futures price away from the cash price.

Thus, the essential problem is that futures trading in Maine potatoes is much more attractive to speculators for they can buy into the market and manipulate their holdings so as to drive prices up and down to their benefit. Seldom, if ever, do these prices reflect what the actual price should be, for the actual price of potatoes should be determined by real supply and demand factors, not by the cold, and unrelated, device of a ticker tape.

I appreciate the opportunity to submit this supplemental statement into the record of these hearings and hope that it will be of help to the Subcommittee's members in arriving at a decision on my bill.

SUPPLEMENTAL STATEMENT ON H.R. 6006 BY HON. WILLIAM D. HATHAWAY, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

During yesterday's hearings (May 16) before your Subcommittee on Domestic Marketing, some confusing testimony was presented by Mr. Watts, an opponent of H.R. 6006.

The confusion arose: (1) as to the discrepancy in price comparisons between Maine and Idaho potatoes; and (2) whether or not futures prices can be manipulated.

I would like to make a few comments on these issues which could be helpful in today's hearings.

As to the first issue, it should be pointed out that the price figures used by the Maine Potato Council before the Subcommittee earlier this year represent f.o.b. prices at leading shipping points as set forth in the U.S.D.A. publication on Fresh Fruit and Vegetable Prices.

A f.o.b. futures contract is required by the New York Mercantile Exchange to include only potatoes of U.S. #1 Grade, sacked and loaded on cars.

The seasonal figures on price for Maine and Idaho offered by Mr. Watts included not only the average prices received for U.S. #1 Grade potatoes, but also for culls and other low grades. It would clarify this issue to have Mr. Watts or other opponents tell you exactly what grades of potatoes Mr. Watts' prices represent.

It is a widely-acknowledged fact that Idaho has a significantly higher percentage of its potatoes falling in grades lower than U.S. #1 than does Maine. This accounts for the differences in the price figures presented by the Maine Potato Council and Mr. Watts.

The Council's prices more correctly represent the actual price differential between Maine and Idaho potatoes for they were determined by the prices received by growers in both States for U.S. #1's. On the other hand, Mr. Watts' prices reduce the severity of the price differential between the two States by including prices received for all potatoes of both high and low grades. Since this Subcommittee is concerned solely with the harmful effects of futures trading on Maine potato prices, the Subcommittee should look at the prices for U.S. #1's, the grade which the Mercantile requires for its contracts.

On the second issue, Mr. Watts stated that futures prices cannot be manipulated.

Yet, on 3 specific occasions, the CEA has brought charges of manipulation which have been sustained. Winn and Lovell, Docket #68; Jacob Stern, Docket #69; and Murlas Bros., Docket #70. Also, an order was issued last October against Ruben Ehrlich, a member of the New York Mercantile Exchange (Docket #126), for having allocated profitable contracts to his own account while giving his customers the contracts which showed losses.

At the time of these violations and orders Mr. Watts was a chief executive officer of the New York Mercantile Exchange.

Al Mercker of the New York Mercantile Exchange is scheduled to testify today against H.R. 6006. His testimony would be partly discredited in light of the fact that he testified in 1963 in favor of the elimination of futures when he was Executive Director of the National Potato Council.

I hope these additional comments will be of help to you.

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 ROBERT L. MARTIN, CHAIRMAN, BOARD OF TRADE OF THE CITY OF CHICAGO

The Board of Trade of the City of Chicago would like to record its opposition to H.R. 6006, the bill to prohibit futures trading in Irish Potatoes.

As was pointed out at the initial hearings on H.R. 6006 in February of this year, the trade in potato futures, primarily involving potatoes grown in the State of Maine, is conducted entirely on the New York Mercantile Exchange. No potato futures contracts are presently traded on the Chicago Board of Trade. Nevertheless, the Board is deeply concerned by any proposal to abolish futures trading in a particular commodity, especially when the proposal is not based upon sound economics.

The vital role which futures trading plays in the American agricultural marketing system is too well known to require elaboration here. As one witness stated to the Subcommittee in February, "Trading in commodity futures reflects the need of the market system for a way to transfer certain types of risk."

The marketing of perishable commodities is no exception. The need to transfer the risk of loss and to provide facilities with which growers, processors and others may hedge against price fluctuations is just as great in the case of perishable commodities, which cannot be held for better prices. One need only look at the financial section of any major newspaper to realize that futures in live cattle, live hogs, tom turkeys, eggs and pork bellies—to name but a few perishable commodities—are being traded in increasing volumes on American commodities exchanges. Therefore, the statement of some witnesses to the Subcommittee that futures trading is not a suitable way in which to market perishable commodities such as potatoes seems to us to be baseless.

We do *not* say that futures trading in a particular commodity may not be regulated, or in special cases abolished where circumstances warrant such drastic action. We *do* say that the proponents of H.R. 6006 have not shown that present circumstances warrant abolition of the trade in potato futures. In fact, their own statements and submissions to the Subcommittee demonstrate, (1) that it is not futures trading, but the economic facts of the potato market, which are responsible for the range of fluctuation in potato prices; and (2) that futures trading, involving a substantial number of transactions conceded to be hedging, provides potato growers with a unique opportunity to insure against price fluctuation or decline.

The economic picture with regard to potato prices was outlined in the previous hearings on H.R. 6006 by the Executive Director of the National Potato Council. He stated:

"The fluctuation of prices for potatoes is greater than for any other commodity, except onions. One of the principal reasons for the unusual price pattern is attributed to the 'static demand' for potatoes. Unlike many other food commodities, potato consumption does not increase when supplies increase. As a nation, we eat about the same amount of potatoes each year, whether potato prices are high or low. Agricultural economists have adopted a rule of thumb which says that for each one percent of excess supplies above normal consumption, we can expect a corresponding decline in price of four to five percent. . . ."

This accurate description of the economics of the potato industry suggests that the remedy which should be sought by potato producers is not abolition of futures trading, but some self-help program to prevent over-production of the commodity.

An objection lesson in this regard, is taught by the abolition of the trade in onion futures in 1957. Precisely the same charges as are now leveled against potato futures were then made against onion futures—that futures trading increased price volatility, that it depressed prices, that speculators were taking advantage of erratic price movements, and so forth. Trading in onion futures was duly abolished. The result: U.S. Department of Agriculture statistics¹ show that whereas seasonal average prices of onions (f. o. b. shipping point) fluctuated on the average of 53 cents from 1954–1959, they fluctuated from 1960–1965 on the average of 97 cents. In 1965 alone, without any dealing in futures by speculators, or influence other than the "static demand" mentioned by the Executive Director of the National Potato Council, onion prices plunged from \$6.00 in June to \$1.80 in December. Without a futures market in onions, there was no way in which growers and others could insure against such a price decline. It is no wonder that little attention has been directed to the vagaries of the onion market by the proponents of H.R. 6006. The facts show that market conditions attributable to "static demand" cannot be cured by abolishing futures trading.

The abolition of futures trading in potatoes would almost surely have a detrimental effect on the potato growers of Maine and other states, for two reasons. First, such action would eliminate the opportunity which hedging provides to insure against risk of price decline. Commodity Exchange Authority statistics² show that in each year from 1955 through 1965, 40 to 60 percent of all reporting traders' commitments in potato futures have been classified as hedging. Of the volume of potatoes hedged, the great bulk (usually more than 65%) represent short positions, which are insurance against declining prices.

The statements made in the previous hearings on H.R. 6006, which praised hedging in potato futures while condemning "speculation", are misleading. Hedging and speculative transactions roughly balance out for there can be no hedging without speculators taking the "other side" of the contract. The fact is that as the volume of trade in potato futures has increased (from 126,159 carlots in 1955–56 to 602,521 carlots in 1964–65) so have the number of hedging transactions (from a monthly average of 1,331 reported by large traders in 1955–56 to 6,052 in 1964–65).

Abolition of this trade would thus eliminate an extremely valuable and well-utilized form of insurance against unfavorable price changes. This would be particularly unfortunate now, since the commitment of increasingly large stocks of potatoes to uses requiring processing (potato chips, frozen french fries, etc.), requires that additional hedging opportunities be made available to processors.

A second, and equally undesirable result of the proposed abolition of the potato futures trade, would be the return of the Irish potato market to the cumbersome and unregulated system of forward selling. The defects of forward selling which requires either the buyer or the seller to bear the whole risk of loss, which makes hedging impossible and which is not subject to regulation by any Federal agency, should be clear.

¹ *Agricultural Prices*, Crop Reporting Board, Statistical Reporting Service, U.S. Department of Agriculture.

² *Commodity Futures Statistics*, Statistical Bulletin No. 365, Commodity Exchange Authority, U.S. Department of Agriculture.

The Chicago Board of Trade submits that the proponents of H.R. 6006 have not made out a convincing case for the abolition of the trade in potato futures. Until it is shown with far greater persuasiveness that the benefits would outweigh the dangers of such drastic action, we submit that favorable action on the bill is not warranted.

We thank the Subcommittee for the opportunity to express these views.

STATEMENT OF RALPH G. SMITH, CORINNA, MAINE

I am Ralph G. Smith of Corinna, Maine. I grow and ship about 200 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 one hundred-fifty 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 fifty per cent, 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 five 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.

EASTON, MAINE, May 4, 1966.

HON. HAROLD D. COOLEY,
Chairman, Committee on Agriculture,
House of Representatives,
Longworth House Office Building,
Washington, D.C.

DEAR REPRESENTATIVE COOLEY: I will not be able to appear at the hearing held May 16 on the Bill, H.R. 6006 to eliminate Futures Trading of potatoes on the New York Mercantile Exchange. However, I offer the following statement for the record:

"I have hedged part of my potatoes on the New York Mercantile Exchange for several years. It has been very useful to me. It has enabled me to market my potatoes very orderly. I know it has been helpful in enabling me to receive an excellent price for a seasons average of my crop. In my opinion, passage of the Bill H.R. 6006 would be a disaster to the Maine Potato Industry."

I would like very much to have your support to oppose this Bill. With kind regards.

Sincerely,

AUBREY BROWN.

NEW YORK, N.Y., May 5, 1966.

HON. SPARK M. MATSUNAGA,
Chairman, Domestic Marketing and Consumer Relations Subcommittee, House
Office Building, Washington, D.C.:

We wish to be recorded at the hearings to be conducted May 15 and 16, 1966, in opposition to H.R. 6006, bill to prohibit futures trading in potatoes. This proposed legislation is contrary to the best interest of many growers, shippers,

and receivers and others in industry. Notwithstanding the position taken by some selfish-interest groups, the potatoes futures market has been an outstanding aid in the marketing of Maine potatoes. The benefits of potato futures in the marketing process are conclusively illustrated in surveys conducted by the Commodity Exchange Authority which have been furnished you.

C. R. BERG,
Managing Director, New York Produce Exchange.

NORTH AMERICAN POULTRY COOPERATIVE ASSOCIATION, INC.,
New York, N.Y., May 12, 1966.

CONGRESSMAN SPARK M. MATSUNAGA,
*Chairman, Subcommittee on Domestic Marketing,
House Office Building, Washington, D.C.*

DEAR CONGRESSMAN MATSUNAGA: This Organization which is an association of producers, and producer co-operatives engaged in the distribution of poultry products and processed foods is deeply interested in maintaining free, open and public markets for agricultural products. By having well regulated Exchanges or Boards of Trade where industry consensus is the guide to proper pricing we can make our influence felt and benefit by the information and experience of the trade.

We, therefore, ask you to oppose H.R. 6006, because we consider it a threat to the efficient conduct of free and open markets in which values are democratically and publicly arrived at.

Respectfully yours,

BERWYN B. GEHGAN,
General Manager.

NEW YORK COTTON EXCHANGE,
OFFICE OF THE PRESIDENT,
New York, N.Y., May 17, 1966.

HON. SPARK M. MATSUNAGA,
*Chairman, Domestic Marketing and Consumer Relations Subcommittee,
House Committee on Agriculture,
Longworth House Office Building,
Washington, D.C.*

DEAR CONGRESSMAN MATSUNAGA: On behalf of the New York Cotton Exchange, I want to register the Exchange's objections to the passage of H.R. 6006, a bill to abolish futures trading in Irish potatoes.

Most agricultural commodities are harvested at one season of the year and must be owned by someone until ultimately consumed. The production, transportation, storage, processing, and consumption of commodities involves serious risks from price fluctuations for all those who must handle them in their business. A properly organized and administered commodity futures market provides the machinery for hedging, whereby one can eliminate or greatly reduce the risk of price fluctuations as a commodity moves from the grower to the ultimate consumer. To the extent these costs are eliminated or reduced, the consumer benefits.

Futures markets provide reliable forward pricing guides, introduce price stability and reduce the opportunity for price manipulation. Futures prices are frequently more representative than spot prices, because they refer to a standard, commercially acceptable grade for which there is a broad market. Since futures prices are promptly recorded and widely disseminated, they provide the best current source of the true value of a commodity. Futures prices also are a true barometer of supply and demand which regulate the flow of stored commodities onto the market and guides future production.

The generalizations outlined above apply to futures trading in Irish potatoes just as they apply to futures trading in wheat, feed grains, cotton, etc. The contention that speculation in futures has caused wide fluctuations in the cash market for potatoes due to the fact that potatoes are perishable just doesn't make sense. Most Maine potato growers, of any substantial size, have storage facilities and are in a position to hold their crop for a time rather than sell it at harvest time when marketing pressures are at their highest level. A few years ago trading in onion futures came under the same type of attack

as is now being leveled at Maine potato futures. Since Congress abolished trading in onion futures, the onion market has been more erratic than before.

Abolishing futures trading in Irish potatoes will not do away with the necessity for some form of forward sales. What would replace the futures market? It seems clear that producers, processors and large consumers of potatoes would have to revert to the less desirable and more costly forms of forward sales that preceded the development of futures markets.

I would appreciate having this letter made a part of the official records of the hearings on H.R. 6006.

Sincerely yours,

F. MARION RHODES,
President.

PRESQUE ISLE, MAINE, May 24, 1966.

Congressman SPARK M. MATSUNAGA,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN MATSUNAGA: Enclosed you will find a copy of the U.S.D.A. Market News annual report for 1964-65.

By turning to page seven you will find an explanation as to why I am sending this to you.

I appreciate the fact that your committee was handed many conflicting statements and am only trying to assist in clearing some of the confusion. I do not expect that all my statements will be accepted at full value, because after all I am on the other side, but I am confident that you will give this proposed legislation all the investigation it needs before making your recommendation.

Of course, I still claim the simplest way is to let growers make the decision themselves by refraining from using futures trading.

By the way, the 1966 crop is not all planted yet and there is over three thousand carlots traded. Prices are not attractive enough to interest speculators on the selling side so about all sales have been made by growers.

I would like this included in the hearing record.

Sincerely,

LEO DAIGLE.

Mr. Harold Bryant testifying at hearing on H.R. 6006, February 3rd regarding one man buying the whole of the May option May 11, 1964:

Mr. Bryant: "When this one man took delivery on May 11, 1964, the price was running from \$2.60 to \$3.00 a barrel. The people in the know, who had been selling short—the smart money people in Maine—were betting that the price would go down to \$2.00. This one man stepped in. He knew that the market was below what it should be. He stepped in and took over 1,990 cars of potatoes, and the price immediately advanced from \$2.60 to \$3.15 and then to \$4.49.

"Nobody can believe that the law of supply and demand would change in five days' time that much. This, definitely, in our opinion, had to be manipulation."

Page 7 of the 1964-65 annual report of the U.S.D.A. Market News Service shows figures that conflict with Mr. Bryant's by quite a bit. These are pointed out in red on the page. The buyer bought those potatoes and most were used at his processing plant in Presque Isle, Maine.

The 1963-64 season was an odd potato year. The Fall season started with a predicted surplus—in fact, the U.S.D.A. bought 5,600 carlots and diverted them into starch to relieve the surplus. As the season went along the crops from other areas proved to be short as shown in table below and prices shot up.

	5-year average in million hundred- weights	1964 in million hundred- weights	Percentage
Winter production.....	4.0	3.7	91
Early spring production.....	4.0	4.2	105
Late spring production.....	24.5	20.2	82

One can follow down the column of monthly prices to note the effect of the discovery of short supplies in the seasonal groups.

The buyer paid an average of \$5.00 per barrel for the lot of potatoes he bought and did not make much money on them, if any.

One can tell by the weekly prices on the report that although prices went high, the rise was orderly. Prices for Southern potatoes which Mr. Bryant wants to protect while claiming to work for the Maine Potato Industry were affected very favorably.

How can a committee lend credence to testimony by a man who distorts facts in that manner to try to win a point? There are many other distortions of facts in that part of his and Mr. Bagnell's testimonies that I have seen. I do not have access to the written statements and tables submitted, but I suspect the same thing.

The 15 million dollar loss claimed probably arrived at in the same manner.

LEO DAIGLE.

Barrel (bulk) price, warehouse cash to grower (U.S. 1 basis) central Aroostook

Week ending	1960-61	1961-62	1962-63	1963-64	1964-65
Oct. 2.....				\$1.50	\$2.50-2.75
Oct. 9.....	¹ \$2.00	(²)	¹ \$1.50	1.25-1.50	2.50-2.75
Oct. 16.....	1.20	(³)	¹ 1.50	1.50	2.50-3.00
Oct. 23.....	2.00-2.35	¹ \$1.00	¹ 1.50	1.50	¹ 3.50
Oct. 30.....	2.25-2.50	1.00-1.25	¹ 1.50	(²)	3.50
Nov. 6.....	2.35-2.50	1.25	¹ 1.50	1.50-1.60	3.50-3.75
Nov. 13.....	2.50	1.25	¹ 1.50	1.65-1.80	3.50-3.75
Nov. 20.....	2.50	1.25	¹ 1.50	1.65-1.85	3.75
Nov. 27.....	2.35-2.50	1.10-1.25	¹ 1.50	1.60-1.75	3.75-4.00
Dec. 4.....	2.25-2.35	1.00-1.15	¹ 1.50	1.60-1.75	4.00-5.00
Dec. 11.....	2.10-2.25	1.00-1.10	¹ 1.50	1.60-1.75	5.00-5.25
Dec. 18.....	2.00-2.10	1.00-1.10	(²)	1.60-1.75	5.00-5.25
Dec. 25.....	2.00-2.35	1.00-1.25	¹ 2.00	1.65-1.75	(²)
Jan. 1.....	2.15-2.25	1.10-1.25	2.00	1.75	5.00-5.2
Jan. 8.....	2.00-2.25	1.10-1.25	1.75-2.00	1.75	5.00-5.20
Jan. 15.....	2.00-2.15	1.10-1.25	1.75-1.85	1.75-2.00	5.00-5.20
Jan. 22.....	(²)	1.10-1.25	¹ 1.85	2.00	5.25-5.50
Jan. 29.....	2.00-2.15	(²)	2.00-2.10	2.00	5.25-5.50
Feb. 5.....	1.90-2.15	1.15	2.00-2.10	2.00	5.25-5.50
Feb. 12.....	1.90-2.00	1.15-1.35	2.00-2.10	2.00-2.25	5.25-5.50
Feb. 19.....	² 2.00	1.25-1.65	200-2.15	2.25	5.25-5.50
Feb. 26.....	1.20	1.50-1.65	2.00-2.15	2.25	5.25-5.50
Mar. 5.....	1.20	1.50-1.85	2.00-2.15	2.00-2.25	5.25-5.50
Mar. 12.....	1.75	1.75-1.85	2.00-2.15	2.00-2.15	5.25-5.50
Mar. 19.....	1.65-1.75	1.50-1.75	2.00-2.15	2.00-2.50	5.50
Mar. 26.....	1.50-1.75	1.25-1.50	1.50-2.00	2.50-2.75	5.50
Apr. 2.....	1.60-1.75	1.25	1.50-1.65	2.75-3.00	5.50-6.00
Apr. 9.....	1.75-2.00	1.25	1.50-1.60	3.00	6.00-7.00
Apr. 16.....	1.75-2.00	1.25-1.75	1.50	3.00-3.50	6.50-7.50
Apr. 23.....	1.50-1.75	1.75-2.00	1.50	3.25-3.50	7.00-7.50
Apr. 30.....	1.50	1.50-1.75	1.35-1.50	3.00-3.50	7.25-7.50
May 7.....	1.50-1.75	1.50-1.75	1.35-1.50	3.50-4.00	7.25-8.00
May 14.....	1.60-1.75	2.00-2.50	1.50-1.65	4.50-5.00	7.50-8.50
May 21.....	1.60-1.75	2.50-3.00	1.60-1.85	5.00	8.50-9.00
May 28.....	(²)	2.25-2.50	1.85	5.00	(²)
June 4.....				5.00-6.00	(²)
June 11.....				6.50-7.00	8.00-9.00

¹ Few.

² Too few.

³ Some.

Maine potatoes for starch manufacture, past 5 seasons

(In carlot equivalents, based on 50,000 pounds per carlot. Information in previous years was furnished by Aroostook County ASC office during the period of government diversion programs, and by the Maine Institute of Potato Starch Manufacturers, Inc. this year and also before and after the dates of the diversion programs in the past)

	1960-61	1961-62	1962-63	1963-64	1964-65
Program ended:					
May 31.....	10, 589				
Do.....		16, 775			
Apr. 30.....			11, 361		
No program				5, 738	
Do.....					1, 611

MAINE POTATO COUNCIL,
Presque Isle, Maine, May 25, 1966.

HON. SPARK M. MATSUNAGA,
Chairman, Domestic Marketing and Consumer Relations Subcommittee, House Committee on Agriculture, Washington, D.C.

DEAR CONGRESSMAN MATSUNAGA: One of the individuals testifying in opposition to this bill represented a processor, the Lamb-Weston Company. During this past year Lamb-Weston took over the Snowflake Canning Company in Maine and Mr. Baxter, who had formerly been president of the Snowflake Canning Company and who testified at the hearing, became an officer of Lamb-Weston. Snowflake Canning is one of the smaller processing plants in Maine. There are five other plants.

It is true that this one relatively small processor apparently has had the skill and devoted the energy necessary to use the futures market with some success. We know, however, that even this processor has not always been successful. We know that a few years back an attempt at hedging was highly unsatisfactory and that this company had all of its executives conduct a sort of clinic to see what had gone wrong with that particular operation. The point is that some 80% of the potatoes processed in Maine are without the "benefit" of hedging and even the small portion that is hedged can only be done with the combination of unusual skill and good fortune.

We would like to have this information included in your records.

Cordially yours,

HAROLD E. BRYANT,
Executive Vice President.

NATIONAL GRAIN TRADE COUNCIL,
Washington, D.C., June 2, 1966.

HON. SPARK M. MATSUNAGA,
Chairman, Subcommittee on Domestic Marketing and Consumer Relations, House Agriculture Committee, Washington, D.C.

DEAR MR. CHAIRMAN: The National Grain Trade Council opposes the enactment of H.R. 6006, a bill to prohibit trading in Irish potato futures on commodity exchanges.

We believe that trading in potato futures at the New York Mercantile Exchange offers economic opportunities which benefit producers, handlers, processors and consumers of potatoes. We believe that to enact H.R. 6006 would set a stage where a limited number of people might attempt to usurp the functions of an open competitive market place. We believe that to enact H.R. 6006 would not be consistent with the public interest.

Hearings earlier this year on H.R. 11788 and testimony already presented on H.R. 6006 must lead reasonable men to conclude that because of regulated futures trading on designated contract markets, a higher degree of price stability results in the prices of commodities so traded than is the case in the price of commodities for which no regulated futures trading exists. The testimony indicates that producers, as well as handlers and processors, of potatoes, use futures trading as a low-cost credit tool to finance the production, growing, and storing of potatoes and that this can be done now and is done now at no expense to the Government.

On December 14 and 15, 1965, Paul R. Dixon, Chairman of the Federal Trade Commission, and Everette MacIntyre, a member of the Federal Trade Commission, testified before the National Commission of Food Marketing. Their testimony was submitted to outline and comment on the Federal Trade Commission's activities in the food field.

Mr. Dixon stated, "It is *competition* with which the Federal Trade Commission essentially is concerned." Mr. Dixon then reviewed the Commission's recent activities to assure fair competition in the food field.

Mr. MacIntyre stated in part: "It is a truism that one of the prerequisites of a healthy economy is a rough equality on the buying and selling sides of the market. This principle must prevail if the basic assumption of antitrust law is to have any validity at all, namely, that competition in the form of impersonal supply and demand factors in the market is to regulate production and prices rather than personal views and acts of any particular organization or group."

"* * * it is my recommendation that the laws and the public policy designed

to preserve competition be strengthened. Whatever is needed in that regard to help insure market conditions which would provide 'a rough equality on the buying and selling sides of the market' should be considered."

We believe that where regulated futures trading on designated contract markets exists, as is the case with potato futures traded at the New York Mercantile Exchange, a rough equality on the buying and selling sides of the market is found. We hold that, as is the case in grain marketing, competition in the form of impersonal supply and demand factors will be retained in the potato marketing economy if the producers, handlers, and processors of potatoes and the public can continue to use the economic opportunities inherent in futures trading in potatoes.

These impersonal competitive forces, so zealously sought by the Federal Trade Commission, will be denied the consumers, and processors, and handlers and producers of potatoes if trading in potato futures on commodity exchanges is prohibited.

The members of the National Grain Trade Council believe in the merits and principles of open and competitive markets for the distribution of agricultural commodities. We share the concern of the Federal Trade Commission when proposals are made to eliminate or minimize the contributions which open competitive futures markets make to the country in the public interest.

For all these reasons, we firmly believe H.R. 6006 should not be enacted.

Respectfully,

WILLIAM F. BROOKS,
President.

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