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# SALE OF WHEAT TO RUSSIA

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## HEARINGS

BEFORE THE

SUBCOMMITTEE ON LIVESTOCK AND GRAINS

OF THE

COMMITTEE ON AGRICULTURE  
HOUSE OF REPRESENTATIVES

NINETY-SECOND CONGRESS

SECOND SESSION

SEPTEMBER 14, 18, AND 19, 1972

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## SALE OF WHEAT TO RUSSIA

THURSDAY, SEPTEMBER 14, 1972

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON LIVESTOCK AND GRAINS OF THE  
COMMITTEE ON AGRICULTURE,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10:05 a.m., in Room 1301, Longworth House Office Building, the Honorable Graham Purcell (chairman of the subcommittee) presiding.

Present: Representatives Purcell, Foley, Rarick, Jones of North Carolina, Sisk, Melcher, Bergland, Link, Denholm, Mayne, Zwach, Price of Texas, Sebelius, Findley, and Kyl.

Also present: Representatives Poage (chairman of the full committee), Abernethy, Stubblefield, de la Garza, Burlison, and Teague.

Staff: Lacey C. Sharp, general counsel; and L. T. Easley, staff consultant.

Mr. PURCELL. Mr. Secretary, we welcome you here. I have a brief opening statement. This part is not in the written text that I have prepared.

I want to say on behalf of myself and as far as I know, the entire subcommittee, that I would appreciate the press and the public keeping in mind that this is a subcommittee of the Committee on Agriculture. I want to disassociate myself with the political implications that have been given to the matter we are to talk about today on the part of anyone who has been talking about it in public. This subcommittee has a responsibility and the jurisdiction over what goes on in the area of agriculture and our association with the Department of Agriculture is of long standing and I think a very close one.

In December of 1971, high officials in the Government were informed that there were forthcoming difficulties with grain production in the Soviet Republic. In April of 1972, a trade mission consisting of the Secretary of Agriculture and Assistant Secretary of Agriculture Palmby met with the officials of the Russian Government in Moscow to discuss the possibilities of future sales of U.S. commodities to the Russian people. Some discussion was had regarding credit terms.

In late June, the Soviet trade delegation arrived in the United States prepared to buy American commodities as per agreements that were worked out in Moscow in April, as we understand it.

On July 8, President Nixon announced that a sale of commodities had been arranged through major grain companies for shipment to the Soviet Union. A majority, or perhaps all, of these trades had been worked out in private negotiations between one group of the trade delegation with major grain traders while the other group had been seeking—and getting—an agreement for the U.S. Government on credit arrangements.

In late July, a Soviet trade mission returned to New York and announced that it was prepared to buy wheat—and wheat only. Previous negotiations had left the type of commodities and the amount to be purchased up to the discretion of the Soviets.

In August, the market for wheat began to rise sharply. The amount of the export subsidy, which functions to match the amount the domestic price exceeds the world price, rose also, while the price of wheat f.o.b. Gulf remained relatively stable between \$1.63 and \$1.65.

The domestic price of wheat at the end of August reached \$2.12 and the Department of Agriculture announced a special two-tier export subsidy system for 1 week, and under that subsidy level of 47 cents per bushel, 20 grain companies registered for a subsidy on 280 million bushels.

In September it became fully apparent that farmers in the Southwest who raised wheat would be hurt badly by the sale, inasmuch as their domestic certificate payment was figured on the average price of wheat during the months of July through November and that the average price of domestic wheat was at a high of \$2.27 per bushel.

Also during September, it became apparent that the major traders in the grain exchange each had employed highly placed individuals from the Department of Agriculture within their employment or had sent executives to the Department or to other positions of responsibility within the Federal Government. Criticism was voiced that the entire grain transaction from initiation to subsidies was an affair of "insiders" and that neither co-ops nor the wheat farmers of the Southwest had actually benefited from the grain deal.

This morning, the generally respected Wall Street Journal joined in raising serious questions about the Department of Agriculture's conduct during the sale.

At about the same time, there were charges that the Department of Agriculture had been mistaken in selling the grain to Russia so cheaply. This morning's Wall Street Journal article that I referred to earlier reported that the Department had deliberately withheld information that would have enabled farmers to sell grain at a higher price.

While I believe that the ultimate effect of the grain sales to the Soviets should be beneficial, I am concerned about the hardship the sale has created for grain farmers under the farm program in the Southwest, and even more concerned that the Department of Agriculture has withheld information from farmers and the general public regarding the need of the Russian Government for grain. I am sure that these concerns and others will be discussed during the hearings as we attempt to explore both the benefits and drawbacks of this historic transaction.

Then, even after preparing this statement earlier this morning, I understand that at 9:30, the Department announced another grain transaction with Red China.

So, Mr. Secretary, at this time, we will be glad to hear from you, sir.

First, I would recognize Mr. Mayne at this time.

Mr. MAYNE. Thank you, Mr. Chairman. I would like in behalf of my colleagues on this side to join in welcoming the Secretary.

Mr. Chairman, I was very glad to hear you say in your preliminary remarks it was not your intention to let this grain sale become a

political football. I think that is most desirable. Certainly, if this subcommittee is to be able to perform its function of investigating the true facts of the sale in a reasoned, objective manner, we will have to resist the temptation to play politics. And I hope that we can defer a judgment and individually and collectively not prejudge the case until we have heard all of the testimony and can resist the temptation to be unduly influenced by accusations in the press or elsewhere until the evidence has been adduced at this hearing.

Thank you.

MR. PURCELL. I will note before I do finally call on the Secretary that we are honored this morning to have our chairman of the full committee, Mr. Poage, with us. We appreciate his being here.

MR. CHAIRMAN, do you have any remarks to make at this time, sir?

MR. POAGE. Thank you, Mr. Purcell. I would only want to join with you in welcoming the Secretary and those who are with him and suggest that the whole purpose of this—the Agriculture Committee's concern—is to try to have a fuller understanding of exactly what has gone on and what the probable effects of this trade will be. We are not here sitting as a grand jury; we are here sitting as a group of people who are wanting information.

So we are especially pleased that you can be with us, Mr. Secretary. I believe that is the best source of information. We are simply trying to see that the American people know what has transpired and what they can expect as far as gaining American grain sales.

MR. PURCELL. Mr. Secretary, we are pleased to hear from you.

**STATEMENT OF HON. EARL L. BUTZ, SECRETARY OF AGRICULTURE, ACCOMPANIED BY DR. CARROLL G. BRUNTHAVER, ASSOCIATE ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE; WILLIAM E. GALBRAITH, DEPUTY UNDER SECRETARY FOR CONGRESSIONAL RELATIONS; AND CLAUDE T. COFFMAN, DEPUTY GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE**

Secretary BUTZ. Thank you very much, Mr. Chairman.

Chairman Poage, we are delighted to have you here also.

I think we will read our statement and then we will be available for questions and comments. As you have indicated earlier, there have been some very recent developments in the market which will no doubt come out in the questioning following the presentation of the paper.

I am here at your request to testify concerning the large and beneficial sale of U.S. grain which is being sold to the Soviet Union by the private grain trade.

At the outset, I would like to make clear that this sale to Russia is a historic and major agricultural and national achievement.

This sale of grain is good for American farmers—they have stronger markets, higher prices and more freedom to plant. The sale is good for consumer taxpayers—they will pay less for storing excess grain and less for farm program costs. The sale is good for labor—they will have more jobs and more work. The sale is good for our economy—it will be strengthened by this increase in business activity

and by a sizable, favorable contribution to our balance of trade. The sale is good for all citizens—it is a major contribution to bettered commercial and political relations between two powerful nations.

Those facts, I am sorry to say, have been partially obscured by a continuing, patently political smokescreen emanating from innuendoes, misstatements, falsehoods, and haranguing.

My mission here today is to bring some semblance of fact, perspective, and good judgment to the matter.

I urge you knowledgeable men of this subcommittee to join me in the quest for calm and understanding. I am aware that this is more difficult for you since the political leadership of the House has injected politics into the matter by asking you to hold this hearing. I am also aware that it is more difficult for you when a candidate for the Presidency fills the airwaves almost daily with wild, unsubstantiated, and inaccurate charges, as he tries to make a political circus out of a historic event.

I can tell you frankly that these biased political manipulations are jeopardizing the present and future sale of grain to the Soviet Union. The political attacks are harming the continuing commercial relations and political relations between two great and powerful nations. The political harangue is jeopardizing the attitude of the American people, the maritime workers, and the private grain traders toward commercial sales with the Soviet Union. Professional workers in the Department of Agriculture are wondering if they must face a political inquisition every time a trade of this kind is made; prospective appointees with experience and expertise will refuse to serve the Department of Agriculture if they must face character assassination by desperate officeseekers who, for personal political gain, try to taint a major achievement.

From the viewpoint of the Soviet Union, it is going through a new experience in dealing in this magnitude with private traders in this country. Soviet officials are more familiar with state monopolies which make a trade, and that's it. But the Russians, who bought grain here on the same terms as other nations, now find reckless partisan politicians telling the American people that U.S. consumers are subsidizing the sale to Russia. They find a candidate for President, no less, telling the American people that the largest grain sale in history was good only for American grain traders and was bad for farmers and taxpayers. And this candidate is alleging to the Russians that their negotiators let the American private trade make windfall profits out of their misfortunes.

These distortions are bound to cause the Soviet Union to wonder if the Americans want friendly, commercial relations with the Russians. The international sale of farm commodities is a highly competitive business. And I repeat, the partisan attacks on this historic sale to Russia, and the poor judgment displayed, are jeopardizing the present and future sale of American farm products, and all commercial products, to the Soviet Union.

You can perform a statesmanlike and bipartisan service for the country by restoring calm appraisal to the achievement for U.S. farmers, workers, taxpayers, and citizens that is embodied in this historic commercial transaction between these two nations.

Let's look at what this sale of grain to Russia has done, and what the alternatives would be:

1. It has increased the value of farmers' crops by nearly \$1 billion. The alternative would be less income in farmers' pockets.

2. The sale to Russia has reduced the total stocks of grain in this country—but there are still adequate supplies—and this has enhanced the prospect of stronger grain prices for farmers next year. The alternative would be larger surpluses, lower farm prices, and tighter controls on farmers.

3. The sale to Russia has reduced the cost to U.S. taxpayers so that the cost of the export payments on the sales to Russia are offset by dollar savings of about four to one. The cost of wheat in a loaf of bread has increased by an amount equivalent to only about one-half cent per loaf. The alternative would be higher Government tax costs, with farmers getting less income.

4. The sale was conducted by private traders, which is the American way of doing business. The alternative would be State monopoly trading with the Government conducting our export business.

5. The credit arrangements were negotiated and carried out by experts in the Department of Agriculture who were selected for their experience and knowledge of complicated international trade. The alternative is to have our Department of Agriculture run by political hacks who have no expertise or acceptability in international trade negotiations.

6. The sale of wheat to Russia was made by meeting world competition with the aid of export payments that have been used since 1949. The alternative would be to withdraw from wheat exports or to let U.S. farmers compete individually against the Government monopolies that conduct the wheat trade of other major exporting countries and can offer huge quantities of wheat at prices of their own choosing.

7. The agreement with the Soviet Union was finally concluded when Russia agreed to our regular CCC 3-year credit terms at  $6\frac{1}{8}$  percent interest. This agreement came on July 8 after some U.S. farmers had sold their wheat. The Statistical Reporting Service of the Department of Agriculture estimates that by July 15 farmers had sold only 330 million bushels of new wheat out of a potential supply of 1,975 million bushels under farmers' control at the beginning of the season. The alternative would have been to try to induce the Russians to sign earlier by granting them terms and conditions which would have been better than the terms available to our long-time, established world customers.

Despite the clear-cut and obvious advantages of these Russian grain sales for all segments of our economy, a number of questions and complaints have been made about them. Some of these no doubt are deliberate misrepresentations. Some undoubtedly stem from real misunderstanding due to the fact that exporting is a complicated business.

I would now like to address myself to several of these areas of fault-finding.

#### FARMERS' PRICE BENEFITS

The contention has been made that farmers did not get the real benefits of the Russian sales because they sold before the Russian business caused market prices to rise.

I am aware that some U.S. wheat farmers sold their wheat before

the full extent of the upward influence on price was known. They did this in preference to using the support loan program. This is unfortunate. The number of such farmers is apparently not large, since our figures show that of the total 1972 crop plus farmer-owned carryover into 1972, 83 percent was still owned by farmers on July 15.

In any case, it should be clear that the Department of Agriculture did all it could to make the situation clear to farmers promptly. This is something that the Department insisted upon in making the agreement with the Soviets.

To clarify this, let me take a few moments to outline the steps in the development of this Soviet export business.

As you know, a marketing team from the Department of Agriculture accompanied me on a trip to Russia in April to negotiate terms of trade for the possible sale of grain to the Soviet Union.

This meeting was a followup to the grain sale that had been made to Russia last fall, and it followed an indication of interest in further trade by the Soviet Minister of Agriculture, Vladimir Matskevich, when he visited this country last December.

President Nixon, when he visited Russia in May, further enhanced the prospect for trade between the two countries as a result of the Summit Conference.

There are three factors involved in the sharply increased grain trade with the Soviet Union:

1. A warming of relationships between the two nations with a mutual expression of interest in cooperating in cultural and scientific exchanges, and in greater economic trade to the benefit of both nations.
2. A commitment on the part of the Soviet Government to increase the protein component of the diet of its people by 25 percent during the current 5-year plan. In order to achieve that goal, the Soviet Government has indicated that it would import grains and oilseeds.
3. A severe winter with limited snow cover led to heavy winter-kill of fall-planted grains in Russia. The Soviets planted grains ran into a hot, dry summer. No one, including the Russians could assess the effect on their grain production until the summer weather unfolded day by day.

That was the setting for grain negotiations between the two countries. In April, the Russians did not appear interested in our regular terms of Commodity Credit Corporation trade, including 3-year credit and going interest rates. They wished to negotiate for better terms.

If we had had a choice, we would have much preferred to reach a trade agreement in Moscow in early April during my visit. This would have made the news available to all U.S. farmers before the wheat harvest had started. However, the Soviet Union was asking for credit terms which we could not legally offer and which we are not making to other nations that have been longtime customers for our wheat and feed grains. We could not do that.

The next move was entirely up to the Soviet Government. They decided to agree to our terms on their own time schedule, which became more urgent for them when they began to assess the damage to their grain from the unusually hot and dry summer weather.

As the severity of their weather damage began to unfold, the Soviets came to this country in late June and early July to negotiate further.

The entire agreement was reached in 11 days, which is virtually unprecedented in international negotiations. Ultimately, the Russians agreed to our regular CCC terms of credit. As soon as this agreement was reached, and was signed on Saturday, July 8, the terms were announced to the world in a press statement by President Nixon. That was within 2 hours, I may say, of the time the signatures were attached to the agreement—and later that same day at a joint press conference by Secretary of Commerce Peterson and myself.

We held the signings and made the announcements on a Saturday because we believed that there should be no delay in making the information available to farmers, to the trade, to the Nation's citizens, and to the world.

Of course, the handwriting about the future was plain for those who cared to read it and act upon it. As early as last April, upon my return from Moscow, I was confidently and publicly predicting that substantial grain sales to the Soviet Union were in prospect. Many other Department officials did likewise. Between early April and early September, in more than 35 separate speeches, press conferences, broadcasts, and announcements, I explained the sale of grain to Russia.

We did not tell this just to grain companies or just to farmers or just to each other. We told it to the world in speeches and statements that were generally released and widely disseminated. Circumstances have made us even better prophets than we knew.

Another complaint we have heard is that the export grain firms were given advance information by the Department about the volume of grain the Russians planned to purchase.

This is absolutely untrue. At the time of the U.S.-U.S.S.R. negotiations in Washington the first week in July, the Soviets may have had an idea that they were about to enter the market in a major way. If such is the case, they may have contacted individual grain companies with respect to cash purchases prior to the completion of official conversations with the U.S. Government. In this way, the companies may have known that the Russians were contemplating large purchases. If this is the case, we did not know about it, either from the Russians or from the companies. Certainly, the companies did not learn about it from us.

We do know that Soviet buying agents were in New York during the first week of July. But any contacts they made at that time were with trading firms—not with us. And of course, the purchases were made from private sources and not from the U.S. Government. This is long established policy, fully in keeping with the American free enterprise system and with repeated congressional directives and policy statements.

I emphasize that nobody knew then—neither the Department of Agriculture nor the trade—just how much the Russians would buy. The export traders were not telling each other how much the Soviets were booking with them. The exporters did not tell the Department of Agriculture. Nor were the Russians talking.

It is accurate to say that the eventual size of the Soviet purchases caught everyone by surprise, including the Russians themselves. Soviet grain purchasers were in this country dealing with the private export trade in July and went home. Unexpectedly, they came back in a few days—apparently after getting a further assessment of the damage that had been done to their wheat crop by the hot, dry weather.

Of course, the Russians did not want to pay more than they had to for the grain, so they were not broadcasting what their requirements would be.

As late as July 6, 2 days before the signing of the Russian grain agreement, nine U.S. exporters offered to sell 7 million bushels of wheat to the Commodity Credit Corporation for use in the foreign donation program at Gulf prices of approximately \$1.70 a bushel. Would they have done this if they had known that business was pending which would bull the market by between 44 and 48 cents within 60 days?

On the day before the signing of the Russian agreement, exporters booked 2½ million bushels of wheat for export at an export payment of 7 cents a bushel. Would they have done this if they had knowledge of pending business that would force that export payment up to 47 cents in August?

In the entire month of July, exporters booked 153 million bushels at export payments of 15 cents a bushel, or less. Does that sound like the action of people who had advance information as to a wheat buying boom?

Some critics have alleged that the Soviets received special treatment in this matter, either in credit terms or prices.

The Soviets did not receive special treatment. When the Soviets bought grain, they bought from international trading companies and paid the open market price just as a Japanese or European buyer would do. If they bought on credit, they had the same credit terms available as other importers.

Moreover, let me point out that much of the grain purchased to date is for cash dollars. Commodity Credit Corporation credit is available for no more than \$500 million at any one time, under the terms agreed upon July 8, and if the Soviet Union should buy \$1 billion worth of grain, half of it would have to be for dollars. The other half—the CCC credit—is protected by bank-guaranteed letters of credit.

Complaints about the export payment or export subsidy program seem to center around the belief that the U.S. taxpayer is in some manner subsidizing wheat sales to the Soviet Union.

Again, the answer is no. American taxpayers are benefited by these transactions, and by the export payment program that facilitates the overseas movement of wheat.

The export payment program has been used since 1949 to enable U.S. wheat to move into export—to make up the difference between a domestic price at a higher level and a world price at a lower level. Without it, we would have been relegated to the role of residual suppliers in the world wheat market.

Most of our agricultural export commodities move without the benefit of any export payment or subsidy. Once a decision is made to use export payments, there are two ways you can go. You can use a fixed payment rate, which means that you will be competitive only when other suppliers are offering at net export prices equal to yours or above them. Or you can use a variable rate that attempts to achieve targeted prices. This will keep the United States competitive at all times. The latter is the way we have been operating in the case of the wheat program.

Our target for many months has been to hold our export price at approximately \$1.63 a bushel, f.o.b. gulf ports—a level that was designed to keep our wheat moving at stable world prices.

We had several reasons for wanting to maintain this stability. We had large stocks of wheat carried over from last year and a large 1972 crop assured. We had a substantial investment in a set-aside program designed to prevent burdensome wheat surpluses. We needed to export large amounts of wheat and at the same time not discriminate against our traditional wheat customers and create conditions that would hurt us in future years.

But with the Soviets coming into the market in a big way in August, we faced a new situation. The U.S. domestic price rose sharply. This, of course, was all to the good, since one of the goals of our farm policy is to help farmers get a fair price in the market place. It did require, however, that we increase the export payment in order that exporters might buy at the higher domestic prices and continue to sell at competitive world prices.

Within a few weeks, however, it was apparent that something had to give. In view of the prospect that we had equaled or surpassed our export sales goals and the cost of the wheat program had been reduced, we felt justified in permitting the export price of wheat to rise. We so informed the grain exporters on August 25 and allowed them 1 week in which to book export payments on sales made prior to August 24 at export payment rates made on the basis of world prices that had prevailed in early July.

We did this in the belief that if the Government is going to take part in the marketing process, it has an obligation to play fairly. The exporter is entitled to know what plan we are using, what the rules are, and when the rules are changed. That is why, for example, in past years in the case of large wheat purchase tenders by importers which have remained open for a considerable period of time, exporters had been assured that the subsidy would follow the domestic market and maintain an export price they could rely on.

On sales made since August 24, we are offering export payments at lower rates. Since the domestic price has continued to rise, it is obvious that our export prices are higher. It is too early to tell what effect this will have on export sales for the remainder of the marketing year. Payments on somewhat over 20 million bushels were booked at the lower rates during the period August 28–September 1, indicating that sales are continuing, although perhaps in a reduced volume.

In total, as of September 1, exporters have booked nearly 800 million bushels of wheat export payments covering exports during the 1972–73 marketing year. This is clear indication that our exports of wheat and wheat products for the year will equal or exceed a billion bushels—by far the largest total in our history.

As for the cost of the export payment program, it is true that it involves a Treasury outlay. It does not follow, however, that this is a net cost. Quite the reverse! As I have already pointed out, taxpayers will benefit from dollar savings in the ratio of 4 to 1 on the cost of the export payments on the sales to Russia. A total outlay of \$300 million export payments on all shipments to all destinations will bring back Government farm program savings of a half billion dollars, for a net savings to taxpayers of approximately \$200 million.

In conclusion, I want to say a word about the contribution of this Soviet business to our total agricultural export picture.

During the 1972 fiscal year, our agricultural exports reached \$8 billion for the first time. Soybeans became our first \$2 billion a year export crop. Exports of animals and animal products reached \$1 billion for the first time. It was a banner year, and it looked like a hard one to top.

But we are going to top it this year, and the principal reason we are is the sale of wheat, feedgrains, and soybeans to the Soviet Union. Currently, it appears that the Soviet Union will buy between \$900 million and \$1 billion in agricultural products from us during the 1973 fiscal year. If it does, and if our exports to other customers maintain the pace at which they started out in July, we seem almost certain to reach \$9 billion this year and we may approach President Nixon's \$10 billion goal.

The balance of payments contribution of the Soviet sales is likewise impressive. Since all sales will be made for dollars, they represent a direct contribution to our trade balance. In the last fiscal year, agriculture accounted for a favorable trade balance of \$2 billion, offsetting much of the deficit racked up by the nonagricultural sector.

With nearly \$1 billion in Soviet business added, we should increase our contribution to the balance of payments substantially this year.

In quick summary, the grain sale to Russia:

1. Will enhance farm income by several hundred million dollars.
2. Will move our farmers substantially in the direction of getting their income in the marketplace, and away from such heavy dependence on Government payments.
3. Will mean less onerous planting restrictions on our farmers as they produce for an expanded market.
4. Will reduce taxpayers' costs by some \$200 million.
5. Will create 25,000 to 30,000 additional jobs for our laboring men.
6. Will add \$1 billion to U.S. balance of payments.
7. Will move the world's two most powerful nations along the road to normal commercial relations and peace.

Mr. Chairman, that concludes my formal statement. We will be glad to answer any questions.

Mr. PURCELL. Thank you, Mr. Secretary.

What light can you throw at this time on the status of the crop report that you have on the Russian crop situation that was referred to this morning in the Wall Street Journal?

Secretary BUTZ. You mean the article that was in the paper that you said was generally respected, as you said this morning?

Mr. PURCELL. I am just asking about the report and not about the paper.

Secretary BUTZ. Yes, I checked into that when that came out this morning. I think the confidential report that was referred to was a report that came back from our Agricultural Attaché in Moscow. Those reports do come back on a confidential basis through diplomatic channels. We do our very best to assess those reports along with all the other information we have and get the information out promptly when appropriate.

Let me review some of the chronology of this:

On July 14, the Foreign Demand and Competition Division of the Economic Research Service got out what they called Special Highlight No. 73 on current Soviet grain prospects, in which they pointed out that grain production this year in Europe will be down significantly from the 1971 levels based on present prospects.

Mr. PURCELL. When did you get that information, Mr. Secretary?

Secretary BUTZ. We have gotten those things out——

Mr. PURCELL. Mr. Secretary, when did you get that information?

Secretary BUTZ. Let me——

Mr. PURCELL. I just want to know the date you got the information, please, sir?

Secretary BUTZ. We got that information out on July 14. We got out another report on August 18.

Mr. PURCELL. Released to——

Secretary BUTZ. Let me go through some of the chronology on this. That is from a special report and I think I will simply read it into the record.

On July 14, 1972, the Foreign Demand and Competition Division prepared a special Highlight No. 73 on current Soviet grain crop prospects. The press was provided with copies of this Highlight and articles based on it were published on July 21, 1972, in both the Journal of Commerce and the New York Times. After articles in the Washington Post on August 10 and 11 referred to huge grain sales reaching \$900 million or \$1 billion, the Director of the Foreign Demand and Competition Division had Fletcher Pope of the Communist Countries Branch make another evaluation of harvest prospects. As a result, the estimate of the 1972 Soviet grain crop was revised downward by 5 percent from roughly 175 million tons, the mid-July estimate, to about 165 million tons. This analysis of the Soviet harvest was contained in special Highlight No. 74 of August 18, 1972, and was distributed to selected individuals in the U.S. Government, primarily in the USDA.

Let me explain why that was. Fletcher Pope, our scientist in the Department who has charge of this, had limited distribution of this highlight for the following reasons: One, the estimate was made by him individually and was not agreed to as a USDA estimate. In the FAS staff on August 16, there were indications of disagreement with it. The estimates simply were not all in at this point. It is difficult to get full information as you know. Even the Russians themselves do not have an accurate appraisal of this situation.

The Foreign Crop and Livestock Statistics Committee are responsible for arriving at estimates of grain of foreign countries and Mr. Pope did not want to tie the committee's hands by publishing an uncoordinated report on wheat, barley, oats, corn, and so on, which were somewhat different from Mr. Pope's. These are in the process of getting into public form right now. This is consistent with standard practice, that we do not put out information based on one man's opinion. We get as much information as we can and then have a coordinated report. We get reports back from our agriculture attachés all over the world that are obviously confidential reports and they go into the

reports prepared in our Foreign Agricultural Service and our Economic Research Service, and they are published as quickly as we can, consistent with our desire to get a consensus. If there is anything withheld, it is withheld in the process of getting concerted opinion.

This committee met on September 12—what is today, the 14th?

Well, anyway, this is as current as can be.

When the story came out this morning—and I highly respect Mr. Schorr; he is a great reporter—this was consistent with standard practice always, that we attempt to get as much consensus as we possibly can in these estimates coming out. This would be coming out shortly in the process of time. Had he been there a few days later, he would have gotten the published report. Anyway, this is all published, the price has gone up. There is nothing we can do about that.

Mr. PURCELL. Did the price go up during July? That is the question—you said during August. You said first July, then August.

Secretary BUTZ. No; I have the report here that came out on August 18, the next report is due out shortly.

On August 18, the estimated grain production both in the U.S.S.R. and East Europe will be down significantly from the 1971 level. The next heading, Soviet grain harvest prospects have deteriorated during the past month because of unusually hot, dry weather over much of the U.S.S.R. and cool weather over much of Siberia, and the rest of it here.

First, we do not release the cables that come back from our agricultural attachés. These are obviously of a confidential character. They come through diplomatic channels. If we release that, we destroy the source of the information we have. Sources are difficult and information is sketchy at the best.

Secondly, anything we are doing here is something we have done right along consistent with our desire to get a consensus of opinion. As I said, had Mr. Schorr been there a couple of days later, he would have gotten the story.

Mr. PURCELL. You would have published in mid-September information you had gotten in mid-August? That is your standard procedure?

Secretary BUTZ. No sir.

Mr. PURCELL. This is mid-September. The information you got was gotten in mid-August.

Secretary BUTZ. The mid-August information we published right here and we said very frankly, grain prospects have been down significantly. That came out in mid-August.

Mr. PURCELL. What is it you are going to publish in 2 more days?

Secretary BUTZ. I don't know. I haven't seen it. We haven't worked it out. The Secretary of Agriculture doesn't publish that. We base that on as much scientific evidence as we can get.

Mr. PURCELL. The information you got on August 18 will be published 2 days from now.

Secretary BUTZ. No, sir; that is not what I said. Don't read dates in my testimony here. I said we are getting information constantly and we are in the process right now of preparing a report that normally—I don't know when it will come out.

Mr. PURCELL. That information will be based on information you have got—

Secretary BUTZ. Based on information we have gotten as easily as we can possibly get.

Mr. PURCELL. You referred to the August 18——

Secretary BUTZ. The last publication was August 18.

Mr. PURCELL. All right.

Now, then the information that you gave to the grain trade when you said that they had 1 week to file under the 47-cent subsidy was done, as I understand your testimony, to be fair to the traders. And I think everyone agrees. Am I correct in that?

Secretary BUTZ. Yes, sir.

Mr. PURCELL. That was so that they would have notice and would be able to get their business in order.

Now, one of the main concerns I have, Mr. Secretary, is that emphasizing that while this is a good trade for disposing of grain, good for the United States, there are areas that are affected adversely by it. Now, what would be your feeling toward doing equity toward those wheat farmers who did not have the knowledge that others had later and were not able to sell their grain at a higher price at market time? As you know, in the Southwest, there is no on-the-farm storage and it is customary that they sell it at harvest time.

Now, I have a bill that I am ready to introduce today that would just allow those farmers to get their certificates at the rate that they sold their grain at; I mean the difference between what they sold it for and what the certificate would have been at that time instead of just 5 months afterward. Now, to me, this is doing the same for them as the Department did for the grain trade. Now, would you be able to support a bill that would be a 1 year situation and try to do equity for these people?

Secretary BUTZ. Well, Mr. Chairman, we obviously would have to take a look at the bill. We are sympathetic to the problem of those people who did sell their wheat early, and some did. This is unfortunate. But as I said in the testimony, we would have preferred to have made the deal in April and tried hard to make it at that time. In that case, this problem wouldn't have arisen. But at that point, the Soviets obviously didn't know the extent of the damage to the wheat crop, although they knew there was substantial winter kill at that time. When we came back from our trip to Moscow, we reported that.

Now, I understand some farmers will be injured by this.

Mr. PURCELL. My point is would you be willing to support any kind of a bill that would do for them what they would have had done for them if this trade had not occurred and do for them what I think the Department did for the grain dealers?

Secretary BUTZ. Well, we will have to take a look at the bill; I can't indicate here whether I would support it or not.

Mr. PURCELL. I said any bill. There is nothing sacred about anything I might write today. Would you help and push or be for some kind of a bill which would do equity in this situation?

Secretary BUTZ. Well, we are sympathetic to the problem, Mr. Chairman. I can't make a commitment here until I see the specific legislation. As I say, we are sympathetic to the problem that some farmers did sell their wheat ahead of this trade.

But in all fairness I have to say that they could have taken a loan on their wheat and sold it later. But they didn't do it. A Government mechanism was available to protect themselves against this very thing.

Mr. PURCELL. Yes, and the Government mechanism was available to protect the grain trade. I don't think any law says you have to give them notice, but I think you may have been correct in giving them notice.

Secretary BUTZ. By the same token, we gave the public notice after notice after notice that a sale of grain to the Russians was down the road.

Mr. PURCELL. I think the Government itself was selling CCC stocks at the market price at the same time you were talking about companies offering to sell you grain awhile ago. So if the notice was so convincing, I don't think that the U.S. Government would have been selling CCC grain.

Secretary BUTZ. At that point we were not selling CCC grain. You see, under the law, we can't release CCC grain until the price reaches 15 percent above the loan rate. At that point, we weren't selling CCC grain at all. We didn't dare sell it.

Mr. PURCELL. My point is if you will help us do equity for these farmers like the grain trade had equity done for them, we will move right along to something else. I don't want to belabor you.

Secretary BUTZ. Well, we are certainly sympathetic to them.

Mr. PURCELL. But you are not saying you can't back any kind of a bill to do equity to the farmer?

Secretary BUTZ. You don't want me to compromise my integrity here. I would have to see the bill.

Mr. PURCELL. Well, I will let you write it.

Secretary BUTZ. We will do our best to work with you on it.

Mr. PURCELL. But that is the best you will do, you do not feel that you can—

Secretary BUTZ. I can't make a commitment here until I see the specifics, Mr. Chairman. You understand that.

Mr. PURCELL. No; I don't really, but if that is all we are going to get to, that is all right.

Now, very quickly, would you give us the status of the Chinese grain trade that was announced this morning, that I understand there was nothing known about yesterday.

Secretary BUTZ. I haven't seen the morning press reports and much of what I learn about this I get from the press reports.

For some while, I understand the Chinese had been in contact with an international company, a French company, I understand, and that earlier this week—on Monday, I am told—this company did file a statement with CCC that a sale had been consummated, that they had made a sale to the Chinese Government to supply wheat any place they wanted to get it. I understand, and they chose to come and buy American wheat, which delights me very, very much. And they did file a statement on Monday in a routine way, that they had sold, I understand, 15 million bushels.

Is that correct?

They registered for 15 million bushels—routine.

Mr. PURCELL. So is there any other information you can give the public now about the prospect of selling grain to China?

Secretary BUTZ. The same thing I have been saying for months, that down the road, we are going to trade with the Chinese, that they are in a situation where they need to buy wheat. They have been buying wheat in recent years. They have bought Australian wheat, New Zealand wheat, Canadian wheat, and some French wheat. Our best information is that they have had some crop losses in China this year, although our information out of China is very sketchy, as you know. Our best information is that they are in trouble.

President Nixon's visit there cracked the door open just a little bit. I have felt that down the road, there will be very substantial sales to the Chinese. We have been saying that for months, just based on my intuition, I guess.

Mr. PURCELL. Well, Mr. Secretary, now in regard to the period of time that the 47-cent subsidy was allowed, it would be entirely possible and very probable that some of the grain that the 47-cent subsidy was being claimed upon would have been brought by these companies at a significantly lower price than the grain was priced on the day the 47-cent subsidy was announced. This would have been true, would it not?

Secretary BUTZ. It is entirely possible. And it is entirely possible that if they didn't have themselves fully covered at the time the price went up, they might have had to pay more and lose on the deal. It is a risk they take.

Mr. PURCELL. But with the amount of activity going on, the 47-cent subsidy that could be claimed for that 1 week would include subsidies on grain that they could show they sold during that time, regardless of where they got it or what they paid for it?

Secretary BUTZ. Mr. Brunthaver.

Mr. BRUNTHAVER. Mr. Chairman, that was a change that was made in CCC regulations on, I think, August 24, 1967, when Dr. Schnittker requested that we change the program to accommodate this type of transaction. That is correct.

Mr. PURCELL. Well, we are a lot more interested in the facts than we are in the history of a lot of these things. I understand the history to some degree. But it is true that when claiming the 47-cent subsidy, these companies that had the grain could claim that subsidy on grain that they then showed that they had booked and there would not necessarily be any connection between what they paid for the grain and the 47 cents that it took to get it back down to \$1.63 or \$1.64 or whatever you were figuring?

Mr. BRUNTHAVER. Yes; except that the experience that the Secretary outlined indicated that the exporters were taking subsidy all through July and August as they were accumulating stocks—153 million bushels of subsidy was taken in July at an average cost of something under 15 cents; another, a total of 475 million bushels of subsidy was taken through August at an average subsidy of 22 cents. So there is every reason for us to believe that as exporters were accumulating stocks, they were booking the subsidy on the quantity that they had purchased. Not to have done so would have subjected them to a certain amount of risk, because they could have given up a 30-cent subsidy, delayed taking that subsidy, and a week later found that the subsidy was not 30 cents but 20 cents and have lost a dime on that transaction.

Mr. PURCELL. Mr. Brunthaver, with even the knowledge that the public had at that time, with the general belief being by then that the Russians were going to buy more grain, not less, I am sure that the grain people had more knowledge of this than we in the general public. It would be very unlikely that they would be of that opinion, that they were going to get 20 cents instead of 30 cents, wouldn't it?

Mr. BRUNTHAVER. Well, not necessarily. If everyone knew that the price of wheat was going to go up, then the futures market would have gone up the limit every day until the preponderance of people were satisfied that that price was high enough.

Mr. PURCELL. Well, but with the information that the grain companies had from the Russian teams that had been here, would not they have known what their orders were?

Mr. BRUNTHAVER. Continental knew how much they had sold; Cargil knew independently how much they had sold. But no one, I think, knew the total amount of the sale.

Mr. PURCELL. How much total was sold to the Russians in wheat?

Mr. BRUNTHAVER. We think somewhere between 10 and 11 million metric tons.

Mr. PURCELL. How many million bushels is that?

Mr. BRUNTHAVER. Well 36.7 times 10 would be 367 million bushels—somewhere between that and 400 million.

Mr. PURCELL. My understanding is that Continental sold 300 million of whatever was sold.

Mr. BRUNTHAVER. We do not have that information.

Mr. PURCELL. You don't know how much Continental sold?

Mr. BRUNTHAVER. No; I do not.

Mr. PURCELL. You don't know how much subsidy they filed for?

Mr. BRUNTHAVER. No; I do not.

Mr. PURCELL. Who would have this information?

Mr. BRUNTHAVER. This information is registered in the Department of Agriculture.

Mr. PURCELL. But you did not bring that information with you today?

Mr. BRUNTHAVER. Not by company; no.

Mr. PURCELL. You don't have any idea which company sold how much of the grain?

Mr. BRUNTHAVER. That is correct.

Mr. PURCELL. All right, sir.

Well, we are using a great deal of time here. I am going to move to Mr. Foley at this time.

Mr. FOLEY. Mr. Chairman, I will reserve my time.

Mr. PURCELL. Mr. Mayne?

Mr. MAYNE. Thank you, Mr. Chairman.

Mr. Secretary, I want to compliment you on your very searching statement.

I would like to ask you to expand upon the statement you made that there was an increased value to farmers' crops of nearly \$1 billion—I believe that is on page 4 of your statement. Could you break that down for us and tell us how you arrived at that figure, just how farmers have benefited in that amount from this sale?

Secretary BUTZ. Well, that simply comes from the increase in price that will apply to the products they sell. The increase in price of

wheat will have a sympathetic effect on the price of corn; the price of soybeans went up likewise. It comes, we estimate, to approximately a billion dollars.

Mr. MAYNE. Well, how much wheat, how much corn, how much soybeans?

Secretary BUTZ. Mr. Brunthaver has that breakdown.

Mr. BRUNTHAVER. We projected the season average price to be received by farmers in June before the Russian sale for wheat, for instance, at \$1.32. We are now projecting \$1.55—that is a 25 cent increase—times the crop of 1,560 million plus the 415 million bushels of wheat that farmers had ownership of, old crop wheat, increases the value to approximately \$378 million.

We projected the average price to be received by farmers for corn in June at \$1.10. That average is now at \$1.15. The increased value of the crop plus the corn that farmers are carrying in the old crop is something in the neighborhood of \$300 million.

Mr. MAYNE. Let me just interrupt long enough to say, Dr. Brunthaver, that your projection of only a 5 cent increase in the corn price as a result of this transaction is very conservative because the price of corn has already gone up 10 cents per bushel in Iowa since early summer. So your projection is just half of what the actual figure should be.

But go on, please, to soybeans.

Mr. BRUNTHAVER. Let me comment that these are official estimates of the Department of Agriculture. I concur with you that they may be conservative. The price of March corn, for instance, on June 15 was \$1.25, and is now \$1.41. So the 5 cents is certainly a very conservative estimate of the increase.

Grain sorghum went from \$1.05 estimate to \$1.19, oats from 57 to 65, and soybeans a very conservative 4 cents, from \$3.01 to \$3.05. I total this to be between \$950 million and \$1 billion, using these conservative estimates.

Mr. MAYNE. And there was a little less than \$400 million in wheat, 250 in corn, did you say?

Mr. BRUNTHAVER. The corn approaches \$300 million.

Mr. MAYNE. And about how many million dollars in soybeans?

Mr. BRUNTHAVER. A 4 cent increase results in \$51 million.

Mr. MAYNE. Mr. Secretary, you indicated that on July 15, 83 percent of the 1972 wheat crop, plus farmer-owned carryover into 1972 was still owned by farmers, and that about 17 percent had been sold by them. Now, I am not so familiar with the situation in wheat, but I notice that Department policy in the corn belt this year has very consistently been to make programs available to farmers which would enable them not to have to sell their corn. They were encouraged by the Department to avail themselves of these programs and to keep their corn until the price improved. Every effort was made to avoid distress selling.

Now, what was the situation with wheat? Were there similar programs available?

Secretary BUTZ. Yes, sir, the loan provision was available and our ASCS people did encourage people to make use of the loan. However, I think there is some difference in that we don't have the same expensive facilities on farms for farm storage of wheat that we do have for

farm storage of corn. There is that difference, I think. It is more customary for the wheat farmers to sell at time of harvest than it is for corn farmers.

Mr. MAYNE. I recall that in the corn belt, there were regulations permitting off-farm storage that were liberalized very greatly and which were a real factor in keeping corn controlled by farmers so they had the equity in it. Was there such a program as that on wheat?

Secretary BUTZ. Yes, sir, there certainly is. Dr. Brunthaver has the figures on the utilization of that program. You might like to have them in the record at this point.

Mr. MAYNE. I would.

Mr. BRUNTHAVER. As of July 31, 1972, reseal opportunities were opened for farmers on 1968 crop farm wheat, which totaled 41.7 million bushels; 1969 crop farm wheat of 44 million bushels; 1970 crop warehouse wheat, under reseal, of 19 million; 1970 crop farm reseal of 35 million; 1971 crop warehouse reseal of 39 million; and 1971 crop farm reseal of 118 million bushels.

Mr. MAYNE. Mr. Secretary, how long has the Department been using export equalization payments of the type involved here?

Secretary BUTZ. I think it started back in 1949. We used it rather extensively in connection with sale to the Soviets during the period that Orville Freeman was Secretary of Agriculture who used it in substantially the same manner it is being used now. In fact, it was used during the time that Dr. Schnittker was Under Secretary and head of CCC and is used extensively now, in spite of what he wrote in the Sunday newspaper that we should use them differently now.

Mr. MAYNE. When this grain sale was announced by you on July 8, I will ask you if you have any evidence in the Department that is known to you as to whether there were any dealers who had inside information?

Secretary BUTZ. No, sir. We learned after the date, however, that the Soviets did have a purchasing team in New York City during part of this same time that their negotiating team was in this city negotiating the credit deals. I was unaware, and I am sure that Dr. Brunthaver was unaware, that at that very time there were purchasing teams in New York making contact with American exporting companies. Of course, the companies themselves held that data very close to their chests for competitive reasons.

Mr. MAYNE. Do you have any information in the Department that any grain dealers did, as has been charged, engage in extensive open-market purchases at lower prices in July on the basis of inside information?

Secretary BUTZ. No, sir, we have no evidence whatever that any grain dealer had inside information. As a matter of fact, they had more information about the Soviet purchases than we had in the Government.

Mr. MAYNE. Did you, yourself, have any indication on July 8, when the transaction was announced, that the Russians were in fact going to buy much larger quantities of wheat, as did later develop?

Secretary BUTZ. No, sir.

Mr. MAYNE. Now, I would just like you to—and I know this is perhaps not an easy question, but could you compare for us as briefly as possible, Mr. Secretary, the Russian and American systems of

handling sales and purchases of this magnitude? I think perhaps we ought to have a little better understanding of, if there are differences, how grain sales are handled in the American way and in the Communist way.

Secretary BUTZ. I think you make a very good point. I will try to be brief in this.

In the Communist way, of course, trading is a state function. They have their Ministry of Foreign Trade and representatives of that Ministry of Foreign Trade were in this country negotiating the credit arrangement. Other teams of the Ministry of Foreign Trade simultaneously were in New York making contact with the private trade for purchase. Nearly any place else in the world, trade is between government and government. It may be a wheat board, as for example, in Canada, which is a quasi-governmental organization, and trade would be with the Wheat Board. So that any place else, it would be government to government.

Here it is Government to private trade. We have tried vigorously to maintain that method of operating in this Department. The Congress time and again has given directives that we are to make maximum use of private trade in doing this. We have done that.

Now, private trade is highly competitive. As nearly as we can tell, the U.S.S.R. purchasing people, when they came to this country, did not let one seller to them know what they were offering the other seller. They understand the American competitive system in that respect. And I am quite sure that there was very little, if any, interchange of data among the American sellers. They tried, of course, to speculate on what other sellers were doing in connection with Soviet trade. But the best they could do was to speculate on that deal.

Now, there has been some criticism of the fact that these American traders have made a profit on this deal. As nearly as we can tell, in the main, they have made a legitimate trading profit. They always try to maximize profit. In my book, in the American system, there is no reason why they should not make a profit on this deal commensurate with the services rendered, that we are doing this through the private sector of the American grain trade. And I think they are entitled to a legitimate profit.

I feel very badly when public statements are made that impugn their integrity and their patriotism by virtue of making a legitimate profit on doing a necessary transaction of this kind.

Now, the alternative, of course, would be to have the grains owned by our Commodity Credit Corporation. We did own 360 million bushels of wheat when this thing started. I presume we could have sat down with the Russians and said, we have 360 million bushels of wheat under our control, now, we will negotiate the deal.

That is not the way the Congress wants it; it is not the way we want it; it is not the way the law reads.

Mr. MAYNE. You are saying, then, if I understand you correctly, that it is the established policy of this country, as declared by the Congress, that the private grain trade is to play an essential role in such transactions?

Secretary BUTZ. Yes, sir.

Mr. MAYNE. Now, you mentioned your fear that there is a danger that prospective appointees with experience and expertise will refuse to serve the Department if they are confronted with character assassination. I take it you are talking now about experienced people in the grain industry?

Secretary BUTZ. Yes, in the grain industry or even other sectors of American business. I am talking specifically about the allegations made that former Assistant Secretary Clarence Palmby has gone to one of these trading companies and he carried with him inside information and this was part of the trading taking place; the insinuation that Assistant Secretary Carroll Brunthaver, who sits beside me, who was once with Cook Industries in Memphis, has engaged in some kind of inside information exchange.

These people are competent people. In my book, there are no two more knowledgeable people in the United States about international grain trade than Clarence Palmby and Carroll Brunthaver. I am delighted that they have given their services to Government. But they take a lot of abuse in cases like this.

Yesterday I spoke at the International Plowing Contest in southern Minnesota, the home State of some of the men on this committee. The site of that contest is just 2 miles from Clarence Palmby's home farm where he grew up. His aged mother lives just a half mile from the site of the plowing contest right now. And they showed me Monday afternoon's paper up there, which had a great headline about the presidential candidate who when there chose that particular spot to impugn the integrity and the character of Clarence Palmby right in his home territory and to infer that he had been engaged in some kind of illicit deal.

It makes it difficult to recruit people for top spots in Government, competent people, who don't have to work for Government. These men I am talking about can make more money elsewhere than they can make in the Government with far less abuse. This kind of attack makes it difficult to attract competent, experienced, nonpolitical people into high Government positions. The alternative then is to get a political appointee; to take somebody who needs a job; to take somebody who does not understand what it is all about.

Mr. MAYNE. I know that to you, this is obvious, Mr. Secretary, but I wish you would point out to the members of the committee why it is important to have people with this experience and background handling matters at the highest levels of the Department. What valuable, indispensable function, if any, do they perform? Why is our country better served having somebody like that in those positions than someone who has never had any experience whatsoever in the grain trade?

Secretary BUTZ. Our Commodity Credit Corporation is one of the largest grain-handling businesses in the world. We buy grain. We make loans on it. We store it. We have to move it into position for export.

The sheer logistics of this are difficult. We deal with the private trade. We have some of the sharpest men in the world in the private trade who are in contact with foreign people constantly, as we have been here, negotiating these credit terms and really pushing the whole sale for them, making it possible for the sale to go forward. I think we have to have some of the keenest people and best prepared people in the world in these spots.

Mr. MAYNE. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Mr. PURCELL. Thank you, Mr. Mayne.

Before I call on Mr. Rarick, let me just inject here, Mr. Secretary, I have a copy of the agreement between our country and Russia, but would you furnish for the committee, please, a copy of that contract?

Secretary BUTZ. Yes, sir, if I can. I will have to clear it. I have to make sure, however, that that can be done. It may be on a confidential basis. But if we can do it, I certainly will. I think that the specific agreement has not been released.

Counsel says it is all right. We will do that.

Mr. PURCELL. We have one, anyway, and I will be glad to insert it if you do not want it.

Secretary BUTZ. Yes, Mr. Chairman, we will give you a fresh one.

Mr. PURCELL. All right.

Mr. Rarick.

Mr. RARICK. Thank you very much, Mr. Chairman.

Mr. Secretary, it is good to see you again this morning. As another one of those Indiana plowboys who came to Washington, I always enjoy your rhetoric and your wit. I will say this, you are a great representative; you do a good job in selling what you are here to do.

Now that it is accepted as respectable to trade with the Communists and since Southern States produce little wheat and feed grains, maybe I ought to appeal to you to see if you cannot push sales of sugar, rice, and cotton.

Secretary BUTZ. May I say we do not do so badly with soybeans and that is important in your State, too.

Mr. RARICK. Yes we have a port in Baton Rouge.

Secretary BUTZ. I think we ought to make that point, that you collect a great toll off every bushel that goes through your port.

Mr. RARICK. You have made a very straightforward statement that everyone is going to benefit by these sales to the Soviets and now the Red Chinese. Can you tell me how many farm organizations have approved of these sales?

Secretary BUTZ. Well, that is a very interesting point. I just picked up this morning the NFO Reporter, the National Farm Organization paper, for last May. Of course, the NFO and the Farmers Union have not been especially strong supporters of mine, I may say. As a matter of fact, I have not done a single thing right since I have been in this job so far as those organizations are concerned. I am probably messing up this testimony today. It is probably written up already as to how I have messed it up.

The Washington wire for the NFO last May—this was just after I returned from my visit to Moscow—said the following:

Even the grain trade is disgusted with the performance of Secretary of Agriculture Dr. Earl L. Butz, who made a Rush-Rush trip to Russia and came back to the United States empty-handed, sour graping, and possibly complicating future trading prospects with that country.

Butz took off for Russia amidst a flurry of press releases which indicated big deals for U.S. feed grains were in the making. It sounded like dream stuff, but once in Moscow, he talked about a possible \$200 million volume the first year with even bigger years ahead, creating an illusion that his figures were based on actual preliminary talks with the Russians.

Then he met with the Russians, who were supposedly breathlessly awaiting the opportunity to get hold of millions of tons of our livestock feed, and found out they were, indeed, interested in some on their terms.

It goes on to say, "I dont know why the hell he had to appoint himself Secretary of State"—speaking of me. "That certainly doesn't help future trading prospects."

Then, I come back and I pick up not necessarily theirs, but I may say Tony Dechant, of the Farmers Union, commented the same thing, I haven't done a single thing to please him, either.

Now, I get the September 8 issue of the National Farmers Union Washington paper. Now they are criticizing us because we did it. Last April he was raising hell because we didn't do it.

I think the plain truth is that the great bulk of their members strongly approve of what has been done. It means more money in their pockets, but for what I presume are political motives—as a matter of fact, I might mention that both of these men either are or have been a member of the Democratic national policy committee—I know Tony Dechant has. I ask when I read this, which hat does he wear? It is obviously his political hat when he makes these statements.

Mr. RARICK. Can you name one farm organization that has approved the sale?

Secretary BUTZ. Oh, sure, the Farm Bureau has, the National Co-op Council has, the Grange has, the Great Plains Wheat Council has. And I may say the Great Plains Wheat Council—

Mr. RARICK. Which sale? Is that the sale of 1971 or this year?

Secretary BUTZ. The current sale. They approve thoroughly.

Mr. RARICK. You have indicated, Mr. Secretary, that on these open market sales—that is, the current ones—one-half of the sale price would be cash and the rest would be CCC guaranteed.

Secretary BUTZ. May I interrupt there? It is entirely possible that more than half may be under credit guarantees, because our provision was that the line of credit would not exceed \$500 million at any one time and they have got to start paying back, 1 year later—one-third in each of 3 years, you see. So it is entirely possible that more than half—

Mr. RARICK. The Soviets still owe us what, something like \$900 million from World War II lend lease. They haven't paid any of that loan back.

My questions are: Who will pay this credit guarantee if the Soviets default? Who has guaranteed the price?

Secretary BUTZ. This is why I say we have to have a man who is technically competent.

Will you explain that, Mr. Brunthaver?

Mr. BRUNTHAVER. Half of it, we think, is for cash to start with. The credit terms will be backed by a U.S. bank-guaranteed letter of credit.

Mr. RARICK. But if it isn't paid, the U.S. taxpayers have to pick up the loss?

Mr. BRUNTHAVER. No, the bank confirmed the letter of credit.

Mr. RARICK. What bank is that?

Mr. BRUNTHAVER. I am not sure what banks are involved. Several banks are, I think, but I am not sure which ones.

Mr. RARICK. You mean we have American bankers who are that confident of the repayment experience of the Soviet Union that they would guarantee them credit?

Mr. BRUNTHAVER. This credit is confirmed by a U.S. bank in order to make them eligible for  $6\frac{1}{8}$  percent interest. If it is not backed by a U.S. bank, the interest rate goes up to  $7\frac{1}{8}$ . It is our understanding that the credit will be confirmed by a U.S. bank.

Mr. RARICK. Would I be safe, then, in replying to my constituents, in telling them that in case of any default on payment, the taxpayers of the United States are not going to be asked to pay off the unpaid balance for Russian food?

Mr. BRUNTHAVER. I would say that that is a fair statement.

Mr. RARICK. Mr. Secretary, I have been sitting here listening and I have heard comments that the price of wheat has apparently risen since the end of July, in some instances as much as one-third, and I would assume that if we are going to sell to the Red Chinese, there will be, under the normal fluctuations of an open market, a further increase in wheat. We can reasonably expect this, can we not?

Secretary BUTZ. Well, I suppose if the demand continues to strengthen, the price will go up; and the world price will go up, too. This I don't know. As of this date, the market is obviously divided. Some feel it will, some feel it won't. That is why in the futures market, you get the price you have today.

Let me make this point: Any sale to the Chinese will be identically on the same terms as to anybody else, except in this case, we don't offer credit. It is a cash transaction.

Mr. RARICK. Well, that is even better, then, because the price of the farm products will go up more rapidly?

Secretary BUTZ. I presume any increase in demand will be a factor on price.

Mr. RARICK. My point is this: What effect can we expect on the consumer market in the United States if the price of wheat and feed grains continues to go up. Of course, feed grains feed livestock and livestock produces meat on the market. Our consumers in America, then, can anticipate that they will be called upon to help support this beneficent Russian-Chinese feeding, will they not? The price of groceries will go up.

Secretary BUTZ. If you had followed Earl Butz around the circuit, you would have gotten the philosophy that the prices of groceries have increased less in the last 10 years than the price of anything else we buy. I want to make that point right here. There has been a lot of talk about the increase in the price of wheat causing an increase in the price of bread. The bakers requested an increase of 2 to 3 cents on a 1-pound loaf of white bread, asking the Cost of Living Council and the Price Board for a 2- to 3-cent increase in that bread. The farm price of the wheat in a 1-pound loaf of white bread is approximately  $21\frac{1}{2}$  cents, in that magnitude. If the price of wheat has gone up 40 to 45 cents, as it has in the last 8 weeks, this would raise the farm price on a 1-pound loaf of white bread by something like one-half cent. So when they said, we have to have a 2- to 3-cent increase to compensate for the increase in the price of wheat, I was not impressed.

Mr. RARICK. Then it will be reasonable to assume that your answer to my question was in the affirmative?

Secretary BUTZ. I think that food prices will tend to rise some in the future. No. 1, because we are getting more services with our food; No. 2, because we eat more meals outside the home where the cost of

services rises far more rapidly than the cost of food; and No. 3, because of some increases farmers receive for the price of their products. Farmers are not getting a high enough price now for their foodstuffs to give them an adequate return on their investment for their labor and their risk.

As a matter of fact, the per capita income of people on our farms today is only 80 percent of the per capita income of people not on farms. I cannot be content with that figure.

Mr. RARICK. I believe, Mr. Secretary, that answer goes back to the chairman's earlier statement that he felt some of the early-selling farmers had lost out on the bonanza.

Secretary BUTZ. They lost out on the bonanza in part. They did not make the income they might have made had they waited. But when I look back over the market for the last month, I can see the fortunes that I have lost because I did not have the foresight to get in.

Mr. RARICK. There is some question, then, at this time, as to whether or not all the American people are going to enjoy some benefit from all of these sales, is there not?

Secretary BUTZ. Every taxpayer will enjoy a benefit from it. There are some farmers who sold early who will be hurt some this year, that is correct. But the price next year will be up.

Mr. RARICK. We can tell the consumers, though, that there will be no further increase in bread except—

Secretary BUTZ. The Cost of Living Council denied the request of the bakers for an increase in the price of bread.

Mr. RARICK. What about the price of meat?

Secretary BUTZ. The September 1 crop report indicated an increase in our corn prospects this year of 175 million bushels over the August 1 prospects, an all-time record yield in the corn crop this year of 89.7 bushels. We are going to have an adequate supply of feed grains this year.

Mr. RARICK. I realize that you are not directly making all these sales. But are you going to start selling farm commodities to North Vietnam and Cuba?

Secretary BUTZ. I cannot say.

Mr. RARICK. They are both Soviet and Communist puppets. I question why we should discriminate against these people, and trade with their masters?

Secretary BUTZ. It is illegal to ship grains to Cuba and I assume North Vietnam. We have legal prohibitions against shipping to those countries.

Mr. RARICK. We find ourselves, Mr. Secretary, in a revolting posture, that we are mining the harbors of Haiphong to keep Russian vessels from bringing weapons into North Vietnam to kill American boys, yet in the United States we welcome Soviet vessels into Baltimore and Norfolk and New Orleans to load grain to take back to Russia to feed the people who are making those same weapons.

Secretary BUTZ. A very good point and I am glad you made it. It is a point which is widely misunderstood in this country.

If the Russians have foreign exchange in hard currencies, far better we soak it up for foodstuffs than to let them spend it for hardware that might ultimately increase their arms capability. I stand firmly on that point, that every dollar they have, they have to get dollars somewhere in the world. They may have to spend pounds or marks or francs

or whatever it is to get them. Every bit of hard currency they have that I can soak up for foodstuffs keeps them from spending it for hardware that might ultimately increase their military capability. I stand solidly behind that.

Mr. RARICK. I notice you said in your statement that the Russians felt they needed this new source of feed grains and grain to improve the nutrition of the Russian people. Perhaps this means they want to make them more efficient as weapons and munition workers?

Secretary BUTZ. Far better to improve their nutrition than to hold them down and spend it for arms.

After all, if they spend it for feed grains, they can't spend it for something else.

Mr. RARICK. As a farmboy, I can remember my dear old Hoosier grandmother telling me to watch out for some American businessmen, they will trade with the Devil if they can make a profit.

Secretary BUTZ. If he has dollars.

Mr. RARICK. As I say, if he can make a profit today, don't worry about tomorrow.

But I wonder if all the American people are going to profit by this historic transaction. We can hope so and, of course, eventually history will tell us whether or not we were right or wrong. I should not say we, since I was not consulted on the deals.

I do not believe in trading with the agents of organized crime; I do not believe in helping perpetuate people in power who have committed wholesale murder around the world. If we are going to have the peace that you talk about, do we feed them first or do we first get concessions for the food.

Secretary BUTZ. I think we have to recognize that improved commercial relationships with the Soviets in agriculture are but a part of a broadly improved package. When the President was there in May, this was one of the items on his agenda for discussion with the high Soviet leaders. There were other items. Already, you have seen some unfolding of things that flow out of this. There are more coming later, I am quite sure.

Someone mentioned earlier the lend-lease debt. It has moved toward resolution. It has not been resolved yet. The question of shipping on the high seas is moving toward resolution. It has not been resolved yet.

You have seen a very noticeable restraint on the part of the Soviets. When the President announced the mining of Haiphong Harbor, as you have just noted—perhaps we did get a quid pro quo out of this that may have been a very substantial one. And it will take time for it to unfold.

But any step that moves us toward lasting peace in the world, peaceful coexistence, is a worthwhile step.

Now, they are Communists, they are going to remain Communists, I think. We are free enterprise. We are going to remain free enterprise, I hope, but sometimes I am not too sure of it. But somehow, we find a basis for peaceful co-existence when both of us benefit. I like to think of this grain trade as being one step down that road, a long step down that road.

Mr. RARICK. Mr. Secretary, I hope you are correct, but according to the latest conservative figures the Soviet Union is still giving \$1 billion a year in foreign aid to North Vietnam in armaments.

It is a real pleasure to see you again, Mr. Secretary.

Secretary BUTZ. Thank you.

Mr. PURCELL. Mr. Zwach?

Mr. ZWACH. Thank you, Mr. Chairman.

Mr. Secretary, first of all, I think I must compliment the Department for getting agriculture off the back burner in world trade, where it has been most of my life, and getting it on the front burner, where it belongs and where we are beginning to open up doors to trade. I think that is significant.

I think secondly that the trade with Russia, the trade with China, is a move to increase understanding and good will, and promote peace. The most significant move in this century is this opening of the doors toward the potential for better understanding and peace in the world. I regret that more of the sales have not been in corn and in feed grains. And I am going to be asking the question why we have a subsidy for wheat and we do not have it in feed grains and what the sales might be with regard to feed grains if we had a subsidy in feed grains like we have in wheat.

I just say this to my good wheat friends to point out something here.

But now, let me ask another question.

I have a feeling that the public interest—and there is a large public interest—may not be properly protected now under rules and regulations and under law. And now that we are in the major leagues in trade, and we are really going, I as a member of this subcommittee—and I think the whole subcommittee—would be very interested in any suggestions that you might have in how we could further keep the public fully informed.

For instance, I am a little disturbed that the Department did not know that the team was back in our country the second time and trading with private individuals, that the public was not informed. It seems to me there ought to have been a further public interest in that.

Secretary BUTZ. May I interrupt at that point?

Mr. ZWACH. Yes.

Secretary BUTZ. We have been accused, of course, of duplicity with private traders. We have been accused of under-the-table information.

Mr. ZWACH. I am not accusing you of that.

Secretary BUTZ. I know you are not. The point is we have been scrupulously careful not to converse with the private trade and they with us because of the very accusations made here. And when the Russian team came over here the second time to negotiate with the private trade, naturally, they didn't tell us; they didn't tell each other. That is the very character of the American competitive system.

That is the reason they have been scrupulously careful with us and with each other not to converse with us about this. I wouldn't have had it any other way.

Mr. ZWACH. If you have any suggestions as we go along, I would be most interested in having anything that we might further need to see that the public interest is fully protected. It might also relate to the moving of people freely into the Department and out of the Department. It might also relate to anything that we might need in this area to see that for sure, the public interest is always fully protected. I will be waiting for anything that you might feel experience has shown might be necessary in this area.

Thank you very much.

Mr. PURCELL. Thank you, Mr. Zwach.

Mr. Secretary, before I call on Mr. Jones, let me interject here, there is enough interest in this hearing today that some of our members on the whole Agriculture Committee that are not assigned to the Subcommittee on Livestock and Grains are here. For example, Mr. Abernethy and Mr. Stubblefield. Then Mr. Jones is our next man on this subcommittee. I am going to skip the ones not on this subcommittee.

But let me interject here, please, would the Department please furnish for us the amount of sales in bushels that the various companies have sold to the Russians, including the amount of subsidy that was paid to each of those five companies or whatever the number is?

Secretary BUTZ. I don't think we know that total amount of grain that has been sold. We know the total amount that has been declared for subsidy.

Carroll, will you explain, please, what we do know here? I think you are asking for things we don't know ourselves.

Mr. BRUNTHAVER. The subsidy as registered indicates that a company has sold so many million tons or so many million bushels of wheat and registers for subsidy on that amount. I will have to check on this. I am not sure if that information is available. We can make it available to the committee.

Mr. PURCELL. Well, the reason you gave them a week to get filed was so you would know what was going on, was it not?

Mr. BRUNTHAVER. Let me check and make sure what information is available, and we can provide it to you.

Mr. PURCELL. And when can you do that?

Mr. BRUNTHAVER. As soon as it can be tabulated.

Mr. PURCELL. Well, we will be in session Monday and Tuesday. Would you please have it Monday morning?

Mr. BRUNTHAVER. If it is available.

Secretary BUTZ. I think, Mr. Chairman, we don't have the total amount sold. We just have that amount for the subsidy payment.

Mr. COFFMAN. Ordinarily, Mr. Chairman, you wouldn't know where this wheat went until after they shipped it. It is true that on this one week arrangement, where they had one more week to book export payments on old sales, the information may be available. Ordinarily, the exporters register for the subsidy and then they ship, and at that time we will know. But we will not know until then.

Mr. PURCELL. Then you do not know what price they had to pay for the grain they are shipping in any way, do you?

Mr. COFFMAN. No, we don't know what they paid for their wheat.

Mr. PURCELL. So it could have been 01.32 or \$2.12?

Mr. COFFMAN. Right. They buy it on the open market or wherever they can buy it. We don't know the price.

Mr. PURCELL. But they filed for the 47-cent subsidy to whatever extent they could get contracts to sell it and then ship it at any time they can get ships and railroad cars. Is this right?

Mr. COFFMAN. They promise to ship it at that subsidy and they enter into a binding obligation to ship that much wheat at that subsidy rate.

Mr. PURCELL. Well, now, Mr. Secretary, I am sure Mr. McMullin would know what we want and we would appreciate getting as far in that direction as we want.

Mr. Price?

Mr. PRICE. Mr. Secretary, we want to thank you and Mr. Coffman for coming before the subcommittee today and Mr. Brunthaver for clearing up many of the accusations that have been made by various people throughout the Nation. I think your statement is very clear and very honest for the public to evaluate. As you said in your earlier remarks, it is too bad that it has gotten into the political arena and we plan on keeping it out of the political arena in this hearing. But there are too many stories out before the public to say that it is not.

Mr. Secretary, would it have been possible for you to tell not only the wheat producers but all other producers of oats, livestock, corn, of the possibility of selling abroad of grains or livestock products earlier in the year so that they would have known before livestock prices had dropped by \$7 a hundred, for instance, in the last month and a half? Could you assure all of these producers in any way that their product might drop?

Secretary BUTZ. The only way we could assure them that was coming was through the Outlook services of the Department of Agriculture, where people are constantly engaging in looking at the prospects ahead. You mentioned cattle. The forecast that cattle prices would drop could be made two months ahead primarily from the number of cattle that were on feed and that were coming to the market.

Mr. PRICE. My point is that the farmers who sold earlier had the same evidence and had the same communications, the same prognostications from the Department as the wheat producer did who sold earlier.

Secretary BUTZ. That is quite right.

Mr. PRICE. And if there is a deal regarding oats, barley, soybeans, livestock products overseas, the producer who sells now or sold 5 months ago under the reseed program or whatever, he was merely speculating also, was he not?

Secretary BUTZ. Oh, yes, but speculation is kind of an unacceptable word in a place like this, but there is a lot of speculation in agriculture. You produce a crop annually. When you sell is up to you, unless you have a product like a fat steer and you have a limited time in which you can move it. But there is a lot of speculation and a certain amount of judgment exercised.

All I can say is we did our best to get the information out. When this agreement was signed with the Russians, they said they were going to buy a minimum of 750 million dollars' worth over the next 3 years. When I had a press conference, I stuck my neck out and said I thought it will be a total of a billion. Some of my colleagues said, why would you make such an optimistic estimate? It turned out to be a conservative one.

Mr. PRICE. Isn't it true that a lot of the people who sold grain were farmers that were hard pressed for credit, no doubt, and did turn their grain in for the Government price that was paid at that time? They had the prerogative?

Secretary BUTZ. Yes, if they turned it in for a loan at that time, if they took a loan at that time, they still had it under their own control. They could sell it at their option.

Mr. PRICE. As you said, that is speculation and they thought evidently the market was going to go down or they needed cash.

Secretary BUTZ. That is right.

Mr. PRICE. And 83 percent of the grain is or was at that time still in the hands of the producers?

Secretary BUTZ. Yes, it was a lower percentage than that in your area of Texas, because your harvest is earlier. I think the farmers who were injured by this, as Chairman Purcell and you pointed out very correctly, were in the southern wheat belt.

Mr. PRICE. My point is you cannot give a guarantee to a man 6 months in advance as to whether you are going to make something available to Russia, China, Argentina, Australia, or any place else.

Secretary BUTZ. You can't as long as you have a free market. If you have a Government monopoly, I guess you can, but not in a free market.

Mr. PRICE. Thank you very much, Mr. Chairman.

Thank you, Mr. Secretary.

Mr. PURCELL. I will recognize Mr. Foley at this point.

Mr. FOLEY. Mr. Secretary, it is always a pleasure to see you, sir.

I generally tend to favor foreign trade and especially trade in agricultural commodities, so this question is not asked from any critical standpoint. I am just a little confused by some of the information we have received relating to the time in which the Department learned of the degree of interest on the part of the Soviet Union. I believe in answer to a question by Mr. Mayne, you said that there was no information in the Department in July of a subsequent interest on the part of the Soviet Union and the magnitude of it. Is that correct?

Secretary BUTZ. Yes, I think that is right. Wheat failure in Russia is not new. Russia is a marginal agricultural area. Moscow, for example, is further north than the northernmost part of the United States and the Crimea in Russia, which they call their breadbasket, is on the latitude of the Twin Cities in Minnesota. A winter wheat kill is not uncommon. They reseed it with spring wheat when this happens and use fertilizer. But nobody could have predicted that they were going to have this hot dry summer. Even the spring wheat planting didn't produce a normal crop of wheat. This produced a wheat crisis for them. They didn't know the dimensions of it themselves until mid-July, I presume.

Mr. FOLEY. That is what I understand your testimony indicates, that the Russians themselves were not aware of the great need they would have. That is why I am confused. I recall that you made a public statement in late February that in your discussions last December with the Soviet Minister of Agriculture, Mr. Matskevich, the Minister had indicated a desire on the part of the Soviet Union to purchase a billion dollars' worth of wheat and feed grains from the United States but expressed to you his doubt about the ability of the United States to deliver those shipments because of the then existing west coast dock strike.

Secretary BUTZ. Yes, sir. At that time, however, his interest was primarily feed grains, because then he himself didn't know the condition of the wheat crop and he was talking primarily about feed grains over a period of years.

Mr. FOLEY. As I recall your statement, it was a billion dollars' worth of wheat and feed grains.

Secretary BUTZ. Yes, some wheat, but at that time, we were thinking primarily of feed grains, because it was not evident that they were going to have this massive wheat failure which they have experienced.

Mr. FOLEY. But at any rate, there was at that time a desire on the part of the Soviet Union to make a massive purchase of grain when you had this discussion with the Soviet Minister in December?

Secretary BUTZ. That is correct.

Mr. FOLEY. This is another thing that concerns me—and I am in no sense speaking of any of the present or past officials of the Department of Agriculture—all that I have come in contact with over the years I have had a very high regard for, including Mr. Palmby and Mr. Brunthaver, who were mentioned personally today. But are there any regulations in the Department to limit the authority of individual Department officials to engage in private activities on the grain futures markets or in private transactions relating to the sale of grain?

Secretary BUTZ. Are you talking about current officials in the Department of Agriculture?

Mr. FOLEY. Just, are there such existing regulations.

Secretary BUTZ. I will ask Claude Coffman what the law is. So far as I know, there is no employee in the Department who engages in activities—

Mr. FOLEY. I want to make it clear that I am not suggesting by any innuendo any impropriety on the part of any Department officers. I want to know what the regulations are.

Secretary BUTZ. I understand, but the practice is we don't do it.

What are the legal regulation?

Mr. COFFMAN. There are regulations forbidding any employee who works with any price support or stabilization, program or any statute regulating trading in commodities, from doing any business on the futures market.

Mr. FOLEY. It is a regulation that limits those who are concerned with special areas of the Department's activities, like the Foreign Agricultural Service, for instance?

Mr. COFFMAN. It is a pretty tight regulation.

Mr. FOLEY. Would you supply it to the committee?

Mr. COFFMAN. Those that apply to current employees?

Mr. FOLEY. Yes, could you supply it?

Mr. COFFMAN. Now, of course, there are also statutes that regulate former employees.

Mr. FOLEY. Conflict of interest statutes?

Mr. COFFMAN. What was your question?

Mr. FOLEY. Normal conflict of interest statutes?

Mr. COFFMAN. I am sorry. I still did not hear you.

Mr. FOLEY. It is the conflict of interest statutes to which you are referring?

Mr. COFFMAN. Yes.

Mr. FOLEY. Mr. Coffman, could you provide the subcommittee for its meeting next week with a copy of those pertinent statutes and departmental regulations?

Mr. COFFMAN. Yes, I would be glad to.

Mr. FOLEY. Again, Mr. Secretary, I am sensitive, like everyone in public life, to any impugning of integrity. I think we all feel once in

awhile that the heat is a little too strong and without, perhaps, justification. But would you agree with me that everyone who undertakes public service has to expect some inquiry into his conduct and into his activities, that this can be a normal result of serving the Government?

Secretary BUTZ. Quite right.

Mr. FOLEY. Whether in the Congress or the judiciary or the executive?

Secretary BUTZ. Quite right.

Mr. FOLEY. In Congress or the Government, we cannot expect to serve without the public occasionally asking questions about our business conduct or our other conduct?

Secretary BUTZ. On the other hand, Mr. Congressman, I think you will agree that when I read in the newspaper that a candidate for public office in this country says Earl Butz negotiated a deal in Moscow in April and didn't tell the public about it until July so his friends could have inside information, you understand that I would—

Mr. FOLEY. I can understand your reaction. The only thing that concerns me is I share your hope that these hearings can be conducted in an atmosphere of calm deliberation. We have not been asking questions that I can interpret as being of a political character, attempting to serve only political interests. Yet we are constantly going back to statements made outside this committee by candidates for public office who may be on farm organizations or other groups. I may not have interpreted the purpose of the hearing correctly, but I find the latter part of your statement much more in conjunction with the request that we stay out of politics than the first two pages of it.

Secretary BUTZ. I felt the politics had been injected by the decision of the political command in Congress to endorse this hearing.

Mr. FOLEY. Well, the decision to hold the hearing, I assume, was made by the chairman of the subcommittee, not by anybody else.

But in any case, if we are to be asked not to impugn the integrity or the straightforwardness of the members of your Department, I think we are correct in asking for a similar kind of courtesy—that it not be supposed that these hearings are political in character until there is some evidence that they are. You, yourself, are unwilling to take political positions, I have noted, in the public press.

Secretary BUTZ. You may note some more of it as the months wear on.

Mr. FOLEY. I assume you are here as Secretary of Agriculture and not in your capacity as a surrogate spokesman for the President in his campaign, for example.

Secretary BUTZ. I pick up that role next week again.

Mr. FOLEY. While we are in the room here, both you and I, and the others, I think, can leave our political interests aside. I hope that we will be able to continue at a high level of discussion on foreign agricultural exports. I think whatever one may say about the character or the nature of questions that have been raised about the sale, the fact is that they have been raised. I hope you would agree with me that it is the proper function of the Committee of Agriculture, interested as it is, in the agricultural exports and the agricultural health of this country, to ask reasonable questions about the character of the sales

and about the activities of the Department with respect to these sales and to have those questions answered without the assumption being made that anyone is trying to play politics in the give and take of these discussions.

Would you agree with that?

Secretary BUTZ. Yes, sir; I certainly would.

May I say these hearings this morning have been conducted completely in line with what you say.

Mr. FOLEY. Thank you, Mr. Chairman. I will reserve the balance. Thank you, Mr. Secretary.

Mr. PURCELL. Mr. Sebelius?

Mr. SEBELIUS. Thank you, Mr. Chairman. I want to thank the Secretary for his statement here.

Mr. Secretary, you know our State grows more wheat than any State in the Nation. On behalf of the people in my district, thank you. I do feel sorry for those who sold at harvest time and I myself had one-half interest in one-third of the wheat of 20 acres and it was sold for \$1.23. Today I could get \$1.73 for it. If my hindsight was as good as my foresight, I would be a lot better off. So I do sympathize with those who did sell at harvest time. I don't see anything that you could have done. If you can think of anything that you could have done that you didn't do in that matter, we would like to have it for the record.

Isn't it true that the Government has to make available CCC stocks at the loan rate plus storage charges when it reaches that point?

Secretary BUTZ. Plus 15 percent.

Mr. SEBELIUS. I appreciate that in the record, because the general public does not realize that. So often, they always accuse you of dumping CCC stocks to push down the price. I want that in the record.

Thank you, Mr. Secretary, Mr. Brunthaver, Mr. Coffman, Mr. Galbraith.

Mr. PURCELL. Mr. Sisk?

Mr. SISK. Thank you, Mr. Chairman.

Mr. Secretary, we are glad to have you before the committee this morning. Let me say as one individual, I want to commend the Department for the work and effort put into negotiating these sales. These grain sales fit a philosophy that I have held for some years. As long as we can get dollars from Russia or, as far as I am concerned, if we can sell food stuffs and agricultural products to Communist China for dollars, I am 100 percent with you and support you all the way. As long as they are spending money to feed their people, they are not putting those dollars or rubles or whatever it may be into military hardware. So I want to commend you on what I thought was an excellent statement, one with which I totally agree.

I, of course, deplore, as you do, some of the things that have been said. Every 4 years, we do have a political campaign in this country and by the very nature of it, sometimes things get a little bit out of line. I have been concerned with some of the statements that have been made by various people and some of the implications, and particularly some of the news stories. I have a hunch they probably are biased stories, because that is not too unusual, at least with some of the media, in connection with these sales or with this sale and continued sales. I am concerned that the sales continue.

I just want to call your attention to your statement on page 2, where you say quite frankly that biased political manipulations are jeopardizing the present and future sale of grain to the Soviet Union and that political attacks are harming the continuing commercial relations and political relations between two great and powerful nations.

I have had some fear of this myself. Do you have any indications, actually, that some of our own hassling and some of the things that are appearing in the American press today actually are jeopardizing possible future sales of agricultural commodities to Russia and possibly other communist bloc nations?

Secretary BUTZ. Well, obviously, we don't have any direct evidence here. But when you get the kind of allegations that have been made, you make the American trading companies back off from it, and you make the Russian traders themselves feel it is easier to deal with some other government than with the American private enterprise system, and feel if we can deal with another government, that is it, and we can go home. Here a red herring has been dragged across the trail in the allegation that has been made that the U.S. taxpayer is subsidizing the Russian Government and the Russian consumers. I am sure that will have an adverse reaction among the Russians.

Mr. SISK. I appreciate your comment and I would hope, along the line already expressed here, that this hearing may answer some of the questions raised. I think your statement on this sale is excellent. It is forthright and quite frank as far as describing actions taken in connection with the grain sales.

That is all, Mr. Chairman.

Mr. PURCELL. Mr. Findley?

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. Secretary, you mentioned in your statement that on Monday of this week, the executive branch had some notice from a trader in connection with the prospective wheat sale to China. I am not clear as to just what form that notice took, whether it was a request for an export license or a request for the exact amount of the export subsidy that would be involved.

I had a call just before I came to the hearing room from a small grain trader in my district, and he was outraged at the thought that the executive branch had some information a few days ago about a prospective grain transaction that he thought he should know about. Could you help clarify this situation?

Did the executive branch have definite information about a prospective sale to China, and if it did, why was this not immediately made public to everyone?

Secretary BUTZ. First, we read the same stories in the paper that you read about the prospect of this, based in part, perhaps, upon some of my own statements over recent months that trade with China was a definite possibility, and I think a probability down the road.

Now, with respect to your specific question, I would like Dr. Brunthaver to answer that, because this is in his area. This was handled just like any other declaration for an export subsidy.

Mr. BRUNTHAVER. The subsidy was registered for 400,000 tons to China. It is not the policy of the Department of Agriculture to release this kind of information that would put one trader at a disadvantage to another trader. So historically, this has not been released.

A further complicating factor, Mr. Congressman, is that there is some indication that premature release of this information, especially by an official of the Government, would jeopardize the trade and we are very much concerned that this information perhaps did get out in the manner in which it was released.

Mr. FINDLEY. But, Mr. Secretary, the fact that a subsidy was registered for did not necessarily mean that the transaction was already wrapped up. Is that a fair statement?

Mr. BRUNTHAVER. That is correct, except as to the 47 cent subsidy. There was an indication that the sale had been made, but the Chinese could of course back out of the transaction. It was an indication that a contract had been agreed to.

Mr. FINDLEY. And this involved wheat?

Mr. BRUNTHAVER. Yes.

Mr. FINDLEY. And this was a traditional policy by the Department of not disclosing the registry of a subsidy the moment it was received.

Mr. BRUNTHAVER. That is correct.

Mr. FINDLEY. Mr. Secretary, it is my understanding that almost every other major wheat exporter of the world is actually a state trader.

Secretary BUTZ. That is correct.

Mr. FINDLEY. Not just the Communist countries, but the non-Communist countries, with the exception of the United States, all deal in foreign markets in wheat through a government agency. Is that a fair statement?

Secretary BUTZ. That is correct, yes, sir.

Mr. FINDLEY. Would you give us some insight as to what that means to a private trader in this country in attempting to negotiate a major deal with either China or the Soviet Union? If he is up against a state trader, what are the hazards that he has?

Secretary BUTZ. Well, if he is up against a state trader, he has no firm idea what his total intentions are, what his total program likely will be. If he is up against a competitive situation, you have some basis for more public information than if you are up against a situation where the decision is made at the top of the hierarchy and filters down through.

Mr. FINDLEY. Well, in the case of the Canadian registry of subsidy, which occurred, let us say, Monday of this week, if the Canadian Wheat Board had heard about that, it would have given them an opportunity to have made a better bid to China. Is that a reasonable possibility?

Secretary BUTZ. Let's have Dr. Brunthaver comment on that.

Mr. BRUNTHAVER. One of the things we are up against, of course, is that a trader from Russia can go to the Canadian Wheat Board and say, I want to buy 10 million tons, I want it delivered at a certain time and I want to fix a specific price. The Government monopoly can do that, can enter into an agreement on specific time, quantity, price. That gives them a tremendous advantage over us.

One of the reasons for the export subsidy program is to provide some backstopping here that allows our traders to commit 10 million tone of wheat that they do not own, the wheat that they have to buy from the producer, but assist them in making a large sale of this type, similar to the type of sale that could be automatically done by a government trading organization.

Mr. FINDLEY. Is it not also true that a private trader in the United States has uncertainty about delivery? He has some details to wrap up there which a state trader would not necessarily be up against.

Mr. BRUNTHAVER. That is right.

Mr. FINDLEY. Is that also a fair statement?

Mr. BRUNTHAVER. That is correct.

Now, in defense of our system, we feel that large numbers of small or fairly large traders enable the United States to get into many markets, to make deals with buyers in other countries where a large government organization can't have this kind of flexibility. And because of the competitiveness of our system and the fact that we have many traders canvassing the world with their profits at stake permits us to be very competitive. We feel that these traders probably get us into many markets that a government trading organization could not get into. So there are offsetting advantages.

Mr. FINDLEY. I have just one more question. There has been a lot of speculation in editorial columns and the cartoonists have had, really, a field day over the fact that Clarence Palmby and Mr. Pulvermacher left high government positions to go into private grain trade. I would like to ask you, is there a precedent for high officials of the Department of Agriculture, upon leaving the Department, to join a private firm dealing with agricultural export trade?

Secretary BUTZ. You are asking me that question?

Mr. FINDLEY. Yes.

Secretary BUTZ. Here you force me to comment about a friend of mine, the former Under Secretary of Agriculture, for example, Dr. Schnittker. He was Under Secretary of Agriculture the last 4 years when Orville Freeman was Secretary. He was President of the Commodity Credit Corporation Board. He made decisions on the very thing that we are talking about here, on the level of export subsidy to the Russians at the time he was there. He had an export subsidy, in effect, that ran as high as 35 cents back in June of 1966.

I have here a feature article that he put out now. He is a consultant for the Canadian Wheat Board in the Atlantic Institute. I see his name is listed on a letterhead, "Economists for McGovern." Since he is now working for the Canadian Government as a consultant part-time, I am not at all surprised to see the article that he had published in Sunday's September 10 Washington Post on the business and finance page, in which he says "Wheat Crisis Affects the Whole World." He says among other things that Canada, which had over a billion bushels of wheat stored in December, will see a carry-over to 2 million bushels by the end of next summer. He goes on later in the article to say—he talks about the subsidy and he says—"My own view is that the export subsidy of wheat in this situation served principally to push wheat prices in U.S. markets higher than they would otherwise have gone."

From my point of view, that is not especially bad. I think our producers ought to get high prices here.

He says that in retrospect, USDA should have lowered the subsidy from Gulf ports from 2 cents a bushel as quoted on June 30 to zero. Then he said, the next time the U.S. wheat subsidy gets close to zero, it would be the opportune moment to apply the no export subsidy for wheat.

I find now when he is telling us what to do it is completely the opposite of what he said himself when he was in the seat of power. I just raise the question: is it because he wants a higher world price for Canadian wheat now that he represents the Canadian Wheat Board?

We have some evidence here as to what happened in years back. In the 1960's, the world price of wheat did get high. And as a consequence, world production increased. This is precisely what they want. The result of that always is the United States becomes the residual production adjuster for the world.

One of the reasons right now that we have taken a position to maintain the world price level of wheat at a fairly constant and not too high level is we don't want to buy ourselves a problem 2 years down the road and get everybody in the world into the production of wheat. And once they are in, with state monopoly trading, they do precisely what Dr. Brunthaver said a moment ago: They have the advantage over us. Then we find ourselves cutting back production as we have in recent years, and bear the brunt of the world adjustment in wheat.

You ask is there precedent for this? Here is a former president of the—

Mr. PURCELL. Mr. Secretary, if you would, please, I do not want to—I think the question was is there precedent for somebody doing it. I just want to plead with you that if there are those people that you want to name, name them. We are familiar with the history of this and I just want us to move along.

You may certainly ask another question.

Mr. FINDLEY. Mr. Chairman, I want you to know that I was not critical of the response I was getting. I want the record to show that.

Mr. PURCELL. I am not critical of the response, I am critical of the shortness of time.

Mr. FINDLEY. Mr. Chairman, I realize the time is short.

Secretary BUTZ. Let me say one more thing. Mr. Palmby left to go with an American trading company. He is not dealing with the U.S. Government at all. He is helping to increase our exports. With this, I am fully in accord.

Mr. FINDLEY. Mr. Chairman, I realize time is short and I just want to make this observation, that there is precedent. Mr. Schnittker made the move, Orville Freeman made a similar move, and I do not know of a single Member of Congress or other prominent person, either a Republican or Democrat, who voiced any criticism when they made the moves.

Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Melcher?

Mr. MELCHER. Thank you, Mr. Chairman.

Mr. Secretary, I have the August demand and price figures of the Department of Agriculture. It is dated August 1. I quote briefly from it:

With demand continuing firm, wheat prices received by farmers this season may average around the \$1.31 per bushel 1971-72 price.

In other words, Mr. Secretary, on August 1, you were telling anybody who cared to read it, and particularly producers, that they could anticipate a wheat price of \$1.31 for their crop during the coming year. Have you any other examples of such publications put out by the Department of Agriculture in August that project such a price?

Secretary BUTZ. No, sir; I do not. At that time, of course, that thing was prepared a few days ahead of the August 1 dateline and the price of wheat started up a few days after that. As we have said already, nobody anticipated the magnitude of these purchases, including the Russians themselves. They sent their team back a second time.

Mr. MELCHER. Mr. Chairman, I would like to make a part of this record the article from Barron's of August 14, the article entitled "The Great Grain Deal."

Mr. PURCELL. Just the article?

Mr. MELCHER. Yes, just the article.

Mr. PURCELL. Without objection, so ordered.

(The article referred to follows:)

[Barron's, Aug. 14, 1972]

EDITORIAL COMMENTARY—THAT GREAT GRAIN DEAL

MOSCOW DRIVES A HARDER BARGAIN THAN WASHINGTON

In the folklore of radicalism, where all landlords are rapacious and businessmen by definition greedy and grasping, the last one to look to for cheap bread is obviously the baker. Unlike the butcher or the candlestick maker, however, the latter is not one to go by the book. Indeed, last week the American Bakers Association went on record with a request to Earl L. Butz, Secretary of Agriculture, that he put an end to the continuous increase of the U.S. wheat export subsidy—boosted in six weeks from two cents a bushel to 36 cents—which, in turn, has tended to raise the cost of wheat and flour and now threatens to push up the price of a loaf of bread. In addition, the bakers asked for measures aimed at channeling official stocks of wheat into the market, and lowering payments promised farmers for idling wheat acreage this fall.

The reason for their curious behavior is not, to be sure, wholly philanthropic. Rising quotations for grain and flour have produced high costs for the bakers, who, in turn, may follow suit on bread and cake only with the permission of the Price Commission—at best, a time-consuming process, and one unlikely to yield them more than half a loaf. Even so, they figure that the price of bread is likely in due course to advance by at least one or two cents, thereby giving another upward thrust to the cost of living.

Export subsidies are nominally designed to reduce export prices to the world market level. However, under present market conditions—about which more later—the latter are purely national, since for all practical purposes, this country has emerged as the sole supplier, on any substantial scale, of wheat to global markets. Nonetheless, officialdom maintains the fiction that a competitive world wheat market exists, in which, runs the reasoning, Uncle Sam must maximize its share by keeping prices low.

Moreover U.S. wheat trading firms—of which there are only a handful—are said to be operating on the presumption that the world market price is kept stable by Uncle Sam's export subsidies. If this premise proved wrong, they might suffer grievous losses. Finally, one may wonder to what extent the current practice of export subsidies pursues a long-term goal: to gain a steady wheat customer in the USSR, and to avoid antagonizing the Kremlin by charging whatever the traffic will bear.

None of the foregoing strikes the American Bakers Association as convincing. Its spokesmen realize that the steady increase in export subsidies has served to boost domestic wheat and flour prices. In that respect, the proof of the pudding is in the eating. Last Tuesday, the USDA failed to increase the subsidy, and wheat prices promptly declined; the drop continued on Wednesday. (The national "world market price," of course, did not rise either.) However, since early July, when Washington and Moscow jointly announced the large new grain pact, wheat prices, spot and futures alike, have advanced by more than 25 cents per bushel, or from \$1.51 to a recent high of \$1.86.

As for the Kremlin, it may not even understand the curious mechanics of U.S. wheat marketing. All it is interested in, evidently, is getting badly needed grain. The true magnitude of its needs remains a secret. According to some estimates, the shortfall of the Soviet wheat crop runs to nearly 20 million tons, i.e., over 750

million bushels. To fill this requirement—of which reportedly one-fifth remains to be covered—the USSR has been buying wheat wherever it can. Word in the trade is that the U.S. is expected to supply no less than 400 million bushels and Canada nearly half as much, with a lesser volume coming from Australia.

In addition, the Soviet Union is expected to buy around 100 million bushels of U.S. feed grains and probably 40 million bushels of soybeans. (Last Thursday Cook Industries Inc. said it had completed negotiations to sell \$225 million worth of soybeans and grain to the USSR, one of the largest single sales of the kind ever made.) By one estimate, Soviet grain purchases this season may run up to \$1 billion, breaking all records and drastically changing the outlook for U.S. grain markets. Whereas exports of farm commodities last fiscal year ran to about \$8 billion, they probably will top \$9 billion in 1972-73. While USDA anticipated further additions to wheat stocks this season (ending 6/30/73), they are now expected to decline.

The Soviet crop disaster also means that the Kremlin must default right and left on its own commitments to deliver. On this score, the United Kingdom has been told that it cannot count on contracted grain supplies from the USSR. To what extent Kremlin satellites will have to seek grain elsewhere, remains to be seen. However, it seems likely that Egypt will have to turn to the U.S. Though New Delhi claims that it can manage without this country's help, some reports hint that India is trying to purchase soybean oil, because its groundnut crop has fallen off sharply. There also is talk that China may look to the U.S. for wheat and soybean meal. Peking's purchasing agents already have been buying fishmeal in Peru.

Such market developments have caught the U.S. Department of Agriculture by surprise. True, the plight of the USSR's winter wheat crop grew evident last year, at which time the Kremlin pinned its hopes on spring wheat. As events have transpired, the spring wheat crop, owing to lack of moisture and searing heat, also has suffered a disastrous failure. (Temperatures in Moscow this summer climbed into 90's, and the drought provide so intense that normally wet peat bogs are burning east of the Soviet capital. Smoke from burning peat bogs has been polluting the air in Moscow.)

In Washington, D.C., the official view is scarcely clearer. As recently as mid-February—when the failure of the Russian winter wheat crop was known—Treasury Secretary John B. Connally announced a diplomatic triumph: the European Economic Committee had agreed to withhold an additional 1.5 million tons of wheat from the market this crop year, thus permitting the U.S. additional exports. Two months later, President Nixon and Prime Minister Trudeau of Canada agreed not to undercut wheat prices in competition between their two countries. Slightly over a month ago, when the plight of the Russian spring crop became evident, a Soviet-U.S. grain deal made the headlines: the USSR would purchase \$750 million of U.S. grain over three years. Mr. Nixon hailed it as "a very important, concrete forward step in the commercial relations between the U.S. and the Soviet Union which benefits both countries." Added Dr. Kissinger: "We believe that this grain agreement . . . is a major step forward in the conclusion of more comprehensive arrangements in other fields as well."

Under the term of the pact, at least \$200 million of U.S. grain must be purchased in the first year, starting August 1. To finance the transaction, the U.S. will provide three-year credits, at 6 $\frac{1}{8}$ %, with the proviso that at no time may more than \$500 million be outstanding. Agriculture Secretary Butz averred that it was "unlikely that Russian wheat purchases would push up domestic bread prices."

At that time, Mr. Butz could scarcely have foreseen that his officials would boost domestic wheat prices with the help of export subsidies. By now, presumably, he has learned from the American Bakers Association that as so often in the past, the improbable has happened: owing to the Russian purchases, and the wheat export subsidies facilitating them, bread prices will rise.

The record thus tends to show that political leadership and officialdom alike failed to understand the implications of their own policies. Specifically, they made international agreements on the promise of a wheat glut, even as a wheat shortage loomed. In the belief that the U.S. mid-1973 wheat carry-over would increase rather than decline, they also encouraged domestic acreage cuts. They left untouched a pattern of export subsidies designed to boost domestic prices, until the bakers warned them against what might happen to the staff of life. Finally, they celebrated the grain agreement with the Kremlin as a diplomatic triumph, while in fact it was born of dire necessity.

"When I make a mistake," the Little Flower once allegedly said, "It's a beaut." On the very day The Wall Street Journal reported on the great grain deal, it also carried a dispatch from Munich, where the experts of Radio Free Europe and Radio Liberty had added up the data on the Soviet crop disaster. That raises a question which cropped up nearly a decade ago, when the U.S. made emergency shipments of wheat to the USSR. Why is the U.S. Department of Agriculture so poorly informed about Russian crop conditions, and why do its officials fail to properly inform the Executive Branch of what is happening in Soviet agriculture? What the Kremlinologists in Munich can learn from Russian broadcasts should scarcely go unremarked in the White House.

In fact, USDA's blundering goes beyond its erroneous appraisal of the July grain agreement. One week later, the Department announced a program designed to increase payments to wheat farmers by \$122 million, in order to remove from wheat production in 1973 five million more acres. Less than ten days later, the Russians placed their first order for grain, which now have snowballed to a volume undreamt of by bureaucracy.

The bakers have good cause for concern. If Russian purchases reach the indicated total of 400 million bushels, wheat exports may rise to one billion bushels or more, thereby reducing the carry-over to around 600 million bushels or less, if other "customers," such as Egypt and Yugoslavia, also queue up. This is barely more than one year's U.S. human consumption of wheat.

Throughout the whole affair, Washington has acted in the mistaken belief that there was a world-wide wheat glut. Instead, there is a global shortage. Rather than making the most of it, however, the U.S.—perhaps for diplomatic reasons—is seeking to minimize the potential benefits it could extract from the momentous turn of events. Whether such beneficence will earn the U.S. much goodwill, or even a Lend-Lease settlement, remains to be seen.

The grain agreement with the Kremlin clearly has served to protect the latter's gold reserves. Even so, Moscow may have to sell gold to stay within the \$500 million ceiling on Commodity Credit Corp. advances. According to reports from Europe, it has sold some gold. Further sales may be forthcoming, if events bear out estimates that total Russian grain purchases (including soybeans and soybean oil and meal) from the U.S. may reach a total of \$1 billion.

At this juncture, the U.S. is virtually the sole supplier of wheat in the world market. Canada has committed almost all its export surplus; Australia's crop is poor and its exports insignificant. Argentina for all practical purposes is out of the market. Except for the European Economic Community, which the U.S. has influenced to add to its stockpile, there is virtually no wheat surplus anywhere except on this side of the Atlantic.

Washington, however, apparently has so designed its wheat policy that in order to supply the USSR with cheap grain, it is willing to boost the price of bread at home. Let Mr. Butz and Dr. Kissinger explain to the American housewife how such policies make sense. Until the bakers took up the cudgels on her behalf, she scarcely even knew what was going on. Now it's time her so-called champions, in Congress and out, spoke up.

Mr. MELCHER. Mr. Secretary, on August 25, the Department indicated that for a limited time, the export subsidy on wheat would be allowed to be used, I believe for a period of 7 days, to offset market prices on wheat on old export contracts. On August 24, was any information given out to anybody ahead of the public announcement on the 25th?

Secretary BUTZ. Not that I am aware of Mr. Brunthaver had the traders in our conference room 218A—that was then date, wasn't it?

Mr. BRUNTHAVER. Yes.

Mr. MELCHER. On August 25?

Secretary BUTZ. Yes, sir.

Mr. MELCHER. Then there was no information given out to anybody prior to August 25 and the public announcement?

Secretary BUTZ. Not that I am aware of.

Are you?

Mr. MELCHER. Are you asking Mr. Brunthaver?

Secretary BUTZ. Yes.

Mr. BRUNTHAVER. State your question exactly again?

Mr. MELCHER. Was there any information given out prior to the public announcement on August 25 that the export subsidy was being allowed for seven days longer and then there would be an adjustment?

Mr. BRUNTHAVER. No, there was not.

Secretary BUTZ. Please understand that we had discussed this a few days previously in the Department.

Mr. MELCHER. Who is Charles Pence, P-e-n-c-e?

Mr. BRUNTHAVER. He is an official with the Export Marketing Service.

Mr. MELCHER. Would he have made any telephone call on August 24 to anyone suggesting that there might be an announcement on August 25 regarding the policy change in export subsidies?

Mr. BRUNTHAVER. I do not know.

Mr. MELCHER. Pardon me.

Mr. BRUNTHAVER. I do not know if he made such a call.

Mr. MELCHER. If there were some advance knowledge on August 24, or of the August 25 announcement, would it have been advantageous to anybody?

Mr. BRUNTHAVER. I do not think it would have been advantageous to anyone; no.

Mr. MELCHER. You do not think that the advance statement then would be advantageous to anybody to know what the policy was going to be regarding export subsidy?

Mr. BRUNTHAVER. I don't think so, because we had announced to everyone what our policy was when the Russian transactions first started. We were asked by an exporter interested in doing business what the target price, or what price we considered competitive for U.S. wheat to be. We indicated to everyone that our goal was to maintain our prices at the competitive level that had been established for 2 years.

Mr. MELCHER. No; the point, Carroll, is would the advance knowledge of your change in policy announced on August 25 be of any advantage to anyone?

Mr. BRUNTHAVER. I don't think so, because everyone knew what the rules of the game were.

Mr. MELCHER. You changed the rules on August 25. That is what we are talking about.

Mr. BRUNTHAVER. Yes; the announcement on the 25th was that the Department would no longer protect this particular world price. Now, how would that benefit anyone to know that the world price was going up?

Yes; it would benefit someone, because they could perhaps make a sale—except that the cutoff date was August 24. So to have made a sale on the 25th would not have helped anyone.

Mr. MELCHER. On the 24th, it could have helped someone?

Mr. BRUNTHAVER. Before the close of business; yes.

Mr. MELCHER. Well, was there any assurance, Mr. Secretary, that—well, I think it has partially been answered but I will clarify it for the record. Was there assurance given that export subsidies would follow the market during August prior to the change of policy on August 25?

Mr. BRUNTHAVER. This was inferred when we indicated that we were trying to keep our wheat competitively priced at approximately the \$1.63 to \$1.65 level that had prevailed; yes. But a specific guarantee had never been given to anyone.

Mr. MELCHER. The price, the export subsidy, reached its highest level in the week following August 25.

Mr. BRUNTHAVER. Yes.

Mr. MELCHER. How much of an increase was there between August 24 and the end of that period?

Mr. BRUNTHAVER. The subsidy went, I think, from 39 cents gulf, hard, to 47 cents.

Mr. MELCHER. 47 cents, which was the high point historically?

Mr. BRUNTHAVER. Yes.

What we did on that date was to bring the price back to the \$1.65 level—the \$1.65 level had been our target throughout all of these sales.

Mr. MELCHER. Thank you. I have one more question, Mr. Secretary.

I think you have protested too much on the political connotations that might be attached to this hearing. I have never noticed that you back off, and I commend you for your vigorous efforts. But I have here an article from the Washington Star-News of March 5, quoting you directly as saying, on how to influence congressional votes:

Find his financial angel. That is the way I worked to beat a bill raising price supports 25 percent. I called up one chap and started to explain the bill. He said, "hell, don't bother, I will just tell the Congressman I don't want it." He did, that was it.

Secretary BUTZ. That was a Senator, however. [Laughter.]

Mr. MELCHER. That is a bill reported and passed out of this subcommittee. Who was that chap whose vote on the 25-percent bill was involved and what other financial angel were you able to contact?

Secretary BUTZ. That may have involved three or four people. I can't recall specifically.

Mr. MELCHER. You don't recall the chap you called?

Secretary BUTZ. Oh, yes; I do, but that is privileged information. I may want to call him again sometime. [Laughter.]

Mr. MELCHER. Your tactics are of the true political spirit of the time.

Secretary BUTZ. Thank you, sir, I appreciate that.

Mr. MELCHER. That is all I have, Mr. Chairman. Thank you.

Mr. PURCELL. Mr. Kyl?

Mr. KYL. Thank you, Mr. Chairman.

The first observation I would like to make after reading the Wall Street Journal article and the U.S. News & World Report for August 28 is that the Wall Street Journal reporters ought to read the U.S. News & World Report:

Crop failures more serious than outsiders had realized is forcing Soviet leaders to turn to the U.S. for staggering quantities of grain.

That is a quotation from Mr. Brunthaver in this article.

And then we find this significant thing, that according to reports from West Germany, the real problem that the Russians finally experienced was the heavy rains during harvest, which undoubtedly contributed to this timelag in putting together all the information.

Following that same tack, Mr. Secretary, you will remember that you visited in Des Moines, Iowa, on July 6 of this year, and you had a press conference and the first question which was asked you was by the UPI reporter, who said, and I am quoting,

For several weeks, we have had a persistent rumor that there is a big sale of feed grains and wheat to Russia in the offing. Is that true?

Now, that was July 8. At that time, your response, as I remember, was, even though you knew that you were having a meeting next morning, that we were working well in that direction. You stopped with that comment. That was on July 6. Now we understand that there was a general lack of information among the reporting public as to what was transpiring.

I will be very brief, Mr. Chairman. I just want to point out in regard to this business we have heard about this morning that some of these farmers were punished by having sold their grain ahead of time, that this subcommittee passed, the full committee passed, and the House of Representatives passed a bill which would have given a 5-cent increase in loan rate for people who had their grain stored but would have in no way compensated those individuals who had sold their crop before the date of the enactment of that act respectively. As I remember, there was nothing in that legislation which made any reparations for people who had sold their grain before that time. I would hope that members of the committee, having voted for such a matter in this committee, would not now chastise the Department too severely for having done essentially the same thing, even though in your case it was done because the other side had not reacted to the trade.

Secretary BUTZ. Yes; to prevent that kind of inequity was the very reason I phoned this financial angel of this Senator friend.

Mr. KYL. Just one other matter. I would hope that this Mr. Pence or whoever he is has not been charged here with having made any telephone calls in the absence of any proof to any suggestion of that sort.

I yield back the balance of my time, Mr. Chairman.

Mr. PURCELL. Mr. Bergland?

Mr. BERGLAND. Thank you very much, Mr. Chairman.

Dr. BRUNTHAVER, as I recall your testimony earlier in the hearing, you indicated that an estimated 365 to 400 million bushels of wheat has actually been sold to the Soviets. Is that correct?

Mr. BRUNTHAVER. Yes, sir; that is our estimate.

Mr. BERGLAND. Commencing with what point in time?

Mr. BRUNTHAVER. We don't know.

Mr. BERGLAND. So that 400 million bushels that has been sold may have been sold partly last year and some this year?

Mr. BRUNTHAVER. We think most of this will be moved between August and probably the end of May next year.

Mr. BERGLAND. I think it was Chairman Purcell who suggested that about 300 million bushels of this had been sold by Continental Grain Co. In the information you will provide us by Monday citing the companies and how much grain they have, as far as you can tell, at least, sold, will you be able to tell us how much grain Continental has sold before the eighth day of June this year and how much they have sold after June 8?

Mr. BRUNTHAVER. I don't think so. I don't think the date of sale is registered with the subsidy, and I am not sure that the country is registered with the subsidy. This is what I have to check and make sure. But we will furnish what information we can.

Mr. BERGLAND. Thank you very much.

Mr. Secretary, on the 25th day of August, you posted an increase in the subsidy rate from 38 cents up to 47 cents and it was applied retroactively for a period ending 2 days before the announcement. Isn't this a rather unusual move?

Secretary BUTZ. Again, could I have Carroll answer that? He is on top of those details.

Mr. BERGLAND. Certainly.

Mr. BRUNTHAVER. It is certainly unprecedented.

Mr. BERGLAND. Has it ever happened before in the history of the Department as far as you know?

Mr. BRUNTHAVER. Not as far as I know.

Mr. BERGLAND. What prompted this retroactive application?

Mr. BRUNTHAVER. We were being accused by the millers and others, in following the price increases with the subsidy, of walking the price up, causing the price to move up sooner than it otherwise would or further than it otherwise would increase. So there, for a number of days prior to this, we were holding back. We did not follow the domestic price increase with the subsidy and the world price, instead of being at our target, \$1.63, was moving up. We never got back in line. So that the action on the 25th was simply to say that we can no longer protect a certain price of wheat at our gulf or at any of our ports, and set a subsidy that would take the price of wheat at our gulf back to the box price that was our objective. We indicated only that we are not going to follow the domestic price any longer and that the exporters who could not get covered at a price less than 47 cents to get them down to the price they sold wheat for, they in effect would have to take a loss on that volume of wheat. But we indicated on the 24th that we could no longer protect a certain price of wheat at our gulf.

We had indications then of a billion bushels or more of wheat had been sold and some of our classes of wheat were getting in such short supply that traders could oversell a particular class of wheat without fear because they would feel that if the price went higher, the Government would simply step in and make up the difference in subsidy and we could no longer continue with that type of policy.

Mr. BERGLAND. That 47-cent rate, then, applied for all wheat furnished for sale during a 1-week period?

Mr. BRUNTHAVER. No; we asked the exporters to certify the amount of wheat that had been sold prior to the cutoff date and to certify the amount of subsidy that had been taken prior to that cutoff date—this could be investigated by OIG or anyone else—and that they would then be eligible to take subsidy on the amount of wheat sold but not yet covered in subsidy.

Mr. BERGLAND. I see. This is a very complicated matter.

I just have one more question, Mr. Chairman. It has to do with the actual grain that has been shipped. How much has moved from the ports so far, do you know?

Mr. BRUNTHAVER. To Russia?

Mr. BERGLAND. Yes, sir.

Mr. BRUNTHAVER. I do not know. I have not looked at the inspections.

Mr. BERGLAND. Do you have any idea whether any grain has moved out of Great Lakes ports, including Superior?

Mr. BRUNTHAVER. Yes; they have.

Mr. BERGLAND. I am rather perplexed by the fact that the Department is so ill-informed on what has transpired in this grain trade. I know that you went to the Soviet Union to make an agreement and something has been agreed to. Yet time and again, in response to questions, you have said that you simply don't know.

Mr. BRUNTHAVER. Remember that our involvement in this is to provide the credit under our GSM-4 credit program and to provide the subsidy program. Other than that, these transactions are strictly commercial transactions and the Government is not involved in these in any way.

Mr. BERGLAND. No export licenses are required?

Mr. BRUNTHAVER. No; that ruling was suspended.

Mr. BERGLAND. So you have no information on what is actually going on in the trade until after the fact?

Mr. BRUNTHAVER. Until Commerce picks up the inspection by port and by destination. That will be published approximately a month after the end of the month in question.

Mr. BERGLAND. Thank you.

Thank you very much, Mr. Chairman.

Mr. PURCELL. Mr. Link?

Mr. LINK. Thank you, Mr. Chairman.

Mr. Secretary, my primary interest in this hearing is to eliminate every possibility that might cast unfavorable reflections upon the Agriculture Department or upon any farm program and the use of the export subsidy system which is an integral part of the export market of grains. I think we want to have the general public knowledgeable about all matters relating thereto and eliminate anything that might bring adverse reactions as future farm legislation and price support programs are considered by Congress. I have a few questions to ask of any of the three of you gentlemen who are here this morning.

What is the price per bushel on the wheat that was sold to Russia? What was the price that the exporter got for the wheat they sold?

Secretary BUTZ. We don't know that. It is the world price and it has come up some in recent weeks. All this was always a private negotiation between the Russians and the American exported.

Mr. LINK. Then what establishes the rate of the subsidy? What establishes either 38 or 47 cents? We know it is a differential between one price and another price, but in this case, what established it?

Secretary BUTZ. I will ask Mr. Brunthaver again to go over that.

Mr. BRUNTHAVER. We collect prices daily at various ports to determine what the f.o.b. value is by classes at the various ports. For instance, on the 13th of September we estimated the f.o.b. value of No. 2 Hard Red Winter to be \$2.25½ cents. The protein premium on 12 percent is 1 cent bringing the total price to \$2.26½. The export subsidy was set at 26 cents, so the export value of Hard Red Winter of 12 percent protein out of the gulf was \$2.00½.

When we are trying to protect a price of \$1.63, what we do is collect prices daily of the value of wheat loaded onto a ship that particular day at our gulf. If that would be \$1.70 and we are trying to protect \$1.63, then the subsidy would be 7 cents. It is computed everyday and announced at 3:30 o'clock of that day.

Mr. LINK. Then can it be assumed that that is the price that the purchasing country is actually paying for that wheat?

Mr. BRUNTHAVER. Well, not necessarily.

Mr. LINK. What are they paying for it?

Mr. BRUNTHAVER. We don't know.

Mr. LINK. Then how do we know what the margin of profit is between the trader and the purchasing country?

Mr. BRUNTHAVER. We don't know that.

Mr. LINK. Is there any way that this could be determined to clear up this fog that seems to shroud many of the questions and statements?

Mr. BRUNTHAVER. I guess you could subpoena the companies and have them bring their records in. However, I think you realize as well as I do that this is an extremely competitive system and if Continental was trying to take 2 cents' profit extra, that Cargil would offer it cheaper to the Russians and the Russians would accept the Cargil offer. It is an extremely competitive system.

Mr. LINK. Is there any way of our knowing what the export companies paid for the wheat to cover the sales to the Russians?

Mr. BRUNTHAVER. The only thing we would know is the price they paid for CCC stocks that were sold over the past few weeks.

Mr. LINK. Then we do have a gray area here that does lend itself to questions that have been raised. Should it not be the aim of the Department of Agriculture, as it is the aim of this subcommittee and our chairman to attempt to clear up these hazy areas? Would you agree with that aim and objective?

Secretary BUTZ. I certainly think so, but we ought to make the point perfectly clear here that this wheat deal, like the export subsidy, is as competitive as the sale of corn, which involves no export subsidy. As Mr. Brunthaver just pointed out, if Continental, for example, attempted to get 2 cents more than the market bears, you could certainly expect Cargil or ADM or somebody else to come in and undercut the offer to the Russians. The export equalization payment is as competitive as the foreign sale of any commodity without an export equalization payment. You certainly have to have faith in the competitive system to keep these profits in line, whether you have the subsidy or not.

Mr. LINK. This is my interest, to keep them in line.

Mr. BRUNTHAVER. If you believe in the competitive system.

Mr. LINK. Yes, but we don't want to see them too far out of line.

Mr. BRUNTHAVER. But on the other hand, don't let's impugn the companies because they make a decent return.

Mr. LINK. No, but that is the basis of my question, to find out whether or not they are out of line. It is not to impugn anyone.

I have one concluding question, Mr. Chairman.

While the Russian sale increased the price to the farmers, and we certainly underscore that, the Department also acted to hold prices from going higher. Is this correct?

Secretary BUTZ. The mere fact that we had 360 million bushels of CCC owned wheat did in fact constitute a ceiling over the market after they reached the point at which that wheat was being released. I think that is one of the disadvantages of having high Government-held reserves; they do in fact constitute a ceiling, and they have been fed back into the market at roughly—180 million bushels have now

been fed back into the market. You may ask why not the rest of it? It is partly a matter of logistics. It is either the wrong location or the wrong quality, whatever the case may be. But frankly, I hope to get it fed back, too.

Mr. LINK. I hope so too. But I want to make it perfectly clear that as I discuss this entire transaction, I am going to keep all these things in their proper relationship and in the case of the export subsidy, I think there is some danger that in some areas where there is not sufficient information, the entire subsidy factor itself may be regarded as unnecessary and we know this is not the case.

But getting back to the matter of having had to take action or having decided to take action to keep the price from going higher, this actually was done in announcing that the 47-cent rate would be in effect for a week, and that was the limit. That did constitute a limiting factor, then, on the price going any higher. Is this not correct?

Mr. BRUNTHAVER. No, it is not exactly correct. The action that was taken was to unhitch Government from any understanding that we are going to protect wheat at a certain level.

Now, the subsidy continues at a lower rate, business is still being done and can be done.

The action that was taken by Government was simply to cancel any understanding that the Government was going to continue to try to keep wheat priced, at a certain level for certain classes of wheat.

Mr. MELCHER. Would the gentleman yield there?

Mr. LINK. Yes.

Mr. MELCHER. Mr. Brunthaver, isn't it a fact that about all the available wheat, world wheat that is available right now is right here in the United States?

Mr. BRUNTHAVER. That is generally, true, yes.

Mr. MELCHER. So therefore, if a foreign government, Russia or anybody else, wants to purchase wheat on the world market, they are going to come to use and they are going to pay the market price, are they not?

Mr. BRUNTHAVER. That is correct.

Mr. MELCHER. If they want it?

Mr. BRUNTHAVER. That is correct.

Mr. MELCHER. Thank you.

Secretary BUTZ. May I comment just one bit on that, though? If they do that without the subsidy and bid the world price for wheat up this year, you are going to get the world in the wheat business, and we will pay for it 2 years hence and pay very dearly for it.

Mr. MELCHER. Mr. Secretary, that is your philosophy, but it is not the philosophy that all of us agree with.

Secretary BUTZ. Can you cite the record?

Mr. BRUNTHAVER. I missed the last part of your statement.

Mr. MELCHER. That is not the philosophy that all of us agree with.

Secretary BUTZ. Can you cite what happened in the 60's?

Mr. BRUNTHAVER. We were concerned, Mr. Melcher, about the conditions that existed in 1966 when the price was run up because of the Indian scare. The Department had been maintaining the export price in 1965 at about \$1.60. The price in 1966 jumped to \$1.83.

Now, with it going up to \$1.83, the acreage of land planted to wheat in 1967 jumped from 521 of the previous year to 532. It jumped again

the next year to 555 million acres. This produced a crop of 11.3 million tons and the price of wheat to U.S. farmers as a result of this jump went from \$1.35, \$1.63 and \$1.39 in the previous 3 years, to \$1.24.

This is the thing we are very much concerned about.

Mr. MELCHER. Carroll, I am familiar with these historic facts. I merely want to add to what you have said that I think the time is ripe for the U.S. Government, the Department of Agriculture, the U.S. Congress, and all of us to assert that now is the proper and correct time to again reestablish the world price for wheat; and having done that, then the U.S. refrain from breaking the price as we have in the past.

I thank you, Mr. Chairman.

Mr. PURCELL. Mr. Denholm?

Mr. DENHOLM. Thank you, Mr. Chairman.

Mr. Secretary, I join with my colleagues in welcoming you, and I also commend you for your contribution to this controversial issue. There is not much difference between your expressed philosophy and mine.

You will recall that I wrote you a letter, on July 10, 1972, and I then asked you for the details of the Russian grain "Deal." At that time, I suggested that I was hopeful that you were not going the same way that Mr. Hardin and Mr. Palmby had gone. I intended that to be a compliment to you. The image that you have created for Agriculture had been generally "good." I was disappointed with your response.

On July 10, I wrote you:

DEAR MR. SECRETARY: I have received this morning a copy of your statement to the press on the above-entitled matter.

That is the 3-year Russian grain deal.

I am hopeful that you will send me a copy of the "Deal" with the Russians.

I do not want another "Hardin-Palmby Deal" at the disadvantage of American producers and I certainly do not want you to go the route of Mr. Clarence Palmby—that may be advantageous for the private interests of the grain trade but there was no obvious benefit to the farmers and ranchers of America.

Now, I hadn't received any reply when I wrote you again on July 21. I said at that time:

Several officers of various Farm Organizations have contacted me concerning the current "Russian Grain Deal" because of their interest in price quotations and terms of the contract for delivery.

It appears that all producers are concerned about what price the grain will be sold and who will be actually involved in the transaction. It does not appear that producers will be satisfied with any transaction that results in the delivery of commodities sold for export at prices below the cost of production.

The letters that I have received indicate that farmers want to know "what kind of gimmickry goes on behind the international grain sales that get the big headlines."

I believe that the Administration and the Congress have the duty to report the facts of the transaction to producers before the transaction is completed rather than intermittent disclosures after the incident has occurred and particularly so if it is not in the interest of the producers of America.

Kindly refer to my above referenced letter and forward to me a copy of your Agreement with the Russian Government accordingly.

Now, I did not get any answer from the Department until one dated July 27, 1972, from Mr. McKnight, who was Acting General Sales Manager at that time. He informed me then:

Secretary Butz is himself replying to your letter of July 10 concerning the recently announced U.S.-Soviet grain sales agreement and has asked us to provide answers to the specific questions in your letter of July 21.

I was encouraged to receive a response from your Department.  
The response was:

There are no price provisions in the agreement. Russia will buy the grains it needs directly from U.S. grain firms at regular market prices, f.o.b. U.S. ports. No sales from CCC inventory are contemplated, so there appears to be no likelihood of any sales being made at less than the cost of production.

The full details of the transaction were announced to the press and public within an hour after signature. No sales had been made at that time. To have made a public announcement of any type at an earlier date would have served no useful purpose and might well have jeopardized the agreement, with all its prospective benefits to American grain farmers. Since that time, a more complete background statement on U.S.-Soviet trade has been issued, a copy of which is enclosed for your information.

The actual text of the agreement has never been made public. However, we are arranging to obtain a copy to be furnished to you as a Member of Congress for your private information. This will be forwarded as soon as it is available.  
Sincerely,

FRANK G. MCKNIGHT.

Permit me now to read into the record a letter dated July 27, 1972, as follows:

DEAR MR. DENHOLM: This is in reply to your letter of July 10 with reference to the sale of grain to the Soviet Union.

In all candor, I must admit to some surprise at your reaction to this addition to our farm exports. I am at a loss to understand why a Congressman from a grain-producing State such as South Dakota would view such a development with the apparent disapproval you displayed in your letter.

I am sure that you, as well as those of us in the Department of Agriculture, are anxious to work toward narrowing the gap between the use of grain and its potential level of production. The export area offers the best hope for accomplishing this.

For our nation, any increase in our exports is a welcome gain in our critical balance of payments struggle. An additional dividend, it seems to us, is the establishment of more normal relations with the Soviets through trade which is beneficial to both of us.

It seems incredible that you would characterize this development as having "no obvious benefit to the farmers and ranchers of America." The market price strength which we have seen since the announcement of the sale seems to effectively refute this preposterous statement. As the movement takes place, the level of excess stocks will be reduced. This will bring down farm program costs without sacrificing farm income which certainly is in the interest of farmers as well as all taxpayers. It will certainly enable all farmers, including those in South Dakota, to raise and market more grain than would have been possible without this sale.

As for your disparaging reference to "another Hardin-Palmby Deal." I can only conclude that pressures of the impending event next November are a-building.

I can only hope that you will re-assess your position and join us in our efforts to further expand agricultural exports as essential if we are to lighten the burden farmers bear as a result of their excess capacity . . . an excess capacity that has been a persistent and continual farm price and income depressant for many years.

Sincerely,

EARL L. BUTZ,  
*Secretary.*

I want to say to you that was the first time that I had any idea that there was anything political back of the "deal." It was the first reference to political overtones. I had made a fair, impartial and reasonable inquiry to ascertain from you the circumstances of the international agreement concerning the wheat sales by this government to Russia.

Secretary BUTZ. I think what prompted that remark was your reference to the Hardin-Palmby "deal," with the insinuation that this was

not a good route to take, whatever that route was. I don't know what it was.

Mr. DENHOLM. The record of the hearings of this committee show that result. Mr. Palmby testified before this committee and that testimony is a matter of record.

I sensed a responsibility to inform farm representatives seeking advice and information about the "deal." I was convinced by later events that the Department was not then willing to release the details of the transactions—notwithstanding the fact that you now testify that you did make everything available within an hour after the signing of the agreement.

It was at least a week before the Congress recessed for the National Convention of the Republican folks on the 18th of August when Mr. Meade, who apparently has taken the place of Mr. Pulvermacher, appeared before our committee. I asked him at that time if I could please have a copy of the agreement if one did actually exist between the U.S. Government and the U.S.S.R. And he said that it did exist, but to paraphrase him, I could not have a copy of that agreement without the permission of the Russian Government. I became very disturbed about that suggested alternative and prerequisite and several days later somebody delivered a photocopy of the Agreement to my office while I was on the floor of Congress. The copy delivered to my office was "blank." I did not appreciate that kind of information, and I think that has precipitated not only this hearing, but discussion of an issue of great public interest—if you please.

I do not agree that private business supersedes the public interest on issues that involve public funds, public commodities and commodities that by and large belong to all of the producers which are a great part of the public interest of this country.

Secretary BUTZ. May I say, Mr. Congressman, that at the press conference following this agreement, everything in it was made public except the language, and the Russians themselves asked that the technical language not be made public—for what reason, I don't know. But there was not a thing that was not made public—the credit terms and so on. The purchases were between the Russians and the private trade at whatever price they could purchase it. Everything here was in that.

Mr. DENHOLM. Mr. Secretary, your unusual disclosure of material facts of public interest precipitated the unusual interest in what appeared to be a "hush-hush grain deal." You know it came across that way. You must have intended to confuse the public or you were very naive of the reality thereof. I could not obtain factual information from you and your associates in the Department of Agriculture. I think consequently, the telegrams and the correspondence that I was receiving from the representatives of various farm organizations were the result of the difficulty in understanding the information that you were making public.

I want you to clearly understand that I do not object to international commerce and trade with the Russians or Communists as other people might. I understand the written philosophy of Lenin and Marks and that they intended to subdue the free enterprise system by terminating the lines of international commerce because they theorized that capitalist profit only in a competitive market system. Now, the fact is

the Russians had a crop failure and they had to do business with somebody. They needed wheat and lots of it—by July 1, 1972. The challenge was to do business with them without them taking an unfair advantage of us, the American people. That is what this hearing should be about.

I have not concluded from all of the testimony what actually happened. Now, I asked Mr. Meade in August who the export traders were that obtained the subsidy payments and he declined to answer.

Can you tell us now?

Secretary BUTZ. Yes, whoever exports anyplace in the world, as they were before the Russian deal. We have sold very substantial quantities of wheat to the Japanese. We got a very much smaller payment at that time because the domestic price was much lower. Anybody who exports gets exactly the same treatment.

Mr. DENHOLM. Who are they? Can you name some of them for the record?

Secretary BUTZ. We have a list of 20 companies.

Mr. BRUNTHAVER. Are you talking about the companies that sold to Russia?

Mr. DENHOLM. Let's limit the question and will you indicate to whom you are paying the subsidy.

Mr. BRUNTHAVER. The Secretary's answer is proper on that: Anyone guaranteeing that they will ship a certain quantity of U.S. wheat out of the country during the time period of the subsidy is eligible for the subsidy.

Mr. DENHOLM. Can you furnish us a report of who you are obligated to pay subsidies to now and who you have paid subsidies to during the last six months?

Mr. COFFMAN. Sure, we can give you a list.

Mr. DENHOLM. I will be pleased to have that list at your earliest convenience.

Secretary BUTZ. Let's make it crystal clear that this subsidy is an export equalization payment. The price between what they pay for the export of wheat and what the world price is. This is not a subsidy to the person who gets the initial payment.

Mr. DENHOLM. You explain that in anyway you want to for the record, along with the names of the people you paid it to and tell me how much you have paid to each one.

Mr. COFFMAN. Now you are getting into a little different area. We said we would give you the people we paid it to and give you the total amount we paid. But we don't think it is fair to a trader to disclose his business to his competitors. So we have not been breaking it down between individual exporters.

Mr. DENHOLM. Are you suggesting, Counsel, that it is a secret between the competitors who share in the export business?

Mr. COFFMAN. No, I think this information could be made available later after it is paid. But you must remember, we have not paid this yet. We merely have an agreement with him that if he exports the wheat, we then will pay him. Now, after that is all done, then I think that is public information. But I think if we give out news on what his arrangements are, I think it does give his competitors information he would not like them to have for the moment.

Mr. DENHOLM. Will you tell me in your written response whether they are domestic based or foreign based export firms?

Mr. COFFMAN. Well, they have to be U.S. companies, which means they have to be qualified to do business in the United States.

Now, of course, there are a large number of them that are international companies, as you well know. But they have to be doing business in the United States.

Mr. DENHOLM. Of course—they can be foreign based and do business in the United States. Now, the question is can you indicate to me how many or which ones are foreign based?

Mr. COFFMAN. I am not sure how much information we have on the ownership of the companies.

Mr. DENHOLM. Well, since you are voluntarily responding now, Counsel, my question was, of course, to the Secretary, and I don't object to that, you are legally trained. Can you tell me how you propose to do business with China when the United States does not have diplomatic recognition with the Communist Government of China?

Mr. COFFMAN. How we propose to do what?

Mr. DENHOLM. How do you propose to do business with a government of a country that the United States of America has refused to extend diplomatic recognition?

Secretary BUTZ. We are not doing business with China. We are doing business with an exporting company.

Mr. DENHOLM. That is exactly what I want to know. What company is doing business with them? Isn't it a foreign based company? Aren't they obtaining subsidy payments at the expense of the American citizens and taxpayers?

Secretary BUTZ. They are not getting subsidy payments, they are getting an export equalization payment. The subsidy payment goes to the American producer.

Mr. DENHOLM. That is an academic "curve" but I will listen to your explanation.

Secretary BUTZ. We have explained that several times. He pays a higher price for wheat than the export price for wheat. You can't expect an exporter to absorb that loss.

Mr. DENHOLM. I am familiar with your capacity as a classroom lecturer, Mr. Secretary, but I cannot accept your explanation of a producer subsidy payment at all. The export subsidy payment has caused the increase in the domestic market, hasn't it?

Secretary BUTZ. In part, the total increase in demand has caused the increase in domestic market.

Mr. DENHOLM. What caused that increase in demand? Was it the fact that you were able to deliver the wheat for less because you paid and are now paying an export subsidy?

Secretary BUTZ. In the absence of the subsidy, I presume you would have to argue that the domestic price would be a little lower and the international price would be a little higher. We would be on a one-price basis.

Mr. DENHOLM. I want legal counsel to answer the question on how he proposes to carry on the transaction that has been reported today with China when the U.S. does not have any diplomatic recognition with the Communist regime or Government of China.

Mr. COFFMAN. We don't propose to carry it out. An exporter will make the sale. All he will do is apply to us for that "subsidy," as you call it, or "equalization payment" as the Secretary calls it, and we will deal with the exporter.

Mr. DENHOLM. The fact is you are now suggesting the possibility of doing business with a government that we do not officially recognize and as a matter of international diplomacy and sovereign public policy have refused to admit for two decades to really exist.

Mr. COFFMAN. We do not need diplomatic recognition of a country in order to deal with American exporters.

Mr. DENHOLM. I thank you for that statement of record. I appreciate that because I have wondered if the Department of Agriculture was dominated by the State Department. I am pleased that the Department of Agriculture is now in control of the Department of State. I prefer it that way.

Secretary BUTZ. The Department of Commerce helped negotiate this deal with the Russians because shipping was involved.

Mr. DENHOLM. What other concessions, if any, were made on credit and transportation for delivering the wheat to the Russians?

Secretary BUTZ. You say what other concessions?

Mr. DENHOLM. Yes.

Secretary BUTZ. I don't know of any concession that was made, do you?

Mr. DENHOLM. Was there a concession made on price?

Secretary BUTZ. No, sir, no concession was made on price to the Russians.

Mr. DENHOLM. The copy of the agreement that I received was blank. So far as I know, there was nothing in the agreement to enforce. It may not have been void—but voidable and only by the Russians. What is a "concession sale?"

Secretary BUTZ. We offered to extend credit up to a maximum of \$500 million over a 3-year period.

Mr. DENHOLM. The fact of the matter is the copy of the agreement that I received was not signed. Do you have one that is signed?

Mr. COFFMAN. Do we have a signed agreement? Is that what you are asking?

Mr. DENHOLM. You sent me a copy of an agreement on an international deal between two great powers of this world and the copy delivered to me was not signed. Do you have one that is signed?

Mr. COFFMAN. Yes. I have one and I will give it to you. The reason you do not have one is that the State Department did not duplicate it until we asked for a few copies. It is going to be printed. But I have a signed copy here which I am going to deliver to you personally.

Mr. DENHOLM. Thank you. I have been trying since the 10th of July to obtain a true copy of that historic document.

Mr. COFFMAN. It is my last copy. I didn't have one myself until about 10 days ago. But I want you to have it.

Mr. DENHOLM. You might turn out to be the best friend I have. The Secretary and I began this inquiry with correspondence on July 10, 1972. We didn't seek any arguments about this. I was attempting to ascertain the facts of the alleged grain "Deal" with the Russians.

The Secretary indicated certain price patterns of various commodities for various crops over a period of time. I want to ask you,

Mr. Secretary, for the record: Does the seasonal price pattern for the wheat futures market and cash grain market of nonfarm prices for past years compare reasonably well with what occurred this year?

Secretary BUTZ. No, sir, it doesn't, because the usual seasonal pattern is you get a decline of cash price around harvest time, then it rises by storage costs through the year. This has been counter to the usual seasonal pattern.

Mr. DENHOLM. The current increase in price was actually based on the failure of the crop in Russia, wasn't it, and it was not manipulated for any public purpose in this country, was it?

Mr. COFFMAN. I am glad you like that.

Mr. DENHOLM. I happen to represent the industry and interest of Agriculture. That is the purpose of this committee. I do not understand your logic and reasoning as legal counsel. How can this Nation do business with a country that we do not as a matter of official public policy extend any diplomatic recognition? The things that are going on, it seems to me, contravene all precedent of domestic and sovereign public policy and international relations. Now, you are proposing to subsidize what you call an unidentified American exporter for doing business with a country that we don't recognize to exist.

Mr. COFFMAN. It is the difference between a free country and one that is not. This country is a free country. Our businessmen are entitled to sell wherever they can, with certain exceptions, where the Government does step in and regulates or forbids trading as it does, for example, with Cuba and North Korea and North Vietnam.

Mr. DENHOLM. Are you suggesting that the American bankers will extend letters of credit to do business with a country that our country has refused to recognize on a diplomatic basis? What is the difference in the public policy of this Nation toward the Communist government of China and Cuba, North Korea or Hanoi?

Mr. COFFMAN. You are getting into a different area.

Secretary BUTZ. There is no credit involved, Mr. Congressman. This is a cash deal.

Mr. COFFMAN. That is a different problem.

Mr. DENHOLM. Well, let's go to simple questions. What price was paid by Russia on the wheat that has been delivered?

Secretary BUTZ. They pay the going world price, which has been coming up.

Mr. DENHOLM. How do you know how much subsidy to pay if you do not know what price the wheat was sold for to Russia?

Mr. BRUNTHAVER. That is the same question that was asked before and the answer that I gave on how the subsidy is computed is exactly the same as the other question.

Mr. DENHOLM. How much wheat has been delivered to Russia? I will ask only simple questions, now.

Secretary BUTZ. Again, you are asking questions that the Government does not know, because the private trade makes the transactions. Frankly, we have not moved grain as fast as I would like to see it move. We still have a hangup on shipping. We have to have some agreement with the maritime unions on U.S.-flag bottoms and Russian-flag bottoms and independent-flag bottoms. At the moment, most of the shipping taking place is with the independents. This deal is in

massive enough quantities that the sheer logistics of accomplishing this in the next year is such that we ought to be moving it out promptly. These are things outside the Department of Agriculture. We cannot control those one bit.

Mr. DENHOLM. Your answer is you do not know.

Secretary BUTZ. That is right.

Mr. DENHOLM. Can you obtain that information?

Secretary BUTZ. As Mr. Brunthaver said, when the ships are loaded and move out we get the reports from the Department of Commerce, we will then have the amount.

Mr. DENHOLM. Is the Department of Commerce in the Department of Agriculture now, too?

Secretary BUTZ. Oh, indeed, that is right. If we have any manipulation of prices, our commodity exchange gets into that quite promptly.

Mr. DENHOLM. There has been some inquiry by my distinguished colleague from the State of Montana, Mr. Melcher, about certain telephone calls on or about the 24th day of August. Do you as the Secretary maintain a record of telephone calls by people in the Department of Agriculture—a daily telephone log?

Secretary BUTZ. I think we do. I don't know if it is required, but a record is kept of the calls of all the top personnel. How far that goes down, I don't know.

Mr. DENHOLM. Would that record be available to this subcommittee?

Secretary BUTZ. I presume they would.

Mr. DENHOLM. Can you submit a copy of the daily telephone log maintained by personnel of the Department in the ordinary course of business?

Secretary BUTZ. We probably make hundreds of telephone calls a day. What do you want?

Mr. DENHOLM. I want all of the telephone calls recorded for the 24th and 25th of August.

Secretary BUTZ. Telephone calls by whom?

Mr. DENHOLM. By you or members of your personal policymaking staff.

Secretary BUTZ. I will check and see where I was that day.

Mr. MAYNE. Mr. Chairman, I object to this kind of a fishing expedition. If the Congressman wants to make a specific charge against some public servant as the basis of this line of inquiry, I will not object. But to ask for all telephone calls for 2 entire days at the end of this long interrogation, it seems to me, is highly improper and unfair and should not be permitted. If he has a specific person from whom he wants specific information, that person should be answerable. But I do not think there should be a fishing expedition, taking in all personnel in the Department of Agriculture.

Secretary BUTZ. Mr. Congressman, on those dates I was at the Republican National Convention. I probably may have called the Vice President at some time. Would you like a record of that?

Mr. PURCELL. Mr. Denholm, I want to hear you on the objection that has been made.

Mr. DENHOLM. Thank you, Mr. Chairman.

It is my understanding that every Secretary of Agriculture has since 1939 kept a daily record of telephone calls and that all such telephone

records entered in the ordinary course of business are a matter of public record. I seek to see those entries for the days of the 24th and 25th of August of 1972.

Mr. MAYNE. Is this just the Secretary's calls?

Mr. DENHOLM. Yes, the Secretary of Agriculture and his policy-making staff members and personnel authorized to render decisions of public policy on matters of public interest.

Mr. PURCELL. What do you call the top level?

Mr. DENHOLM. I will permit the Secretary to define and report accordingly.

Secretary BUTZ. You are probably asking for about 5,000 telephone calls.

Mr. DENHOLM. That will be all right, Mr. Secretary.

Mr. PURCELL. Mr. Denholm, if you have any specific question to ask, of course it will be in order. I don't want this record filled up with just a whole lot of telephone calls that may or may not have anything to do with this. If you have any specific request, of course it will be in order.

Mr. DENHOLM. My specific request is for the official telephone calls of the Department on the 24th and 25th of August 1972, Mr. Chairman. I understand that such a record is a matter of policy by the Secretary and his staff and that it has been since 1939.

Secretary BUTZ. And still is, but I had better have some guidance on how far down you want to go.

Mr. PURCELL. Mr. Secretary, we are involved in a little legal discussion.

The Chair rules that this request will not be made official.

Secretary BUTZ. Mr. Chairman, in line with your suggestion, if he has a specific thing, I will be glad to furnish the information.

Mr. PURCELL. I understand. Yes, sir.

Mr. DENHOLM. Mr. Chairman, the request was the foundation for the following question.

Mr. PURCELL. The Chair has already ruled on that. So if you have any more, let's go to something else.

Mr. DENHOLM. I have many more questions, Mr. Chairman.

How does the Russian grain "deal" affect the value of certificates paid to farmers on domestic sales of wheat?

Secretary BUTZ. It probably decreases the value of the certificates paid to farmers.

Mr. DENHOLM. What has happened to the relationship of the amount of money paid to the farmers on the domestic sale of wheat? Does it increase the monetary value of wheat certificate payments or is the monetary payments to producers decreased?

Secretary BUTZ. It is going to increase the total amount of money that the American farmer gets for wheat, because the certificate payment applies only on that portion for domestic consumption. The certificate payment will be decreased some because the average price of wheat in the first 5 months of the marketing year will increase. On the other hand, the price that the farmer gets for his noncertificate wheat has increased enough to offset the decrease in payments that he will receive from government. So the total amount of money returned to wheat in this country will be substantially increased.

How much do we estimate the total net increase will be, Carroll?

Mr. BRUNTHAVER. In wheat alone?

Secretary BUTZ. Yes.

Mr. BRUNTHAVER. \$378 million.

Secretary BUTZ. To farmers?

Mr. BRUNTHAVER. Yes.

Secretary BUTZ. This results in an increase to farmers, we estimate, of \$378 million.

Mr. DENHOLM. How much do you estimate the monetary value paid out to exporters to be during the same period of time?

Mr. BRUNTHAVER. The cost of the wheat subsidy program for this year is estimated at approximately \$300 million.

Mr. DENHOLM. Did you say \$300 million?

Mr. BRUNTHAVER. That is correct.

Mr. DENHOLM. And did you estimate the amount paid on the wheat certificates to be \$378 million?

Mr. BRUNTHAVER. No.

Mr. DENHOLM. How much do you estimate that to be?

Mr. BRUNTHAVER. The payments to farmers—wait a minute, let me understand your question.

Mr. DENHOLM. I ask the question to be read by the reporter—

(Question read back.)

Mr. BRUNTHAVER. The wheat certificate to farmers will be reduced because of this sale by approximately \$130 million. The increased income to farmers, the increased value of crops that farmers have control of because of the deal is approximately \$1 billion increase.

Mr. DENHOLM. If I understand you correctly, then, as the domestic market price received by farmers increases, the amount of wheat certificates paid to producers will be decreased?

Mr. BRUNTHAVER. That is correct.

Secretary BUTZ. Yes, sir; under the law.

Mr. DENHOLM. The \$300 million paid in export subsidies was done to create an increase in the domestic and international foreign market price.

Secretary BUTZ. That is correct.

Mr. DENHOLM. You testified earlier that you had successfully denied all information from the traders and from the people directly involved that may take an unfair advantage of the circumstances. Can you describe briefly what you did to keep the export traders from knowing about the alleged agreement with Russia?

Secretary BUTZ. Finding out about what? Our agreement with the Russians?

Mr. DENHOLM. Yes.

Secretary BUTZ. Yes, indeed. First, we had this very tightly held in the Department of Agriculture. The only people involved with the Russians were Claude Coffman, Carroll Brunthaver and myself part of the time. The three of us. We even had the typing done in my office. And with the Department of Commerce, precisely the same thing. For two reasons. One, these negotiations were very delicate being in an area which we had not been talking about publicly. Second, we were negotiating with the type of trading partner that we are not used to negotiating with.

And third, we wanted to be very careful that there were not any leaks to unauthorized persons for the very reason we have been talking about.

So within the Department of Agriculture, we held this extremely tightly. We didn't even discuss it with the rest of the top staff until things were done. Once this was agreed to, we made arrangements for simultaneous announcements in this country and in Moscow. It involved some difficult arrangements to get this done—to agree on the dates and a time of release. They wanted to postpone announcement for awhile; and we made our position as clear as we knew, that we could not sign an agreement and postpone an announcement. If someone asked us, if we had signed an agreement, the answer had to be yes. We had a little difficulty making them understand why we had to do that. In their country, they control the resources. In ours, we do not.

All I can say is we did everything possible to keep this close until the agreement was signed and everybody could have it simultaneously.

Mr. DENHOLM. Did you take Mr. Meade into your confidence?

Secretary BUTZ. He did not meet with the Russians.

Mr. DENHOLM. Did you discuss the Russian "deal" with him? Was he present when you talked about the subsidy payments on grain sold to Russia?

Secretary BUTZ. You are talking about something else now. I am talking about our agreements with the Russians. The subsidy payments are quite apart from that.

Mr. DENHOLM. Mr. Meade did appear before this committee. He did testify on this matter in August.

Secretary BUTZ. That is right. The export marketing service does that. But this is entirely apart from our credit agreement with the Russians.

Mr. DENHOLM. I understand that and I appreciate the difference. Now I am asking you—did Mr. Meade make a decision as to how much subsidy was to be paid? Does he do that?

Secretary BUTZ. He and his staff, yes.

Mr. DENHOLM. Who constitutes his staff? Does he counsel with you?

Secretary BUTZ. He is in close contact with Assistant Secretary Brunthaver and in contact with me on policy. I don't follow the day-to-day operations.

Mr. DENHOLM. Mr. Meade has been in his present position for slightly more than a month. When did he actually start?

Secretary BUTZ. Mr. Meade started there in June, late June.

Mr. DENHOLM. Who had that position prior to that time?

Secretary BUTZ. Mr. Pulvermacher—he retired after 33 years service with the Government.

Mr. DENHOLM. Mr. Pulvermacher is not now employed by the Government?

Secretary BUTZ. That is correct.

Mr. DENHOLM. Where is he employed now?

Secretary BUTZ. I don't know. I think he has a consulting position.

Mr. DENHOLM. For whom?

Secretary BUTZ. I don't know.

Who is it?

Mr. COFFMAN. Who. Pulvermacher?

Secretary BUTZ. Yes.

Mr. COFFMAN. I understand with Bunge, but I don't know this. I have seen it in the papers.

Mr. DENHOLM. Do you people obtain most of your information from the news media?

Secretary BUTZ. No, but the inference is that we are in cahoots all the time with the trade. I haven't seen Clifford Pulvermacher since he has been out of the Department.

Mr. COFFMAN. I have not seen him since his retirement party, which I think was in June.

Mr. DENHOLM. Did he participate in the discussions on the "Russian grain deal?"

Secretary BUTZ. No, sir.

Mr. COFFMAN. He was on leave.

Mr. DENHOLM. Do you know whether he is now employed?

Mr. COFFMAN. I don't know other than what I read in the paper.

Mr. DENHOLM. What did you read in the paper?

Mr. COFFMAN. There was some suggestion that he is Washington representative of the Bunge Corp.

Mr. DENHOLM. Who is Bunge?

Mr. COFFMAN. That is an international trading company and there is probably not a person in this room who doesn't know it.

Mr. DENHOLM. I am just a farm boy. I am not familiar with international grain cartels.

Mr. COFFMAN. You don't know Bunge?

Mr. DENHOLM. I have never sold my grain and wheat to any foreign exporter or international grain cartel.

Mr. COFFMAN. I apologize. I thought people did. It is an international trading company, but I don't know much more.

Mr. DENHOLM. Does Bunge receive Government payments or export subsidies?

Mr. COFFMAN. I would think so. That is a program matter, though, and I need not be the one to know.

Mr. DENHOLM. Is it true that the general sales manager of your grain export department is the person that is solely and totally responsible for all decisions pertaining to export subsidies to be paid and if so, how often does he decide that and the amount to be paid—and to whom the export subsidy should be paid?

Mr. BRUNTHAVER. Let me review this one more time. We establish a policy that we want to maintain a certain price of U.S. wheat to keep it competitive and to move U.S. wheat into international places.

Mr. DENHOLM. I understand the policy. Please answer the question.

Mr. BRUNTHAVER. The policy decision is determined at the Secretarial and the CCC Board level. We decide that we want to try to price wheat at \$1.65, say. It is then the job of the Export Marketing Service to estimate and to collect data each day what the market price is at particular ports.

Mr. DENHOLM. Is this done on a day-to-day basis?

Mr. BRUNTHAVER. Yes, sir; everyday. Then the subsidy is a simple subtraction of the two numbers. The market price is \$1.70 or \$1.80, our target price is \$1.65, the difference becomes the subsidy for that day.

Mr. DENHOLM. Where do you obtain the money to pay the export subsidy?

Mr. BRUNTHAVER. The Commodity Credit Corporation.

Mr. DENHOLM. Is that part of a trust fund?

Mr. BRUNTHAVER. No, that comes out of the Commodity Credit Corporation funds.

Mr. DENHOLM. Is there any possibility of depleting that source of funds?

Secretary BUTZ. That is restored every year in the budget.

There is nothing new about this. It has been going on for 15 years. We operate almost precisely as they did in the last administration, to the advantage of the farmer.

Mr. DENHOLM. Has the U.S. Government paid a subsidy of 47 cents a bushel on wheat in prior years?

Secretary BUTZ. You only argue degree. The principle is the same.

Mr. BRUNTHAVER. The subsidy has been in the past much higher than 47 cents.

Mr. DENHOLM. On wheat?

Mr. COFFMAN. Oh, yes; it has been up as high as 75 cents, as I remember.

Mr. DENHOLM. On how big a sale? Was it sufficient to influence price in the domestic and foreign market?

Mr. COFFMAN. This went on for years.

Mr. DENHOLM. Is this a historic transaction or isn't it—as to the amount, the volume, and with the countries involved?

Secretary BUTZ. Sure, our exports are at an all time high now; it is historic. It has been our avowed purpose to push our exports as high as possible. Last year \$8 billion. We are mighty proud of it. I want to see them go to \$10 billion. But you have to be competitive at the world price level.

Mr. DENHOLM. We can be competitive on anything if we sufficiently fund the export subsidy payments. Do you have any estimates on how much it is going to cost to stay in the world price market and what is going to happen to the CCC funds if the world price continues to increase and the exporters continue to deliver at \$1.65 per bushel?

Secretary BUTZ. Frankly, this year, we are saving the CCC, when it is all told and done—Dr. Brunthaver, how much are we going to save CCC this year net, in storage costs we don't pay, in subsidy payments we don't have to make, in voluntary diversion programs we don't have to make because we can increase our production? What is the estimated net saving to CCC?

Mr. DENHOLM. Before you complete your answer—can you tell me in your answer whether this is a transfer of funds from producers to exporters?

Mr. BRUNTHAVER. No, we are talking about Treasury expenditures. This deal or this export equalization fee this year will cost us an estimated \$300 million. We estimate tax savings to the U.S. Treasury because of this sale and because of the way the program has been operated to return to the Treasury \$500 million, a saving of \$200 million to the U.S. Treasury.

If you take the Russian sale alone and talk about the subsidy or the equalization tax to the Russians, you are talking in the neighborhood of \$125 million, with, again, a return to the Treasury because of this sale of \$500 million.

Mr. DENHOLM. How is the money returned to the Treasury?

Mr. BRUNTHAVER. In three or four ways. First, CCC went into the year on July 1 with wheat stocks of 367 million bushels. We estimate the value of those stocks to have increased 50 cents a bushel.

Mr. DENHOLM. That doesn't put any money in the Treasury, does it?

Mr. BRUNTHAVER. Well, 180 million bushels has already been sold at the higher price and we anticipate selling the rest of it at the higher price.

Second, as the price goes up to the farmer—

Mr. DENHOLM. Let's stop right there. You sold 180 million bushels but who deposited the cash in the Treasury?

Mr. BRUNTHAVER. That goes directly into CCC operating funds.

Mr. DENHOLM. Did any funds go to the Treasury?

Secretary BUTZ. It is cash flow.

Mr. DENHOLM. Yes, it is cash flow but money is required to pay the export subsidies.

Secretary BUTZ. If we impair the capital of CCC, we have to come back to this Congress to restore it. This means less restoration.

Mr. DENHOLM. Go ahead.

Mr. BRUNTHAVER. The second savings comes from the fact that for every cent per bushel the price increases to the farmer, the Treasury savings is \$5.3 million. We estimate a Treasury saving of approximately \$135 million because of this.

Third, we announced a wheat program for 1973 that was programed to obtain 10 million acres of voluntary diversion at \$27 per acre. It is now estimated that instead of 10 million, farmers, looking at the higher prices that they are receiving for wheat, will divert approximately 2, 3 or perhaps 4 million acres, a savings to the Treasury of 6 million acres of diversion at \$27 an acre.

Mr. DENHOLM. That is all academic, isn't it? There is still no money returned to the Treasury?

Mr. BRUNTHAVER. There is less net realized loss to the CCC fund. There is money in the Treasury, yes, because the sales have been made, the certificate payment to the farmer will be reduced because the price received for August has increased from \$1.32 to \$1.51.

Mr. DENHOLM. That is the question the Secretary was asked earlier. As the price went up, you didn't have to pay out as much to producers in wheat certificates, therefore, the farmers do not receive any more money.

Mr. BRUNTHAVER. The farmer, as he indicated before, the value of crops to the farmer is increased \$1 billion, our best estimate. Offsetting that for the farmer is a reduction in his payment of \$135 million.

Secretary BUTZ. You are right, Mr. Congressman. The farmer gets no more money in the aggregate on his domestic production. On his production above that, he gets the higher rate. That is real income.

Mr. DENHOLM. Thank you.

Mr. PURCELL. Do you have another question, Mr. Denholm?

Mr. DENHOLM. Yes.

When Mr. Palmby testified before our committee as a result of the last transaction with Russia—he testified that he had made a \$9 million savings to the American taxpayer because he did not have to pay the farmers for storage on the grain that producers had on the farms, therefore, the grain was sold to Russia below the market for the benefit of the Russian people. I don't object to that, except that it is a transfer of funds again at the expense of the American farmers and at the economic disadvantage of the producers of wheat in this country. I am not certain how this transaction is to finish but it appears

that compliments are in order if it is better than the last one. Because the increase in the domestic market does provide some benefit to the producer for overproduction beyond the wheat certificate payment for domestic allotments. How long will this continue? And can it continue unless somebody in your Department continues the export subsidy payments—do you anticipate that the domestic market for wheat will decrease if the export subsidy payments are decreased or terminated?

Secretary BUTZ. That is partly an academic question. If you take away the export subsidy, I believe the market will go down and the international price will come up some. You will find the level somewhere between there. And I can say here is I think it is to the farmer's advantage to work down our stocks to have a safe carryover. But anything beyond that is surplus and, therefore, market depressing. As a result of this, we are going to go into the next crop in pretty good shape. We are not going to have surpluses and, hopefully, the total marketplace outside of that domestic allotment that he might have had and he can have more acres than he might have had.

It is too early now to indicate what we are going to have on domestic feed grains. I hope we can relax our controls here and bring back more production. If they can do that at a higher price, farmers' income will be enhanced.

Mr. DENHOLM. Mr. Secretary, in all candor, the decisions of export subsidies is made by one man, the general export manager of the Export Marketing System—the amount of subsidy to be paid on a day-to-day basis. You have stated that you do not want it to be a political issue and I do not want it to be a political issue. I am hopeful that it has not been on a short term political judgment to manipulate price and that it will continue past November 7, 1972.

Secretary BUTZ. You are quite right.

Mr. DENHOLM. You have authority under existing law to use public funds to pay export subsidies. But there is nothing in the law compelling you to continue to do that once you obtain the public reaction that you seek for whatever cause.

Secretary BUTZ. You may be quite right. You may be assured that none of us in the Secretary's office wants to be an angel today and a devil tomorrow.

Mr. BRUNTHAVER. Are you suggesting that we eliminate the export subsidy on wheat?

Mr. DENHOLM. Of course not. I am suggesting that we ought to seek stability of price for the benefit of domestic producers. I presume you to be honest. I am sure you have acted in good faith.

It does appear that the Russian crop failure precipitated the transaction and I am hopeful that the Russians have not intentionally or otherwise taken an unfair advantage of you or this Government by a deliberate control of the world market on wheat as a result of an extension of credit on the agreement with the United States and the supply contracts with the private grain trade firms in the international and foreign commerce business. The export subsidy may result in a great cost to the U.S. Government if the Russian control of the market causes a radical increase in the world price of wheat and the failure to pay the export subsidy will bankrupt the exporters if they deliver on

the contract while Russia remains in a most advantageous position of dominating the world commerce of wheat without the investment of 10 cents on the generous 3-year credit terms of an overanxious seller—the U.S. Government.

Secretary BUTZ. If we eliminate the export subsidy, we automatically increase the world price for wheat and encourage competition abroad and once you put other people into farming for export, it takes years to get them out. The history has been that we make the price in this country, and I am not happy with that.

Mr. DENHOLM. Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Secretary, I want to ask you now, could you ask this Mr. Pence, and that is all the name I have, to be available for us Monday morning?

Secretary BUTZ. I certainly can, if he is in town.

Mr. PURCELL. If he is not in town, I hope you can get him in town. I would like him to be up here.

Is that agreeable?

Mr. BRUNTHAVER. Mr. Pence is leaving this evening with Mr. Meade and Mr. Bell to go to Japan and Korea and Taiwan. We could stop him, I guess.

Mr. PURCELL. I will ask you to do that and I cannot make you, I am not trying to make you. But I as chairman of the subcommittee do ask the Department to have Mr. Pence, the one you are speaking of, available Monday morning to appear before this subcommittee.

Also, Mr. Secretary, would you make as a part of our files, a part of our committee records, not necessarily to go into the record of the hearings, this August 18 report that you and I got involved in earlier? Because you said it would be out in the next couple of days, I think.

Secretary BUTZ. I don't know the publication date. All I saw was the date of the last one. We certainly will.

Mr. PURCELL. Then this has been long and I appreciate the attentiveness of everyone. I do not know that this will ever occur again, but I would ask if there is any way that when credit would be involved, if there is a method available to have a broader participation— and I realize we can sit up here and talk about 20 companies, but the fact is that under our system, it just works out this way, that there will always be just a few. Now, there were no cooperatives selling wheat to the Russian wheat trade. Maybe because they didn't get any word on it. But there is a strong feeling among the cooperatives, people who work for the cooperatives, that they were not allowed to sell—not blaming the Department, Mr. Secretary, please understand me, now. They were not in on the trade.

Now, is there any method or any feeling that on any other big trade, some kind of a set-aside for something other than the largest ones would not be more equitable?

Secretary BUTZ. Mr. Chairman, the cooperative people have discussed that with me and others. I am concerned about that, too, because I have many, many friends in the cooperative movement in the country. One thing about the Soviets, if you deal with them much, they are massive. They think in big quantities. They deal in big quantities. Frankly, part of the trouble with the cooperatives is that they simply

have not been that large. I think there is a movement among the grain cooperatives to get together so they can pool their resources and become aggressive themselves.

Mr. PURCELL. Well, as long as we, the U.S. Government, are involved in one of these transactions, would it not be feasible for us to try to have any other big sale agreed to that a certain ratio of it would be taken from other than the large international traders?

Secretary BUTZ. I presume you could. Our stance has been that this is between the purchaser and the independent companies without governmental interference.

Mr. PURCELL. Yes, sir, but when we go to furnish the credit and the money, I think without being nonfree enterprise traders, we could try to help those that are not as big. We have replete examples of this in purchasing domestically here, maybe internationally. I don't know.

Secretary BUTZ. I would like to make a point on the record that the agricultural cooperatives are just as free enterprise as the corporate structure. They are also part of the free enterprise system.

Mr. PURCELL. I thought I had already made it part of the record, but my point is it is worthy from your judgment to be working toward that as a possible goal?

Secretary BUTZ. We will take it under consideration. I think it is. It involves a philosophical question, though, of do we begin to interfere in the free market structure by allocating a certain portion to a particular buyer or a particular company or group of companies? We have not done that to date.

Mr. PURCELL. Yes, sir, but if we are a creditor of whoever is buying, that would be our prerogative, I would think. I know that you borrow money on other basis and the loaner can make some specifications. I am just trying to plead with you to have a little broader approach, a little more emphasis on grain trading organizations other than the four or five big ones.

Secretary BUTZ. You make a good point.

Mr. PURCELL. I recognize Mr. Mayne to offer an item for the record.

Mr. MAYNE. Mr. Chairman, I ask unanimous consent to include in the record a copy of an editorial from yesterday's Journal of Commerce, entitled "The Anatomy of a Subsidy."

Mr. PURCELL. The anatomy of subsidy is not understood now if it ever will be, but I rule that this will be allowed to go in without objection.

(The article referred to follows:)

[From The Journal of Commerce and Commercial, Wednesday, Sept. 13, 1972]

#### THE ANATOMY OF A SUBSIDY

Most Americans probably expect to hear some absurd charges raised on one side or on another during the current phase of an election year, but among those emanating from the McGovern camp regarding the wheat sales to the Soviet Union was at least one that struck us as being especially far off base. That was to the effect that the subsidies Washington pays on wheat exports go into the pockets of the exporters and stay there.

This was an odd charge to hear from a candidate who promises that he will restore crop supports to 90 per cent of parity if elected to the White House, for it is the farm support program more than anything else that has made export

subsidies essential to any foreign sales at all. The greater the increase in farm prices, the greater the gap between the export prices of the United States and other countries becomes in third markets; consequently, the larger the subsidy payments have to be.

Farm export subsidies have been employed in one form or another ever since the secretary of agriculture was authorized to use them under Section 22 of the Agriculture Act of 1935. In July 1968, when the International Grains Arrangement went into effect, wheat became a special case because (1) the agreement set minimum prices for grades of wheat from different countries and (2) the United States was one of the few countries left in which wheat exports were still in private hands.

There is, to be sure, an impression that export subsidies are paid on wheat regardless of the state of the market and that, in any case, the farmers don't benefit from them. The facts don't bear that out.

IGA is now largely moribund. While it was effective, the government paid exporters the difference between what they had to pay for wheat in the open market and the IGA minimums. There was also a provision to the effect that when U.S. wheat prices went below the IGA minimums, the exporter would have to pay money to the government—presumably as his own contribution to the cost of the farm programs.

Since U.S. farm policies wouldn't allow domestic wheat prices to drop below those of other foreign producers this "reverse-subsidy" stipulation was not brought into play. Today the practice is to determine the subsidy by the difference between the domestic price and the price export markets will pay for wheat. The determination is made by the Commodity Credit Corp. which announces daily whether a subsidy will be available during the next 24 hours, or whether there won't. If one will be available, CCC specifies what it will be. If not, the exporters are on their own.

It is obvious that no exporter is going to line his pockets often through a system like this. The more he has to pay for wheat in the open market, the greater the subsidy, naturally enough. But in such cases the subsidy goes not to the exporter but to the farmers in terms of higher prices. It does reduce the total cost of the farm programs somewhat by providing an outlet for wheat that would otherwise accumulate in CCC's surplus stocks, but it is no bonus to the exporter. If market conditions changed significantly abroad, or if wheat prices plummeted sufficiently at home, the exporter could make just as much or just as little with no subsidies at all as he can with them.

Then what prompted the Department of Agriculture to depart from CCC's customary 4 p.m. announcements of the wheat subsidy for the next 24 hours? This was apparently what stirred the McGovern camp to wrath, though there were good reasons for USDA's action.

The transaction at hand was the biggest of its kind in history. It was far too big to be disposed of within one trading day. So it was USDA's decision to give all involved a week to clear up their backlogs without losing advantage of the prevailing subsidy rate.

It is, of course, the contention of the McGovern forces that the dealers had advance knowledge from USDA of what was going to happen and were in a position to benefit from it, not necessarily through the subsidies, but through open market purchases they had made at prices as low as \$1.32 a bushel in July. If the dealers had known well in advance of their negotiations with the Soviets just what Moscow wanted and the price it was willing to pay, they could have reaped a tidy profit by this means.

But both USDA and the dealers deny that anything of the sort happened and no evidence has been supplied by the McGovern camp to indicate that it did. The dealers maintain that they had no knowledge that the Soviets were more interested in wheat than feedgrains until the Soviets told them so, and that they were as surprised as anyone to learn of this seeming shift in plans.

Obviously one of two things has happened. Either USDA and the dealers are covering something up, or both have been maligned by Sen. McGovern, either because of a misunderstanding of how the subsidy system works or because of some fast guesswork unsupported by facts. Hopefully, some of the mystery surrounding all this will be dispelled as Rep. Purcell's House Agriculture Committee begins delving into it tomorrow.

In the meantime it is interesting to note that what wheat exporters were not informed about was that in late August USDA would suddenly abandon its two-year effort to secure a \$1.63 price level for hard red winter wheat at Gulf ports. That, far from offering dealer-exporters a tidy profit, faced those who had not already covered their sales with the opposite.

Mr. PURCELL. Finally, Mr. Secretary, and this I am not sure I understand even enough to talk about, do you know what kind of money the Russians will use to pay back the money that they borrow from you?

Secretary BUTZ. No, sir, we don't know, except that it has to be in American dollars. That is the way they are buying. Now, you can acquire dollars in many ways. Our past trade with the Russians is not a large trade. It runs to about \$200 million a year both ways, with them buying approximately twice as much from us as we buy from them. They have a negative balance of trade with us. Now, that is a pretty small volume of trade. Their total foreign trade is not large and they are concerned about that. As I talked with Mr. Brezhnev when I was in Moscow in April, he pointed out that half his trade is with the soft currency countries and he would like to build up his trade with the hard currency countries. He is making real progress in building up his trade with West Germany, France, and other countries like that.

Now, he can acquire dollars in several ways: By selling directly to us. The opportunities there are limited. We buy some furs and some caviar and timber products and that kind of thing.

Mr. PURCELL. Do you know how much gold in round figures the Russians own?

Secretary BUTZ. The second way is that he can get dollars in free trade in the international area. I presume he will get some of that. And he can sell gold. I think they have current gold stocks in the magnitude of 250 to 300 million dollars. Their capacity is the magnitude of \$500 million. Gold is legal tender for any currency they want. I suspect they may find themselves converting some of their gold to dollars. But that, of course, is their problem.

Mr. PURCELL. Since the international price of gold has risen to some \$63 or \$64, and as I understand it, our price on gold is about \$34, is it a factor in this trade or any future one that they can go buy dollars in Europe somewhere for gold that is worth twice as much as our dollars are and then repay us with their 50-cent dollars?

Secretary BUTZ. Of course, we make our sale for a firm number of dollars and how they acquire those dollars is purely incidental to us. If they can get them at a bargain, that is their good luck. If they have to get less, that is their tough luck.

Mr. PURCELL. There is no one in the Department of Commerce or any place that you know of trying to negotiate a trade in which gold or a dollar is worth more than what they are able to get—

Secretary BUTZ. No, sir, I don't know anything like that.

Mr. PURCELL. All right.

Mr. Secretary, you have been very patient. You have been here a long time. I would say as others have said that I hope you feel this has not been a political extravaganza. I will say to you for the record that these hearings were set long before anybody, to my knowledge,

had mentioned the political value of this, including the House leadership, whoever it is you have been referring to who made a speech someplace at a plowing contest or anybody else. That is the light in which this has been approached from this side of the bench.

Secretary BUTZ. Mr. Chairman, let me say from our point of view, this has been a very objective and helpful hearing. I hope it has helped clear the air. There are so many good things about this sale and this trade that I want to see it pushed as vigorously as possible right down the road and for the years ahead.

Mr. PURCELL. All right, sir, and if you feel that you have any softness of heart and deep kindness of your constitution toward our wheat farmers that sold their grain early, I would be glad to have contact with you any time under any circumstances. And that is as good a trade as you will be offered in a long time.

Secretary BUTZ. What is duck shooting season in Texas?

Mr. PURCELL. We will move it up to tomorrow.

The subcommittee will recess until 10 o'clock Monday morning.

(Whereupon, at 1:30 p.m., the subcommittee was adjourned, to reconvene on Monday, September 18, 1972, at 10 a.m.)

## SALE OF WHEAT TO RUSSIA

MONDAY, SEPTEMBER 18, 1972

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON LIVESTOCK AND GRAINS OF THE  
COMMITTEE ON AGRICULTURE,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 1301, Longworth House Office Building, the Honorable Graham Purcell (chairman of the subcommittee) presiding.

Present: Representatives Purcell, Foley, Rarick, Jones of North Carolina, Sisk, Melcher, Bergland, Mayne, Zwach, Price of Texas, Sebelius, and Kyl.

Also present: Representatives Poage (chairman of the full committee), Stubblefield, Burlison, and Teague.

Staff: Mrs. Christine S. Gallagher, chief clerk; Lacey C. Sharp, general counsel; and L. T. Easley, staff consultant.

Mr. PURCELL. The subcommittee will please come to order.

Our first witness this morning is Carroll Brunthaver, who is here again. We will hear from him at this time, followed by Mr. Charles Pence.

Dr. Brunthaver, we are glad to hear from you.

**STATEMENT OF DR. CARROLL G. BRUNTHAVER, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, USDA, AND CHARLES W. PENCE, DIRECTOR, GRAIN DIVISION, EXPORT MARKETING SERVICE, USDA, ACCOMPANIED BY FRANK G. McKNIGHT, ASSOCIATE GENERAL SALES MANAGER, EXPORT MARKETING SERVICE, USDA, AND CLAUDE T. COFFMAN, DEPUTY GENERAL COUNSEL, USDA**

Dr. BRUNTHAVER. Thank you, Mr. Chairman. These hearings have been very helpful. There were some questions raised on Thursday which I think need some clarification. With your permission, I would like to read a short statement, to be followed by a statement by Mr. Pence.

Secretary Butz and I were asked at this hearing last Thursday whether we had knowledge of alleged calls made by Charles Pence, of the Department of Agriculture, to "tip off" exporters of an impending change in the wheat subsidy program. The question was correctly answered in the negative.

We had no knowledge that Charles Pence had phoned the trade with so-called tipoff calls or any other. What did happen was that I asked Frank McKnight, Assistant General Sales Manager of the Export Marketing Service, on August 24 to notify exporters immediately

that a change had just been made in export policy; which, in effect, notified wheat exporters not to assume that sales made after the close of business on the 23rd of August—the day before—would necessarily qualify for export payments based on U.S. export prices that had prevailed for the previous 10 months.

Mr. McKnight asked Mr. Pence to make these calls on August 24. This was intended to place exporters on instant notice that if they continued making sales they did so at their own risk as to subsidy levels. This was done to prevent overselling of certain classes of wheat. The exporters were not told what a new U.S. export price would be nor was any information given to indicate that the level of subsidy would necessarily change, only that they could not count on the previous export price policy being continued.

At the time of the questioning last Thursday, I was not aware that these were the calls referred to by Congressman Melcher nor was I aware at that time that McKnight had asked Pence to make these calls.

Notifications given exporters by telephone on August 24 were not considered to be market sensitive since it was not intended to indicate an actual change in either the level of the export subsidy or in the target prices. Any change would depend on subsequent developments. In fact, it was hoped that no change in the target prices would have to be made. As verification of that fact, I would like to submit for the record a copy of a speech that I delivered on the night of August 24 in which I discuss the desirability of retaining the export price of U.S. wheat at the prevailing target levels.

It was only after a meeting I attended in the Executive Office Building on the morning of August 25 attended by representatives of the Office of Management and Budget, Council of Economic Advisers, and others, and with discussions following this meeting with Secretary Butz, that the Department decided to change the U.S. export target price objectives. Even at this time, I urged for retaining the level of U.S. export prices that had prevailed for the previous 10 months so as to protect traditional U.S. customers and to discourage additional competition for U.S. wheat farmers.

Exporters who received telephone calls on August 24 and who may have expected changes in subsidy levels for new sales on August 24 or 25 were wrong. In fact, the subsidy level remained constant from August 17 through 3:30 p.m. August 28. Thus, exporters receiving telephone calls had no advantage over those receiving this information from the August 25 press release.

Congressman Melcher's question to me as to whether advance information of a subsidy change would be helpful to a trader was answered correctly in the affirmative. However, no advance information was given to anyone. The exporters were simply advised afterward of a change in policy that had already taken place.

To the extent that there is confusion on this point, it is in the fact that there were two separate actions. One, a telephone notification dealing with the cancellation of a target price objective; the second, a press release establishing a settlement period for old sales and a new subsidy level for new sales. No one had advance information of either action. The details of the second announcement were not worked out.

until a meeting was held in my office on August 25 at approximately 3:30 p.m.; these were announced in a press release shortly thereafter.

Mr. PURCELL. Without objection, the speech referred to in the statement will be allowed to be placed in the record at this point.

(The speech referred to above follows:)

REMARKS OF ASSISTANT SECRETARY OF AGRICULTURE CARROLL G. BRUNTHAVER AT THE ANNUAL CONFERENCE OF COUNTY BUREAU PRESIDENTS IN TENNESSEE, COLUMBIA, TENNESSEE, AUGUST 24, 1972.

I am grateful for the opportunity to meet with the Tennessee Farm Bureau, and I appreciate especially your interest in agricultural trade. For several years, the export of Tennessee farm products has exceeded \$100 million a year. You are not only a leading exporter of tobacco, cotton, and cottonseed oil, you have also ranked among the top 10 States in shipments of soybeans and soybean oil.

You have asked me to talk about the impact on our agriculture of the grain agreement between the United States and the Soviet Union. This agreement, whether viewed in terms of trade or in terms of international relations, is extremely important as this country works toward a more "open" world—where both economic and political problems may be discussed and dealt with in straightforward ways.

The current sales of U.S. grains to the Soviet Union, while they have suddenly erupted in the headlines this summer, are really the culmination of much patient effort over a period of a year and a half. These deliberate moves, involving both Governments, industry, and labor, have paved the way for U.S. agriculture to take advantage of expanding needs overseas.

In past years, agricultural trade between the United States and the Soviet Union has not amounted to much, except for a time during the middle 1960's. In 1963-64, there were substantial sales of U.S. grain to the Soviets' and for a year or two following that time we continued to sell them small quantities of soybeans.

In the past 15 months, however, we have seen a definite, progressive pattern of change, beginning with President Nixon's reversal of the old 50-50 shipping requirement. In June of last year, the President removed the requirement that 50 percent of all U.S. wheat and feed grain exports to the Soviet Union and certain other Communist destinations had to be carried in U.S. ships.

Last October, a team of U.S. feed and livestock specialists, visiting the Soviet Union, were impressed by efforts being made by Soviet leaders to increase production of livestock and poultry products. This was confirmed by purchases of high quality breeding stock in the United States and Canada.

The following month—in November—the Soviet Union worked out arrangements to buy large quantities of U.S. feed grains from two international trading companies. The U.S. Government contributed by helping to arrange an agreement with the maritime unions, and in the end these sales ran to something like \$150 million.

The very next month—in December—the Soviet Minister of Agriculture visited the United States at our invitation and traveled widely in livestock and grain producing areas. Once again, the Soviet program to expand animal production received major attention—the 5-year plan calling for a 25-percent increase in the animal protein component of Soviet diets.

In April of this year, our Secretary of Agriculture, Earl Butz, returned the Russian Minister's visit—leading a party of grain technicians and negotiators who began serious discussion of a major U.S.-Soviet grain deal. It was apparent at that time that the Russian wheat crop had been severely damaged by a combination of cold weather, lack of snow cover, and drought.

In May, President Nixon—meeting with Soviet Communist Party Chief Leonid I. Brezhnev—pursued further the grain discussions begun in April. All of these efforts culminated, in July, in a 3-year grain deal with the Soviet Union.

The July 8 agreement called for the purchase of \$750 million worth of grain by the Soviets—this commitment to be filled with wheat, corn, barley, grain sorghum, rye or oats. The Soviets agreed to take at least \$200 million of these grains during the first year from August 1, 1972, to July 31, 1973, and the United States agreed to grant CCC credit on normal terms, not to exceed \$500 million at any one time.

By the first week in August, it was evident that Soviet purchases of U.S. grain were far in excess of our expectations. It is now plain that these purchases,

about two-thirds wheat and one-third corn, would exceed in one year the \$750 million originally projected for the whole 3 years.

A few days after that, we learned that a private company had concluded the sale of a large quantity of soybeans to the Soviet Union—one of the largest commercial soybeans sales ever made to that country.

So the picture is now filled out:

A Soviet Union that has experienced severe crop difficulties at the very time it was promising a substantial improvement in the diets of its people.

A background of preparations and negotiations over many months that made it possible for American agriculture and industry to move readily into a changed market situation.

What is the direct impact of all this on American agriculture and what is the significance over the longer term?

To begin with, the grain sale of last November to the Soviet Union contributed strongly to last year's record U.S. farm exports. The level of exports in the fiscal year was \$8 billion—which was about \$300 million above the preceding year. About \$150 million of that gain was in the sale of feed grains to the Soviet Union. This also contributed directly to the strong trade balance recorded in agriculture during that 12 months.

As we project exports through the current fiscal year, sales of grains approaching \$1 billion to one customer are obviously a major factor. Remember that our largest single country market for farm products is Japan—which has taken \$1.2 billion worth of U.S. farm products in each of the last two years. But it was not until fiscal year 1970 that Japanese purchases exceeded \$1 billion—and it appears likely that the Soviets will be in the "billion dollar" class as a U.S. market this year, when you consider grains, soybeans, and a sprinkling of other farm products.

The long-term implications of all this could be very important. We recognize, of course, that the Soviets have experienced an unusually poor crop year. It would not be realistic to expect that they will very often have to buy grain on the scale of this year's purchases. Still, with a large and growing population that is demanding more and more livestock and poultry products, the Soviet Union figures to be a larger and larger consumer of feed grains as time goes on.

Moreover, it seems reasonable to suppose that, as the Soviets expand animal production, their awareness of the value of protein supplements will also increase. They will become more cognizant of the contribution soybean meal can make in boosting efficiency and extending short grain supplies. This may be the real and lasting significance of the recent sale of U.S. soybeans to the Soviet Union.

Secretary Butz, in his talks with the Soviets both here and in Moscow, repeatedly emphasized that the United States has the capacity and the ability to produce the feedstuffs needed to help the Russian people meet their food consumption goals. The Soviet Minister of Agriculture, in his visit to the U.S. farming country, could not have failed to be impressed with that fact.

To American farmers, this all adds up to additional income. The recent rise in wheat prices during a time when large quantities of wheat were moving to market was a direct product of sales to the U.S.S.R. We now estimate the value of the 1972 wheat crop at somewhere around \$2.2 billion, compared with \$1.95 billion in 1968—a year when the crop was almost identical in size. We estimate the value of the 1972 soybean crop at \$4 billion, compared with \$2.4 billion as recently as 1967 and 1968.

Realized net farm income is estimated for this year at slightly above \$18 billion, which would be an all-time record and something like \$2 billion higher than last year.

There are also major gains to the overall economic position that affect the general public as well as agriculture:

Any contribution to the nation's trade account is extremely important in a time of trade deficits. For the second straight year, the non-agricultural component of our international trade account has been in deficit. But the agricultural component has been a *plus*, just as it has been in most years of the past. In the last fiscal year, the favorable balance in agricultural trade was over \$2 billion. In the current fiscal year, we expect that balance to improve still further as a result of current trade prospects in grain and soybeans.

The contribution to budget savings is also important. Purchases by the Soviet

Union are being satisfied with grain that might otherwise come under the Government loan program. Carryovers will be reduced in the current year, with important savings in storage, interest, and handling costs. There is also the prospect of future savings if this year's enlarged marketings result in a smaller set-aside under next year's farm program.

Beyond all of these immediate gains, I think that a major result of recent events is the effect they have had in helping to set us on a new and higher road, as far as trade is concerned. We are thinking differently about our trade prospects than was the case only a couple of years ago.

At the end of the last decade, our agricultural trade was in the doldrums. Exports had fallen off from the big years of the middle 1960's.

There was increasing concern—and with good reason—about our exports to Europe, as the Common Market moved toward enlargement.

There was talk about the possibility of a burgeoning protectionism in our own country.

There was a growth in foreign competition as other producing nations increased their output of crops competitive to ours.

And finally there were incipient transportation problems, culminating in the U.S. dock strikes of 1971.

Even with all of these problems facing us, President Nixon, in May of 1971, set before us a goal of \$10 billion in annual farm exports—this goal to be achieved within a very few years. A great many people thought the President was being pretty visionary in calling for such an achievement. Let us remember that as recently as fiscal 1969 our farm exports were only \$5.7 billion.

But the President, recognizing the importance of trade to an expanding American agriculture, took a bold approach. He established a goal of \$10 billion in farm exports, and called on the U.S. Department of Agriculture to take the lead in achieving that end. Today, the President's challenge appears much more nearly attainable—with an \$8 billion year behind us and an expanding trade situation ahead of us.

As we consider our future trade in agriculture, we should keep a few things in mind:

Our trade is made up of many markets. The future will be made up of a great many seasons. It is important that we carry on our affairs in 1972 in such a way that our traditional markets are not damaged or shorted. It is essential that *new* business—dramatic and newsworthy as it may be—not cause us to take our eye off of *old* customers who are vitally important to our trading future.

Our export payment program for wheat is being administered in a way that encourages general stability in the export market price. To imply, as some have, that the export price is being held at an artificially low level ignores the fact that the Government paid farmers to have 20 million acres of wheat land held out of wheat production this past year at a Treasury cost of over \$1 billion. Without such a program the world price would be much lower than it is at present. Having taken this action, and then to let the world price of wheat escalate unduly, would have two unhappy results:

*First*, it would penalize traditional and long cultivated U.S. wheat customers who have not yet bought wheat, and encourage them to look for more dependable sources of food for the future.

*Secondly*, it would drastically increase the incentive for foreign competitors of the U.S. wheat farmer to expand their production and nullify the effects of the U.S. programs to limit surplus wheat production.

The U.S. Government is willing and eager to allow the world price of wheat to increase, but to do so prematurely and discourage interest in U.S. wheat purchases and to encourage competition before we are able to bring our surplus land into production would not be in the best interest of the U.S. farmer or taxpayer.

We must be careful that we do not overreact to the sudden spurt in overseas demand, as I suspect we did overreact in 1966-67 when drought in India and other areas brought a sudden rise in demand relative to supply. Before we raise wheat prices to our traditional overseas customers—before we raise prices for our competitors and encourage them to grow more wheat in competition with us—we must be sure that the markets for this grain really exist for the long term. Before the export price is allowed to rise inordinately, we must assure ourselves that the situation is such that we can bring more of our wheat land into production—in the interest of our own farmers and our own country.

Our policy is to administer the Federal programs, foreign and domestic, in ways that help farmers to continue the market expansion that is so essential to our agriculture.

Mr. PURCELL. This morning I will notify the members that we will be operating under the so-called 5-minute rule, under which we will be allowed to question the witnesses for 5 minutes; then after that, we will go back. I will ask the witness in each section, more or less, all of you gentlemen, to remain at the table, and we will question all of you at least, or at least have all of you available for questioning, when we will go on to the next group.

Mr. MAYNE. Mr. Chairman, this is the first word that the minority has had of this change in procedure. I wish you would give us the courtesy of notifying us of what group you are talking about, who the witnesses are who will be testifying before we will have the privilege of asking questions.

Mr. PURCELL. This is the first notice anybody has had of the Chair's ruling, Mr. Mayne. I am speaking of the gentlemen who are now at the table. If you do not want to call them a group, call them whatever you want to. But they are the ones I have in mind and I will ask if we can hear them generally individually and then we can question each one of them in whatever order we care to.

Mr. MAYNE. Then as soon as these four gentlemen have completed their testimony in chief, then the members will have the opportunity to question those four.

Mr. PURCELL. Yes, sir.

Mr. MAYNE. Thank you.

Mr. PURCELL. At this time, we will hear Mr. Charles W. Pence.

Mr. PENCE. Thank you, Mr. Chairman, members of this subcommittee.

I am Charles W. Pence, Director of the Grain Division, Export Marketing Service, USDA. This Division is responsible for operating the export payment program for wheat.

I am here at your request to testify concerning certain telephone calls to the grain trade on August 24, 1972.

At approximately 11 a.m. Frank McKnight, Associate General Sales Manager, Export Marketing Service, informed me that Carroll Brunthaver, Assistant Secretary of Agriculture, had asked EMS to call the several grain companies involved in grain sales to the U.S.S.R. Mr. McKnight asked me to make these calls.

I called the six companies who we believed had sold wheat to Russia: Garnac, Cook, Cargill, Continental, Bunge, and Dreyfus. As instructed, I told these companies two things:

First, I asked that a senior official of each company meet with the Department of Agriculture and other sellers of wheat to Russia to discuss aspects of the sales, the meeting to be held in Secretary Brunthaver's office at 2 p.m., August 25, 1972.

In addition, they were told that as of the close of business on August 23, 1972, the Department's export payment policy on wheat would no longer reflect U.S. export price levels which were in effect previous to the Russian wheat sales.

The meeting called with the exporters who sold to Russia was for the purpose of obtaining information in regard to the quantities sold,

classes, and grades, etcetera, so that the Department would have the information needed in revising its policy and to prevent the overselling of certain classes of wheat.

In addition to these calls, as instructed, I called other exporters to inform them that, as of the close of business August 23, 1972, the Department's export payment policy on wheat would no longer reflect a U.S. export price level which was in effect previous to the Russian agreement.

As many exporters as possible were called. This word became public in the trade and exporters were calling me for verification. As a result, I feel most exporters were informed of the change in policy.

The afternoon of August 24th I was asked to look into the possibility of a two-tiered system of export payments. My staff drafted such a system for sales made on or before August 23 and sales August 24 and forward.

This two-tiered system was approved the afternoon of August 25 and was announced that afternoon. The decision to change the effective time of the new policy to August 24 instead of August 23 was made by Secretary Brunthaver and his staff at about 3 p.m., August 25, in recognition of the possibility that some exporters conceivably might not have received word on August 24 of the impending change and, therefore, might have continued selling wheat under the earlier export payment policy.

In my view, the exporters who were notified by phone on August 24th would not find this information to their advantage, since I specifically told them that the new payment policy would be effective as of the close of business the previous day, August 23.

Mr. PURCELL. Thank you, Mr. Pence.

Are there statements to be made by either of the other gentlemen with you?

Dr. BRUNTHAVER. No sir.

Mr. PURCELL. Mr. Pence, then, I will ask one or two questions of each of you.

Now, on the first page of your testimony, about the middle of the page, where you say that you called the six companies, and you named the companies—now, were these the only companies you called?

Mr. PENCE. No sir. As I stated on the second page, Mr. Chairman, I called additional companies after this six. The six were the only ones that were invited into the meeting. There are two things that the first six companies were called for. They were invited into the meetings so that we could find out more information regarding the Russian sales, and the fact that the target price would no longer be in effect as of the close of business on August 23.

Other companies were called and they were told not about the meeting but that the target price that we had been operating under, would no longer be in effect as of the close of business on August 23.

Mr. PURCELL. Did you know at the time you called the six companies that they were the only ones involved in selling the grain to Russia?

Mr. PENCE. No sir. As my statement said, as we believed. We did not know, sir.

Mr. PURCELL. Well, did you believe that there were others that were selling?

Mr. PENCE. No sir.

Mr. PURCELL. Well, can you give us any basis on which you concluded this belief?

Mr. PENCE. The only basis we have, sir, is what we would pick up in conversation with the various members of the trade or through the press or other public information vehicle.

Mr. PURCELL. Well, did you learn from this meeting what you wanted to learn from them about more details of the Russian trade?

Dr. BRUNTHAVER. No sir.

Between the time that these companies were called and the time of the meeting, we had decided to change the export subsidy program to implement this two-tiered subsidy program and to ask all of the companies to submit documentation as to the sales that they had made and the subsidy that they had taken, so that we knew the net subsidy position of these companies. Once we had decided to do that, we would have information on the amount of wheat that had been contracted by class to leave the country and it was not necessary to collect this information from these companies.

I did ask the companies, just for verification, to notify me of their sales specifically to Russia. Some of the companies have done so; others have not, as of this point in time.

Mr. PURCELL. But at that time, you did ask them to verify the sales and the amount that each company was selling to Russia?

Dr. BRUNTHAVER. At this meeting, I asked them to submit to me a listing of the sales that they had made to Russia, yes.

Mr. PURCELL. And they have not done that yet?

Dr. BRUNTHAVER. Some of the companies have, yes.

Mr. PURCELL. What time frame did you give them to comply with this request of yours?

Dr. BRUNTHAVER. Well, I did not give them any time. This information was not as important as it was before, since we had asked all companies to verify what sales had been made and the subsidy that had been taken.

Mr. PURCELL. And you asked all the companies later on to verify?

Dr. BRUNTHAVER. Yes sir, in the press release of the 25th.

Mr. PURCELL. Well, have they so verified it now?

Dr. BRUNTHAVER. Yes sir.

Mr. PURCELL. So then you now know how much grain each company is selling to Russia?

Dr. BRUNTHAVER. No. We know on the open subsidy, on the amount that they had sold but not yet taken subsidy on. We asked them to be very specific and to indicate the destination of the sale, the amount of the sale, the class of the wheat. We collected much more information on these sales that we asked them to register than we had previously collected. We normally do not request information by destination.

Mr. PURCELL. You did make that request and it has not been complied with?

Dr. BRUNTHAVER. Yes sir, that has been complied with. The request that has not been complied with is my personal request at the meeting to submit to me that total sales to Russia made by each company represented.

Mr. PURCELL. And that will not be done until they have made their total sales or till they have done what?

Dr. BRUNTHAVER. We suspect that they have made the total sales.

Mr. PURCELL We do, too, but we cannot find out from anyone how much they have sold. Now, do you know how much they have sold?

Dr. BRUNTHAVER. No sir, we do not.

Mr. PURCELL. When do you think you will find out?

Dr. BRUNTHAVER. I can get it if they are willing to submit it to me. However, this information is not really considered essential to me because we now have information on the sales that have already been made by class, so that in programing wheat for Public Law 480 we can take this into account.

Mr. PURCELL. Now, then, Dr. Brunthaver, when a company does file for a subsidy on a sale, this, then, creates an obligation on their part to deliver on that contract, is this correct?

Dr. BRUNTHAVER. That is correct.

Mr. PURCELL. Is there a penalty under the rules or the law if they do not deliver on that contract?

Dr. BRUNTHAVER. Yes sir.

Mr. PURCELL. Is there any record of anyone having reneged in these contracts? And I am not talking about way back in history, but any time in recent months or years that any company has failed to deliver on contract that it obligates itself to deliver on?

Dr. BRUNTHAVER. It is my understanding that in the past year, there were two instances where companies indicated that they could not fulfill their contract, primarily because the receiving government had backed out on the deal.

Frank, you might enlarge on this.

Mr. McKNIGHT. Mr. Pence can.

Mr. PENCE. Mr. Chairman, under the regulations, there is provision for a penalty—even for a late shipment. If the subsidy contract incurred ends on, say, July 1, and he has a 10 cent subsidy for his obligation, he is then penalized 1 cent per day while this subsidy is in effect. In other words, if he ships within 10 days, there would be no such penalty. If he does not ship, he is obligated for a penalty of 25 cents a bushel.

If through no fault of his own the shipment could not be made and with documentation and proof in this regard, under the regulations, it can be waived. We have collected penalties, we have waived penalties. There was one case this past year where the buyer did not purchase the wheat. It happened to be a country where the buyer had purchased the wheat and signed the contract, but then his government would not allow an import license so it could be brought into the country. They continued to promise us in the Department that they would take this wheat. It got down to the end of the contract period through no fault of the exporter, so this particular part was waived.

If there had been additional time before the export period had expired, then we would have told the exporter to take every opportunity to move this wheat someplace. But we can waive, and have waived, some very small quantities in the past, yes sir.

Mr. PURCELL. There have been no such instances during this Russian sale, I take it?

Mr. PENCE. There has not. I want to be frank here. We have one sale at the present time under this particular program of the schedule "A" sales consisting of plus or minus 10 percent—our subsidy program calls for a tolerance of 5 percent—one particular sale that now we are

working on, that has had shipment on the 10 percent downward side to where the contract has not been completed with the USDA. It is our opinion—and there is no final action—this would have to be cancelled because the subsidy rate is higher under the schedule 1. Therefore, we say it is to the advantage of the Department of Agriculture to cancel the remainder part of this sale.

The sale was completed, but because of the 10 percent—well, the boat didn't carry enough. Do you understand what I am saying here?

Mr. PURCELL. No sir, not the least bit.

Mr. PENCE. Well, I am afraid that many times people do not understand.

The sale to the exporter carried a provision of a plus or minus 10 percent. When an exporter books subsidy with the Department of Agriculture, it carries a tolerance of a plus or minus 5 percent. If he booked subsidy for a thousand bushels, that subsidy contract is good if he only exports 95 percent of it. If he exports 105 percent, it is fulfilled. In this particular case, when the sale was actually loaded and shipped, it met the sale contracts with the 10-percent minus, but it did not meet the subsidy contract of a 5-percent minus. If the Department were not to cancel that subsidy, we would be paying the exporter on new sale a higher rate of subsidy than we would by canceling it. By canceling it, he would have to rebook subsidy for new sale and therefore, it would be a saving of the taxpayer's money.

Mr. PURCELL. All right. That is the only incident during this Russian sale of this kind?

Mr. PENCE. Yes sir.

Mr. PURCELL. There are no other contracts that have not been fulfilled?

Mr. COFFMAN. That have not been violated. A lot of them have not been fulfilled, Mr. Chairman, but there have been none in which there has been a failure to perform.

Mr. PURCELL. None of those that have been shipped have been violated.

Mr. COFFMAN. That is right.

Mr. PURCELL. I understand most of them have not been shipped yet. But there is some shipping going on, is there not?

Mr. PENCE. Yes sir, but you will not know whether the subsidy contracts are fulfilled until the end of the subsidy period, which is May 31 on hard red winter wheat of the Gulf, August 31 on hard red spring wheat.

Mr. PURCELL. I understand. But on those that have been shipped, there has been no lack of fulfilling the obligation to ship?

Mr. PENCE. No sir.

Mr. PURCELL. Thank you.

Mr. FOLEY?

Mr. FOLEY. Mr. Chairman.

Secretary Brunthaver, the present regulations of the Department do not require an exporting company to indicate to the Department the destination of exports on which they have booked a subsidy, is that correct?

Dr. BRUNTHAVER. That is right.

Mr. FOLEY. Is it within the Department's authority to make such a requirement, in your judgment, or would you wish the counsel to answer that question?

Dr. BRUNTHAVER. I am sure it is.

Counsel?

Mr. COFFMAN. I am sorry, Congressman, I did not hear the question.

Mr. FOLEY. Under the law establishing export subsidies, the Department is authorized to make appropriate regulations for the implementation of that program, is it not?

Mr. COFFMAN. Yes sir.

Mr. FOLEY. Is the Department, in your judgment, authorized by the relevant statutes to require an exporter making application for a subsidy to register the destination of the sale?

Mr. COFFMAN. Yes, we would be authorized to.

Mr. FOLEY. You have not done that?

Mr. COFFMAN. We have not done so generally, but we did so for this special export payment for this 1-week period. We did ask for that, but not generally, no.

Mr. FOLEY. Why do you not do it generally?

Mr. COFFMAN. Well, Congressman, that is a matter of policy. I think it was decided about 6 or 7 years ago, and I frankly do not know.

Mr. FOLEY. This may not be an appropriate question to you, Mr. Coffman, but perhaps to Secretary Brunthaver.

Why is the regulation not implemented on all sales?

Dr. BRUNTHAVER. I do not know exactly. I would suspect that we do not consider this type of information to be required or needed.

Charles?

Mr. FOLEY. It is obviously not required. You mean you do not think it is valuable to the Department to have that information?

Mr. PENCE. Mr. Chairman, It was required that all subsidy bookings to be backed up by sale. This requirement was changed in 1967. I was not here at that time. But the reason that it was changed—and I will defend the reason—is that in meeting world competition and selling our wheat over wheat that is being sold by the Canadian Wheat Board, the Australian Wheat Board, and others. Without this flexibility from the standpoint of the exporters, we would not be able to stay competitive with them. It is for that reason that it was changed in 1967. This gets into a long discussion.

Mr. FOLEY. You are concerned about giving the exporter sufficient flexibility to change the destination of the wheat as long as it is exported?

Mr. PENCE. That is right.

Mr. FOLEY. Could you not simply require them to give you notice on any change?

Mr. PENCE. I don't—

Mr. FOLEY. Well, if you want to allow an exporter to register a subsidy, yet still give him the opportunity to easily change its export destination you could simply, by regulation, require him to give notice when he changes, could you not? This would allow the exporter the flexibility to change his export destination while giving notice to the Department?

Mr. PENCE. Yes, sir.

Mr. FOLEY. What I am concerned about in examining this question of authority, Mr. Brunthaver, is the situation in your office where you

asked the exporting companies to tell you what their total exports to the Soviet Union were and they apparently declined to do so. It seems to me the Department has the authority to make those requirements a matter of regulation. Is that correct?

Dr. BRUNTHAVER. Yes sir, that is correct.

Mr. FOLEY. What I do not understand is why the Department, when it wants relevant information on these sales, should depend on the good will and cooperation of the companies rather than require the information by regulation. I cannot see that you are helpless to act.

Dr. BRUNTHAVER. That is correct.

Mr. FOLEY. If you do not have the authority to obtain information on these sales that you need, I think the Congress should know about it. Perhaps we will want to consider changes in the law regarding export subsidies.

Dr. BRUNTHAVER. I think that you are correct, that if we felt this information in the future would be useful, if we are getting into a position where stocks are getting low and we are concerned about programing Public Law 480 of a particular class which is in surplus supply, this type of information may be useful in the future. In the past, where we have had plenty of stocks of every class of wheat, there was no real reason to be concerned about how much of a particular class had been shipped.

Mr. FOLEY. The testimony this morning, sir, was that you were concerned about overselling certain classes of wheat?

Dr. BRUNTHAVER. That is correct, as of this point in time.

Mr. FOLEY. And for that reason, you requested in your office that the exporters give you information on their exports to the Soviet Union?

Dr. BRUNTHAVER. That is correct.

Mr. FOLEY. And they have declined to do that.

Dr. BRUNTHAVER. They have not declined to do so.

Mr. FOLEY. They just have not done it.

Dr. BRUNTHAVER. Some of them have and I have not pressed the others, again because we have gotten other information that will supply the same information needs.

Mr. FOLEY. I am concerned because, I guess I don't understand why the Department is so tender to the exporters in asking for this information. I think you are in a position to demand that information and to take appropriate steps if it is not promptly and expeditiously delivered. It does not seem to me that you have taken those steps or made those demands and I don't understand why.

Dr. BRUNTHAVER. Well, we are not tender on that position. If in the future we think that this is needed and desirable, we will change the regulations to collect this information.

Mr. FOLEY. Are you now saying that you no longer think it is needed and desirable, even though you made such a request on August 25th?

Dr. BRUNTHAVER. No, sir; as I indicated to you before, the registering of the subsidies by class has given us the information that we were desirous of obtaining at that time and we feel that this is sufficient information to run our programs.

Mr. FOLEY. Do you think, Mr. Brunthaver—you have had background in both Government and the private trade—that the exporting companies would suffer any terrible disability in providing the Department with this sort of information?

Dr. BRUNTHAVER. No, sir.

Mr. FOLEY. Is there any reason, in your judgment, knowing the trade as well as you do, why the exporting companies should not provide such information to the Department?

Dr. BRUNTHAVER. No, sir; subject to the condition that Mr. Pence and you suggested, that they could change the destination to allow them the flexibility.

Mr. FOLEY. All right.

But at the present time, you have no intention of pressing the exporters who have not given you the information you requested. Is that correct?

Dr. BRUNTHAVER. That is correct. We have devised balance tables by class of wheat based on the information collected by the subsidy registrations and this we have considered to be adequate.

Mr. FOLEY. Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Mayne?

Mr. MAYNE. Mr. Brunthaver, I wonder if you could give us a little more detail on why it was that the date was changed from close of business on August 23 to close of business on August 24?

Dr. BRUNTHAVER. At the time, on August 23, we were concerned that possibly some small exporters may not have been notified in the previous notification and may have continued to make sales through the 24th on the assumption that the old price target may still be in effect, and rather than discriminate against anyone who may have done that, we moved the cutoff date to August 24.

Mr. MAYNE. Did you at that time have or do you now have any information that there were indeed some exporters in that category?

Dr. BRUNTHAVER. At the time, we had no information that anyone had done this, that is correct.

Mr. MAYNE. Well, have you subsequently learned whether there was anyone in that category who might have been discriminated against because of lack of knowledge who were, in fact, benefited by the change from August 23 to the 24th?

Dr. BRUNTHAVER. I do not know of any registration by a company that may not have been notified, no. There were three small registrations listed on the 24th, for approximately 25,000 or 27,000 tons.

Mr. PENCE. 27,000 tons.

Mr. MAYNE. 25,000 or 27,000 tons?

Dr. BRUNTHAVER. 27,000 long tons by three firms.

Mr. MAYNE. Now, would anyone else other than this category of people who might not have heard about it on the 24th and who might have continued selling wheat under the earlier export policy, would there be anyone else who would be benefited by this change in date from close of business on the 23d to close of business on the 24th?

Dr. BRUNTHAVER. No, sir.

Mr. MAYNE. There has been some contention that making this announcement at all on the 24th was giving someone undisclosed inside information that would be of great financial benefit to them. Could you give us your views on that, whether that is a fact or a possibility?

Dr. BRUNTHAVER. We did not believe at that time and I still do not believe, that this information was market sensitive. Nothing was told to the exporters except that a change had been made, that they should no longer assume that any particular target price would be maintained. They were not told what the new subsidy level would be, they were not told what the new target price would be.

I might say that we were a little concerned about releasing this to the public because without specific information on what the subsidy for new sales would be or what a new target price would be, it would be misleading. On the surface, it might appear to be bearish and it could have led farmers into selling large amounts of wheat at something like 29 cents under the current market price.

Mr. MAYNE. Now, directing your attention back to last Thursday, when the gentleman from Montana, Mr. Melcher, was asking you a series of questions suggesting that someone in the Department may have leaked information to help an insider, I recall that your answer was that you were unaware of any such call. Now, today, in your testimony, you have said at the bottom of the first page that at the time of that questioning, you were not aware that the Pence calls of August 24 were the calls referred to by Congressman Melcher, "Nor was I aware at that time that McKnight had asked Pence to make these calls."

Now, I think we would be interested in hearing some further explanation from you, Dr. Brunthaver, as to why you did not realize that Mr. Melcher was pointing toward the Pence calls in that line of questioning, as later was revealed when, of course, he himself introduced the name of Mr. Pence into the testimony for the first time.

Mr. MELCHER. Would the gentleman yield?

Mr. MAYNE. If it does not come out of my time. I have only 5 minutes and—

Mr. MELCHER. You have used 5 minutes.

Mr. MAYNE. Well, then, is that true, Mr. Chairman?

Mr. PURCELL. Well—

Mr. MAYNE. I certainly do not want to violate any rule of the committee, so I will conclude my testimony in accordance with the chairman's rule that no member should speak longer than 5 minutes and I am sure all other members will be equally scrupulous.

Mr. PURCELL. I allowed Mr. Foley to use 8 minutes and you still have 3 minutes remaining.

Mr. MAYNE. Three minutes of what?

Mr. PURCELL. Of what the Chair rules is your time.

Mr. MAYNE. I would rather operate under definite rules than ones that are adjusted flexibly to suit the convenience of any member.

Are we going to adhere to the 5-minute rule or are we not?

Mr. PURCELL. You have 3 minutes, or a little less than that now.

Mr. FOLEY. Mr. Chairman, point of order.

Mr. PURCELL. If you have other questions, I will allow you a further 3 minutes.

Mr. MAYNE. I have asked the question and I would like Dr. Brunthaver to tell us why he did not feel that this particular set of calls is what Mr. Melcher was referring to in that line of questioning.

Dr. BRUNTHAVER. Well, I don't remember the question exactly, except that it was inferred that there were some tipoff calls. I had assumed that he was talking about some calls that had been made to the exporters prior to the August 24 notification. I certainly was not aware of any tipoff calls, and I was not aware that Mr. Pence, as I indicated in my testimony, that Mr. Pence had been asked to make these calls.

Mr. MAYNE. Are you now aware of any so-called tipoff calls?

Dr. BRUNTHAVER. No, sir.

Mr. MAYNE. In your opinion, did any occur?

Dr. BRUNTHAVER. No sir.

Mr. MAYNE. Thank you.

That concludes my questioning.

Mr. PURCELL. Mr. Sisk?

Mr. SISK. No question at this time, Mr. Chairman.

Mr. PURCELL. Mr. Zwach?

Mr. ZWACH. Thank you, Mr. Chairman.

I would like to ask Mr. Pence, how long have you been in the Department?

Mr. PENCE. Since July 1969.

Mr. ZWACH. Since July—

Mr. PENCE. 1969.

Mr. ZWACH. Since July 1969?

Mr. PENCE. Yes.

Mr. ZWACH. And you are now the head of this Department?

Mr. PENCE. I am Director of the Grain Division, sir.

Mr. ZWACH. Are you under the gentleman at this end of the table?

Mr. PENCE. Yes sir; several steps under.

Mr. ZWACH. How long have you been in the Department?

Mr. MCKNIGHT. Since March 1969.

Mr. ZWACH. Also only since 1969.

Mr. MCKNIGHT. Yes sir.

Mr. ZWACH. So we do not have a long experience here in this entire export trade; neither one of you gentlemen rolled back the years to 10, 12, 20 years of history?

Mr. MCKNIGHT. No, sir; that is correct.

Mr. ZWACH. There are career people behind these people that have been in it a career, a lifetime?

Dr. BRUNTHAVER. That is correct.

Mr. ZWACH. Now, referring to the change in 1967, the change in policy, and then going to the top of page two, Mr. Pence, of your testimony, the top paragraph, where you say:

The meeting called with the exporters who sold to Russia was for the purpose of obtaining information in regard to the quantities sold, classes, and grades, et cetera, so that the Department would have the information needed in revising its policy and to prevent the overselling of certain classes of wheat.

Prior to 1967, was that information required so that the Department knew more of the background of each of these sales?

Mr. PENCE. Prior to 1967, sir, when an exporter booked for export subsidy, it had to be backed up with a sale.

Mr. ZWACH. With these papers?

Mr. PENCE. Yes sir, with a sale, with a sale contract.

Mr. ZWACH. So I would like to deal with somebody who has been in here before 1967 to know why there was a relaxation of this policy. Could you address yourself to that, Dr. Brunthaver?

Dr. BRUNTHAVER. Well, sir, this was covered by Mr. Pence in questions by Mr. Foley.

Mr. ZWACH. Well, I did not sense that that was covered to the extent that I want it covered.

Mr. PENCE. It is my understanding, I will have to say, that the reason that this policy was changed was to enable the United States to be an aggressive exporter of wheat. At that time, an exporter, an international exporter, could buy wheat at a given price from our competing countries, not have to give the destination, not have to ship it for maybe a year, but at a definite price. This was changed in order that we could meet our competition. And in order to meet the competition, we gave exporters flexibility in order to sell U.S. wheat.

Mr. ZWACH. So in essence, what we did was to provide that our Department would know nothing about these things. We did not need this information, so that we could sell. It seems to me that that is a defeatist or a wrong position. It seems to me we ought to know everything about it. It ought to be reported. It does not have to go out to the world necessarily, but certainly a Federal agency, it seems to me, ought to know this. And I think we will need to look into this further.

Now, another quick question. As we expand our foreign trade—and I am all for it; as I said so last Thursday—are not others going to get into this export business? Are there not demands by GTA, for instance, and the grain cooperatives and so on, to get into this export business so we get new blood and new strength into the export trade? What is developing in that area?

Dr. BRUNTHAVER. Well, Mr. Zwach, we certainly hope so. The more competition that we have in the export markets, the better off the farmer will be, because the exporters will have to bid even more aggressively for sales to go overseas. The competition currently is very intense, but the addition of co-ops and others who are currently exporting will cause it to increase. You are suggesting that they get more aggressive in the export field, and we see signs that they are combining operations so that they can have the management technique and the ability to compete effectively in exporting wheat. And certainly, this is to the farmers advantage.

Mr. ZWACH. You do sense a broadening of the export groups?

Dr. BRUNTHAVER. Yes sir.

Mr. ZWACH. More people and so on involved.

Dr. BRUNTHAVER. Yes sir.

Mr. ZWACH. Well, that is good news. I think that is very important.

Now, I stated the other day that we want to know how we can strengthen the public protection in this overall trade. I do not think anybody quarrels with growth in trade. It is putting Agriculture on the front burner, where it belongs. It has not been there for much, much too long. But we want to be sure that our rules and regulations, our law is adequate to protect the broad interests of the producer, the consumer, and the general public. And as this develops, I am going to be listening for suggestions from you folks on what needs, perhaps, to be done as we get into the major leagues in agricultural export.

That is all, Mr. Chairman. For the moment.

Mr. PURCELL. Mr. Melcher.

Mr. MELCHER. Secretary Brunthaver, on last Thursday, I asked the question, I will read it from the transcript, referring to Mr. Pence:

Would he have made any telephone call on August 24th to anyone suggesting that there might be an announcement on August 25th regarding the policy change in export subsidy?

You answered, Mr. Brunthaver:

I do not know.

If I had asked if Mr. McKnight had made such a call, what would your answer have been?

Dr. BRUNTHAVER. Well, I may have recalled that I had asked Mr. McKnight to place calls to exporters notifying them of a change that had already been made.

Mr. MELCHER. You would have answered yes, there had been a call or calls made?

Dr. BRUNTHAVER. Yes.

Mr. MELCHER. Now, it seems odd to me that, since that was the line of questioning, that you would not have been aware that Mr. McKnight had carried out your request by talking to Mr. Pence to carry out your request.

Dr. BRUNTHAVER. Well, yes, except the confusion, sir, in fairness, was the inference that tipoff calls had been made, prior to the 24th.

Mr. MELCHER. I do not find the words, "tipoff" or "inside information," anywhere in the transcript near my questions. My questions were very few, so I don't know how you could be confused about tipoff or inside information when it is not in the transcript anywhere near my questions of you.

Dr. BRUNTHAVER. I am sorry, but that is the impression I had at the time.

Mr. MELCHER. Mr. Secretary, what were the companies to be told, at your request, by Mr. McKnight and hence by Mr. Pence?

Dr. BRUNTHAVER. They were to be told that the former world price target could no longer necessarily be maintained.

Mr. MELCHER. What did that mean, up or down?

Dr. BRUNTHAVER. It did not mean either up or down. I just meant that they could no longer necessarily be maintained. And that if the companies were going to make sales, large or small, they had to do so at their own risk. And if they were to oversell a particular class of wheat, and western white is a class that we were very much concerned about at that time, they had to do so at their own risk and could not assume that if they oversold and the price of western white went to \$4 or \$5, that the Government would come in and make up the difference in an export subsidy. That is all that it was meant to convey.

Mr. MELCHER. What did it convey to them, that the export subsidy was not going to go higher?

Dr. BRUNTHAVER. I don't think it conveyed anything, except that sales had to be made at their own risk. Mr. Pence nor I nor anyone else indicated that the subsidy may go up or it may go down, or that the world target price may go up or may go down.

As I indicated in my testimony, at that time, we were hopeful of maintaining the same target price level that we had maintained before. But if large sales were going to be made and the domestic price of U.S. wheat continued to escalate dramatically, there could be no assurance on the part of the Government that we would necessarily follow those price increases.

Mr. MELCHER. I am trying to figure out what the point of the calls was. Was it to warn them that if the market went up substantially, you might not raise the export subsidy substantially? Is that it?

Dr. BRUNTHAVER. No. The calls were not to warn anyone. The calls were to notify the companies that sales made after last evening would not necessarily be subject to the same target price objective that had prevailed for the preceding 10 months.

Mr. MELCHER. If the price of wheat went down, would that not be beneficial to the companies?

Dr. BRUNTHAVER. If the domestic price of wheat had gone down?

Mr. MELCHER. Yes.

Dr. BRUNTHAVER. Well, I don't know. It would depend on what happened to the subsidy. The subsidy would have gone down with it.

Mr. MELCHER. And nobody would have been hurt in that case, would they?

Dr. BRUNTHAVER. Except the farmer.

Mr. MELCHER. But the companies, the grain companies that you were calling would not be hurt in that case?

Dr. BRUNTHAVER. That is right.

Mr. MELCHER. Well, was not the point of the calls to notify them that if the price continued to climb, they need not expect the export subsidy to continue to climb?

Dr. BRUNTHAVER. No, the point of the call was to notify them that sales made after the 23, the close of business on the 23, would not necessarily be subjected to the same price objective. No information was indicated to them what the subsidy might do or what the new target price objective might be.

Mr. MELCHER. Mr. Secretary, did you ask Mr. McKnight to indicate that there would be a meeting on August 25th?

Dr. BRUNTHAVER. Yes sir.

Mr. MELCHER. So that was part of the proposal of the call?

Dr. BRUNTHAVER. Yes sir.

Mr. MELCHER. Why would it not have been simpler just to make a statement that there is going to be a meeting on August 25, a public meeting, where anybody who was interested in exporting grain could attend and that there was going to be a change? Your statement on what was going to be changed is very nebulous. You would not have been committing the Department one way or another?

Dr. BRUNTHAVER. Let me treat that in two parts. First, a meeting with the general public, I do not think, would have been called for because we wanted specific information on those exporters who we thought had made sales to Russia to give us information on the volume of these sales and the class.

The notification to the exporters was done by telephone at the time of day that it was done because we were very desirous of notifying them immediately that this change in policy had been made the day before. I had personally received rumors that there were two large sales that perhaps were going to be made and I was very anxious to notify these companies that if they made large sales, they should price the wheat on the assumption that the old target price no longer was in effect. And there was some urgency of telling them immediately that this policy had changed.

That is the reason for the telephone. It was not put out in a press release, as I indicated before, because this information was not considered to be market sensitive and in fact, could have misled farmers into selling wheat at something like 29 cents under the current market price.

Mr. MELCHER. When was the decision made to allow the export certificates to go to 47 cents?

Dr. BRUNTHAVER. This was made at the meeting at approximately 3:30 on the 25th. It was discussed with officials in OMB and with Secretary Butz prior to that time on the 25th.

Mr. MELCHER. But yet for 4 days following that, 4 market days, the export certificates remained constant. Is that correct?

Dr. BRUNTHAVER. Yes sir. We indicated that—

Mr. MELCHER. You indicated that it could go to 47 cents, but remained constant for 4 days.

Dr. BRUNTHAVER. We indicated that it would go to 47, it could not go any higher and could not go any lower. We gave them 5 days to settle up their books and find out how much subsidy was in fact open on sales already made.

Mr. PURCELL. Mr. Melcher, your time has expired.

Mr. Price?

Mr. PRICE. Mr. Chairman, I think due to the endorsement of the chairman of the House Agriculture Committee in my district this weekend of my opponent, the chairman of this committee, and remarks in the press regarding the integrity of the Secretary of Agriculture and his assistant, and because the chairman of this subcommittee's relatives are involved in the grain trade, as a duly elected U.S. Representative of the 18th Congressional District. I want the record to show that I consider these hearings to be overwhelmingly politically charged. Because of the nature of the subcommittee chairman and my being political opponents, I find it an improper time to hold hearings on this matter. The Department has made their position clear and has made a clear case that they are not involved in skulduggery of any kind. Because of the remarks of Senator McGovern and the Speaker of the House and the Chairman of this committee to hold these hearings before other pressing agriculture matters, I believe it is hurting an increase in the sale and increase of price to farmers and is jeopardizing negotiations now and in the future in foreign agriculture trade.

I want to commend you gentlemen for the very forthright and factual manner you have put before this committee regarding sales to these countries. I think it is a red herring hunt and I think you have done a fine job.

Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Bergland?

Mr. BERGLAND. Thank you very much, Mr. Chairman.

Secretary Brunthaver, I think it was in about mid or late July that the extent to which the Russians were buying wheat became generally known in the market of the United States. Since that time, the prices have risen dramatically and since the 25th of August, the Department has changed its export subsidy policy. Could you tell me, sir. What impact this price rise will have upon our traditional wheat markets, for example, in Japan?

Dr. BRUNTHAVER. Well, to the extent that Japan and other traditional countries have not covered wheat, have lagged in covering their years requirement of wheat, they will have to pay more at this point in time. We do not know what the future will bring—but at this point in time, they will have to pay a somewhat higher world price than they would have had to pay had they booked their wheat at an earlier date.

Mr. BERGLAND. Do you have any idea whether the Japanese did in fact cover themselves?

Dr. BRUNTHAVER. It is my understanding that the Japanese are approximately 60 percent covered or were 60 percent covered before this world price to them did in fact increase.

Mr. BERGLAND. Is the U.S. grain sales policy unique in the world in that we are the only country in which the Government does not play a heavy role in negotiating? I am thinking, for example, of the Canadian policy and the Argentine policy as opposed to the United States.

Dr. BRUNTHAVER. Yes; we are.

Mr. BERGLAND. We are, sir?

Dr. BRUNTHAVER. Yes sir.

Mr. BERGLAND. So we are the only government that really does not know precisely what is taking place on a given day in terms of quantity of sales and at what price?

Dr. BRUNTHAVER. That is correct. We utilize our private trade to make sales as opposed to a Canadian wheat board or an Australian wheat board, yes sir.

Mr. BERGLAND. Do you know what part of the 280 million bushels of wheat that have been registered for the 47-cent subsidy is going to the Soviet Union?

Dr. BRUNTHAVER. Yes sir; we do.

Mr. BERGLAND. Could you tell the committee?

Dr. BRUNTHAVER. It is approximately 59 percent of that booking will go to the Soviet Union and 41 percent to other countries.

Mr. BERGLAND. Can you identify the exporters that handled that portion to the Soviet Union?

Dr. BRUNTHAVER. May I ask counsel to respond to that?

Mr. COFFMAN. We could easily give you the exporters who shipped for the period. That would include those who shipped both to the U.S.S.R. and to other countries.

I do not think we have that broken down between the U.S.S.R. and other countries.

Mr. BERGLAND. Do you have that today, Mr. Coffman?

Mr. COFFMAN. How is that?

Mr. BERGLAND. Do you have that information with you today?

Mr. COFFMAN. The information is present in the Department of Agriculture. If the committee asked us for that, we will certainly supply it. We normally, as I said the other day, have not given out the destinations where individual exporters sold or how much they sold, because we thought that was business information that might affect their competition. Nevertheless, if the committee feels that it wants that information, we are certainly going to supply it.

Mr. BERGLAND. Mr. Chairman, I realize that there is fierce competition among the exporters for this business and I do not want to bring a matter in that does not properly belong before this committee, but I think it is a relevant point and I would ask that such information be provided.

Mr. COFFMAN. I would like to see what the chairman says, because for 20 years, this information has not been given out. But as I say, Mr. Chairman, if you request it, we are going to supply it.

Mr. PURCELL. Well, unless there is some hurtful reason not to, I would ask the Department to do it on this occasion.

Mr. COFFMAN. We will have to develop that information since we have not done it so far. We will try to get it up here, I think by this afternoon—No; we cannot do it by this afternoon.

Mr. SISK. A parliamentary inquiry, Mr. Chairman. Specifically what information are we now seeking? I think we had better pin it down.

Is the gentleman from Minnesota seeking information specifically as to sales within a specific period of time?

Mr. BERGLAND. Mr. Chairman, my question had to do with the companies registering for the 280 million bushels in subsidy at the 47-cent level. I asked what proportion of this was going to the Soviet Union and by whom the sales had been made.

Mr. COFFMAN. That is right. Now, we were going to give you how much of it was going to Russia. We planned to give you that pursuant to your request the other day. And we were going to give you the complete list of exporters who claimed that 47-cent subsidy. We did not have in mind breaking it down between individual exporters unless you request it, because they consider this very damaging information as between themselves; that is, the exporters do. But we are not going to stand in your way if the committee wants that.

Mr. BERGLAND. Are you saying, Mr. Coffman—

Mr. COFFMAN. We have not given it to news reporters, we have not given it to individuals. We have refused it to them because it is confidential and treated as such. And there are even statutes that prohibit us from separately disclosing business transactions. But that would not apply if this committee asked us for it.

Now, we will accept the chairman's request if he so requests it.

Mr. SISK. Well, reserving the right to object—and I hesitate to object to my good friend's request—as I understand it, he is asking unanimous consent that this be made a part of the record.

Mr. BERGLAND. Yes, sir.

Mr. SISK. I have no objection to anything and everything being made a part of the public record, but in view of the national policy of this Government of relying upon the private sector generally to carry out our basic policies in export trade, I feel, Mr. Chairman, that as a matter of policy, this committee should fully discuss the matter and not make a quick decision. I am not here to protect anyone. None of these grain companies happens to be in my district. My district is not a grain district. But I am concerned about policy, Mr. Chairman, and I would hope that the committee would give some consideration before we just off the cuff require them to furnish information that might not be in the best interest of the country as it affects export trade.

Dr. BRUNTHAVER. Mr. Chairman, might I suggest a compromise? We would be more than willing to make this information available to the committee after the shipment has been performed. It is then public information. We would be delighted to make it available then. To do so before that gives the competition some advantage that they should not have.

Mr. PURCELL. Without objection, I will ask that the committee take this up in executive session, hopefully at the end of the hearings today, and the Chair will make a ruling at that time.

Mr. Bergland, do you have other questions?

Mr. BERGLAND. No, thank you, Mr. Chairman.

Mr. PURCELL. Mr. Sebelius?

Mr. SEBELIUS. Thank you, Mr. Chairman.

Mr. Mayne was questioning on the subject of what was done on the 24th, because that seems to be the big day where something might have happened. You said there were three small registrations on the 24th, I thing, 27,000 bushels approximately?

Dr. BRUNTHAVER. 27,000 long tons.

Mr. SEBELIUS. There is a small difference, but it is not too great, I guess.

Were any of these companies either Garnac, Cook, Continental, Cargill, Bunge, or Dreyfus?

Dr. BRUNTHAVER. One of them was Bunge.

Mr. SEBELIUS. You don't know the proportions of that 27,000 long tons?

Dr. BRUNTHAVER. No, sir; I do not.

Mr. SEBELIUS. I want to thank Mr. Pence for being here today.

I understand the other day you were supposed to be leaving town to go to Japan and Taiwan and other points in the Far East for the promotion of sales of wheat?

Mr. PENCE. Yes.

Mr. SEBELIUS. Well, we appreciate your coming here at this time, because it was brought out that you just joined the Department in July of 1969. I would like you to state for the record some of the other jobs you have held immediately prior to that time.

Mr. PENCE. Before coming into the Department, I was with Great Plains Wheat, which is a producers' market development organization selling wheat in various countries, with responsibilities in South America, Europe, and Africa. Prior to that time, I worked for the Kansas Wheat Improvement Association that had the responsibility to develop or improve the quality of wheat that was being grown in Kansas so as to meet the requirements of domestic mills.

Previous to that time, I was a county extension agent in Kansas, and previous to that time, I worked for the Farmers Security Administration. Before that, I was 4 years in the Army.

Mr. SEBELIUS. Thank you, Mr. Pence. Was not one of the big powers in organization of Great Plains Wheat and one of the early leaders the gentleman whose picture is there on the wall, former Chairman of this Commission, Clifford Hope?

Mr. PENCE. Yes, sir.

Mr. SEBELIUS. Whose seat I hold now?

Mr. PENCE. Yes, sir.

Mr. SEBELIUS. Thank you, Mr. Pence, and thank you, Mr. Chairman.

Mr. PURCELL. Mr. Kyl?

Mr. KYL. Thank you, Mr. Chairman.

One of the problems with this whole proposition is apparently the number of technicalities involved. Therefore, I would like to have just a little more clarification on a few points that have come up this morning.

On this plus or minus 5 percent, plus or minus 10 percent, may I see if I can state this in the way that I understand it and then we will have you affirm or deny the accuracy?

Under the arrangement with the Department, the company selling wheat for export is permitted to have a variation in the actual amount of wheat shipped which is 5 percent above or 5 percent below the amount. This 5- or 10-percent figure is in regard to the amount of grain shipped, it is not in regard to price. Is that correct, first of all?

Mr. PENCE. In regard to the amount of grain shipped; yes sir.

Mr. KYL. And the objection now is to a 10-percent variation, that if the individual company received a subsidy on a certain amount of wheat and then fell short of actually exporting that quantity of wheat, then that company would have an advantage because it could sell wheat in other quarters, thereby reaping some benefit. Is that correct?

Mr. PENCE. That is correct. That is the reason that we say that we will probably cancel the subsidy.

Mr. KYL. Now, in regard to the publication of figures, do I understand Mr. Brunthaver is correct on this point? He offered what he says is a compromise. Now, is he saying in offering that compromise that if company "A" is dealing with a foreign country on export and company "B" finds out that this negotiation is in prospect, then company "B" jumps into the picture, perhaps, and competes for the actual sale, but that after the sale is made, then that information is public information? Is that correct?

Dr. BRUNTHAVER. Well, the last part is correct; yes. Our concern is that one company knows exactly the volume of wheat that has been contracted to a particular country by that company and that this information could help the competitor as it analyzes possibly how much wheat that first company has to buy in the marketplace, this type of information could be damaging. But I indicated that after shipment is made, then we would be glad to supply for the committee all of the information on that particular sale, including the volume, the class, and the subsidy.

Mr. KYL. Thank you, Mr. Chairman.

Mr. PURCELL. We are honored again today to have our chairman of the whole committee, Mr. Poage.

Mr. Poage, do you have questions or comments?

Mr. POAGE. Yes, Mr. Chairman.

I would like to ask just a little about matters that have not been discussed very much this morning.

You have all agreed, I think, or practically all agreed, that there are a great many benefits that flow from this sale. Do you consider that any segment of the industry was hurt by this sale?

Dr. BRUNTHAVER. Well, to the extent that the bakers could not, by the price commission, pass on the increased cost of flour in bakery products, they obviously are hurt by the increase in wheat prices if they had not covered their supplies.

Mr. POAGE. All right. Let's confine it to farmers. Do you consider that farmers gained a benefit by this sale?

Dr. BRUNTHAVER. Yes sir.

Mr. POAGE. What about the farmer down in my country?

Dr. BRUNTHAVER. The farmer who sold all of his wheat, or most of it, prior to the runup did not receive as much money for that wheat as he possibly could have. And then in addition to that, his certificate payment will be reduced because the average price of wheat in 5 months is up and the subsidy payment will be lowered.

Now, that man is hurt if he has no sorghum to sell at a higher price because of the Russian sale. This farmer can benefit next year, because he will harvest the early wheat that the marketplace is indicating, at least at this point in time, is at a much higher level than it would have been without the Russian sale reducing the stocks of wheat as materially as they have.

Mr. POAGE. Well, let's don't talk about next year, because if the Russians have a good crop next year, they are not going to buy any American wheat. If they have a good crop, they are going to be selling wheat. And the sale made this year is not going to determine what that man is going to get next year.

By my man down in McLennan County, which is way down in Texas, at the beginning of the harvest, normally sells in June, and most of them did sell in June. We do not have the kind of storage that you have further north. He sold his wheat in June. He got \$1.20, \$1.25 up to \$1.30, possibly, for it. So he did not get any benefit in price.

Now, he is going to get a very definite reduction in what you would have otherwise paid him, is he not?

Dr. BRUNTHAVER. That is correct.

Mr. POAGE. I just want that to be clear on the record, that those farmers who live in the south end of the belt are going to get less money, because we made this deal, than they would have otherwise received. That is a fair statement, is it not?

Dr. BRUNTHAVER. Yes sir.

Mr. POAGE. Now, then, what does the Department suggest that we should do about that, if anything?

Dr. BRUNTHAVER. Well, we have been asked to testify on a bill that I assume—

Mr. POAGE. I am not asking about somebody else's suggestion. I know what Mr. Purcell suggested. I know what Senator Bentsen has suggested. But what does the Department suggest that we should do about that?

Dr. BRUNTHAVER. At this point in time, sir, I do not know what the position of the Department will be on this problem that you are talking about.

Mr. POAGE. We have spent an hour and a quarter here—very properly, Mr. Chairman—discussing the notification that was given to the grain dealers. And I have no criticism of what the Department has offered. I want it plain that I am not criticizing your concern for the grain dealers. I believe in taking care of the grain trade as well as everybody else. But I believe that it is just as important to take care of those farmers as it is to take care of the grain trade.

It is obvious that you concerned yourself and made plans to see that the grain trade was not mistreated. Now, I think it is just as important to give some thought as to how we are going to prevent this thing from becoming a serious detriment to the farmers of Texas and Oklahoma. And I hope that the Department will come up with some suggestions of their own.

I know who is offering suggestions, but I want to know what you have suggested.

Dr. BRUNTHAVER. Yes sir.

Mr. POAGE. And I hope you will come up with something.

That is all, Mr. Chairman. Thank you.

Mr. PURCELL. Thank you, Mr. Poage.

Mr. TEAGUE, we appreciate your being here. Do you have any questions?

Mr. TEAGUE. Thank you, Mr. Chairman. No questions.

Mr. PURCELL. Gentlemen, let me ask one question in regard to what has been done and then we will conclude this part of it, I hope.

Mr. PENCE, when you made these telephone calls, was there any comment from those that you were calling about the putting in of a two-tier subsidy system made to you by those people?

Mr. PENCE. There was some comment, sir, and the comments ran this way: What are you going to do? There is going to be a new world price—I mean a new U.S. export price level. Will we have two subsidy systems?

These are all natural questions. My answer in every case was, I do not know, it has not been determined as to what we will do.

Mr. PURCELL. So that and the logical terms that would go with that is the total extent of any conversation you had with any of these people?

Mr. PENCE. Yes sir, there are only two things I really told them, the five we invited to the meeting. The other thing that I told them was that no longer could we protect them on that target price.

This is all. Any assumptions they made in there were done on their own.

Mr. PURCELL. Thank you.

Gentlemen, as I understand it now, all of you except Dr. Brunthaver are on your way to Japan and you will not be available any more.

I do not mean Mr. Coffman. He does not get to go to these things.

Mr. COFFMAN. I will be here if you need me, Mr. Chairman.

Dr. BRUNTHAVER. Mr. Chairman, Mr. Pence is the only one who will be going. He will be catching up with the team this afternoon.

Mr. PURCELL. Mr. McKnight would be available if he were needed?

Dr. BRUNTHAVER. Yes sir.

Mr. MELCHER. Mr. Chairman, I have other questions.

Mr. PURCELL. I think, Mr. Melcher, under the rules that have been made, in order to get to the other witnesses we have, we just will not be able to take further time at this time, but Mr. McKnight will be available, Mr. Coffman and Mr. Brunthaver will be. In order to give these witnesses that are here assigned to testimony today a chance to appear, the Chair just must rule that we will have to wait until a later time to further question these people. I think we all have further questions and we will try to make them available.

Mr. MELCHER. Mr. Chairman, I understand that Mr. Pence will not be available.

Mr. PURCELL. I said all except Mr. Pence will be available, that is true.

When is it you leave, Mr. Pence?

Mr. PENCE. This evening.

Mr. PURCELL. Well, what is this evening?

Mr. PENCE. 4:45.

Mr. PURCELL. Then you are near enough ready that you won't have to be waiting at the airport except for a few minutes before that. Is that right?

Mr. PENCE. Right.

Mr. PURCELL. Could you remain available throughout the hearing this morning, then, if we have any opportunity to have people ask you questions if they have them at the conclusion of the other witnesses? You do not have to remain right here, but be available at the Department?

Mr. PENCE. Yes sir.

Mr. PURCELL. All right.

Gentlemen, we thank you very much and we will call Dr. Weldon Barton, assistant director of the legislative service, National Farmers Union.

#### STATEMENT OF WELDON V. BARTON, ASSISTANT LEGISLATIVE DIRECTOR, NATIONAL FARMERS UNION

Mr. BARTON. Mr. Chairman, I am very pleased to be here this morning to testify on this grain sale to the Soviet Union for the National Farmers Union. I have a rather lengthy statement. I feel compelled to go through it mostly word for word, but there may be some sections that I can skip over in the interest of time. I could ask if you could insert the entire statement in the record.

Mr. PURCELL. Without objection, the entire statement will appear in the record and we would encourage you to make your statement as brief as you feel it can be done.

Mr. BARTON. Thank you, Mr. Chairman.

The end result of the recent sales of wheat and other grains to the Soviet Union has been good news to most wheat farmers. The price of wheat has gone up substantially during the past month and a half. This has been a welcome relief from previously more depressed prices, at least for those farmers who are able to take advantage of the higher prices.

Although a number of serious questions about the wheat sales remain unanswered, one thing is no longer open to question, and I think Chairman Poage tied this down in questions during these hearings if it was not tied down before: that many wheat farmers will enjoy less overall income from their 1972 crop as a result of the Soviet sales, because they sold during the lower price period of July and the first days of August. They lost on their wheat certificates and payments. Those who sold their entire crop early have no opportunity to make up for these losses on their payments through a higher price in the market for the exported part of their production.

Farmers Union has estimated losses to farmers, on their wheat certificate payments alone at at least \$68.4 million. It just depends upon how much was sold, at what time and at what price. Our calculations are appended to this statement.

House Joint Resolution 1300 and a companion resolution in the Senate, introduced last Thursday by Chairman Graham Purcell and Senator Lloyd Bentsen, provides a legal means to reimburse these farmers for their losses. Farmers Union strongly supports this measure, and we urge enactment of it by this Congress before adjournment.

Reimbursement of individual farmers for their losses is absolutely essential to provide equity to the farmer. However, this only comes to grips with the obvious symptoms of this Soviet deal. There have been

questionable aspects of the Soviet grain deals both this year and in 1971, although there clearly has been more serious aspects this year. Both years, this committee has had to hold special hearings. We think this committee should investigate the sales in depth this year, as I think the committee is doing, so that the basic causes of the difficulties can be uncovered and corrected.

There is no question that windfall profits could accrue to Continental Grain and whatever other trading firms booked for export sales of wheat during the past 2½ months. Excessive profits are made possible by the fact that the size of the export subsidy need not be matched directly to the price at which the trader pursued the grain, under the Agriculture Department's export payment rules.

For illustration, assume that company X bought 50 million bushels of wheat on August 1. The export subsidy on August 1 was 16 cents per bushel, determined essentially as follows: cost to company X at August 1 price to deliver grain to the port was \$1.80½; U.S. export price, \$1.64½; \$1.80½ minus \$1.64½ equals 16 cents. Assume that company X stored the grain at the port and postponed booking for export subsidies until August 26, when the payment was 47 cents. Windfall profit to company X is about 31 cents per bushel—47 cents minus 16 cents—or \$15.5 million on 50 million bushels. This must be discounted slightly for storage costs.

Without specific facts, one can only suggest the magnitude of total windfalls that could result from the 800 to 850 million bushels of wheat booked for export since July 1. The major corporations could easily store sufficient grain to realize \$100 million of total windfalls. It would take something over 300 million bushels to realize \$100 million windfall at 31 cents per bushel. Cargill recently estimated its grain storage capacity at 180 million bushels; Bunge has estimated its capacity at 100 million; and Continental Grain probably has at least a 150 million bushel capacity.

The magnitude of a \$100 million profit on export subsidies, relative to the normal profit margin claimed by the trading corporations, is impressive. Cargill Corp., for example, has stated that its profits run about seven-tenths of 1 percent of sales, or roughly 1 cent per bushel of wheat. A \$100 million windfall on export subsidies is equivalent at this rate to what Cargill would earn by handling 10 billion bushels—or about 12.5 years of total U.S. exports of wheat at 1972 production rates and with approximately 50 percent of production exported.

Windfalls could also be realized by the grain trade by buying wheat for future delivery, especially if the trader entered the market prior to August 4 when futures broke sharply upward. How much profit was made by the trading corporations could be estimated if one had the long and short positions in the wheat futures markets of all traders who held at least \$1 million in contracts during the period, say, July 8—when the Soviet-United States agreement was signed—and August 11—when the price of wheat futures hit a higher plateau.

I would suggest that this would be interesting information. The committee did secure comparable information last year and it could be quite revealing to have the similar information this year.

These are possible windfalls, allowed by the flexible regulations under which the export subsidies are booked. Actual windfalls have been, or will be, realized to the extent that certain grain trade companies had "inside" information on which they could gamble on

staggering their contracting for sale to the Soviets or other countries and their booking for export subsidies, with more than a 50-50 probability of coming out ahead.

There is reason for strong suspicion that inside information was available to at least some wheat traders. It is not necessary that the Agriculture Department as presently constituted gave out information to the private trade companies, although this now appears to have happened. Former high officials of the USDA who went to the grain trade this year, including Messrs. Clarence Palmby and Clifford Palvermacher, could bring with them to Continental and Bunge information on which excessive profits could be realized.

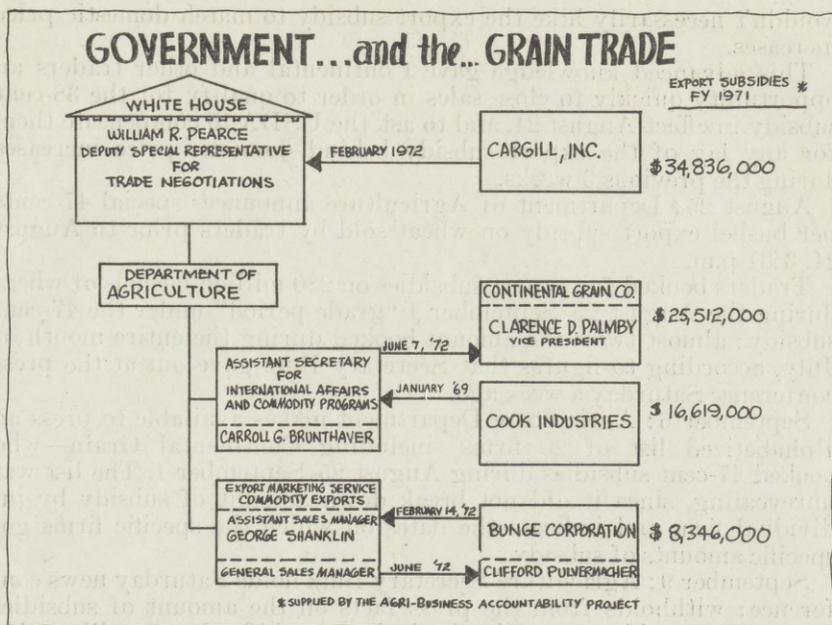
Mr. Chairman, we have prepared a chart for the information of the Committee, which has been placed here at the side of the room. The chart indicates the higher officials—we did not include the consultants and so on—who moved this year except Mr. Brunthaver who came to the USDA in 1969 but moved into the higher position of Assistant Secretary for International Affairs this year—of all the officials that have moved from the grain trade to the Government or vice versa; that is, from the Government to the grain trade. This included Mr. Pearce, who went into the White House as Deputy Representative for Trade Negotiations; Mr. Brunthaver, Mr. George Shanklin, and Mr. Palmby, who went in the other direction. Also, Mr. Clifford Palvermacher, who went in the other direction, to Bunge Corp.

In addition to the names, Mr. Chairman, the chart also indicates the relative sizes of the companies. These happen to be the four largest companies in terms of total export subsidies booked in fiscal year 1971.

Cargill received \$34,836,000 in export subsidies from wheat in fiscal year 1971; Continental Grain received \$25,512,000; Cook Industries received \$16,619,000; Bunge \$8,346,000; and the other firms are staggered on down the line. Other firms received smaller amounts.

Mr. Chairman, if any member of the committee would like to have this information in reduced form for inclusion in the record, we would be happy to reproduce the chart for the record of these hearings.

(The chart referred to above follows:)



Mr. BARTON. Going back to my statement, I have outlined the chain of events that we see as implicating or possibly implicating Mr. Palmby.

Mr. Clarence Palmby resigned June 7 as Assistant Secretary of Agriculture for International Affairs, and assumed a vice presidency at Continental Grain. Part of the chain of circumstances implicating Mr. Palmby and Continental Grain is as follows:

April: Secretary Butz, Assistant Secretary Palmby, and other U.S. officials negotiate with Soviet trade officials in Moscow. Negotiations break down on specific terms of sale.

June 7: Palmby resigns; joins Continental Grain Co. as vice president.

June 28: Soviet-United States grain trade negotiations resume in Washington, with Soviets prepared to negotiate on the basis of the U.S. position in April; Palmby comes down from New York and pays a "courtesy call" on Russian trade officials.

United States-Soviet agreement was announced July 8, providing for sale of \$750 million of grains—corn, barley, wheat, sorghum, rye, oats—over 3 years, \$200 million of which to be purchased by August 1, 1973. Secretaries Butz of Agriculture and Peter Peterson of Commerce implied at press conference that most of the immediate Soviet purchases would be corn and other coarse grains. Secretary Butz acknowledged at the July 8 meeting with the press that the Soviets would have to buy wheat beyond the wheat already contracted from Canada, but he stated that "they [the Soviets] have plenty of wheat for now."

August 24: Charles Pence, Director of the Grain Division of the Department of Agriculture's Export Marketing Service, calls Continental and other larger grain trade corporations on morning of August 24, informing them that effective August 25 the USDA

wouldn't necessarily hike the export subsidy to match domestic price increases.

This advanced knowledge gave Continental and other traders an opportunity quickly to close sales in order to qualify for the 38-cent subsidy in effect August 24, and to ask the USDA to compensate them for any lag of the export subsidy behind domestic price increases during the previous 3 weeks.

August 25: Department of Agriculture announces special 47 cents per bushel export subsidy on wheat sold by traders prior to August 24, 3:31 p.m.

Traders booked for export subsidies on 280 million bushels of wheat during the August 25-September 1 "grade period" under the 47-cent subsidy: almost twice the amount booked during the entire month of July, according to figures that Secretary Butz gave out at the press conference Saturday a week ago.

September 6: Agriculture Department makes available to press an alphabetized list of 20 firms—including Continental Grain—who booked 47-cent subsidies during August 25-September 1. The list was unrevealing, since it did not break down amount of subsidy by individual firm and indicate the dates on which the specific firms got specific amounts of subsidy.

September 9: Agriculture Secretary Butz holds Saturday news conference; withholds from the press facts on the amount of subsidies for which specific companies booked on specific dates, calling this "privileged information for the companies themselves." The Secretary on that Saturday at that press conference did give out tidbits of information of this sort. He indicated, for example, that Continental and Cargill booked a small amount—he did not say how much—during one day in July. But the point I am making here is that the Department has been giving out these small amounts of information. Secretary Brunthaver again this morning gave enough information to mislead the Committee and mislead the public. What we are saying is: Why not get the entire story? Why not get the entire amount that was booked during this period of time by specific companies on specific days? I think you would have some information that you could proceed from and ask other factual questions, if you had this basic information.

September 14: House Agriculture Subcommittee on Livestock and Grains opens hearing on Soviet grain deal; Chairman Graham Purcell calls upon Secretary Butz to supply to the committee by Monday, September 18 the dollar value of subsidies booked by specific trading companies, broken down by day of booking. After extensive probing by Chairman Purcell, Secretary Butz finally agreed, as I heard him, to "see what we can do."

Essential facts remain unanswered: Is 400 million bushels the total amount of wheat sold to the Soviet Union since July 1? How much of the total was sold by Continental Grain, at what price? On what dates did Continental sign up for export subsidies, and in what amounts? What information, if any, did Clarence Palmy carry with him from the Agriculture Department to Continental Grain, or secure from the Department since his departure, to give Continental an inside track in making sales and maximizing their windfall profits on export payments?

These factual questions must be answered on other companies and other individuals as well, before the shadow over the Soviet grain

deal can be removed. Mr. Palmby and Continental Grain are singled out here because he was USDA's top official for international affairs and because Continental Grain apparently sold some 300 million of the reported 400 million bushels of U.S. Wheat purchased by the Soviet Union.

Another reason for focusing on Continental Grain and Mr. Palmby is that Continental purchased last December and now operates Oroweat Bakeries on the west coast.

Now, in response to Congressman Poage's question this morning, Mr. Brunthaver indicated that bakeries, among other parts of the industry, could have reaped an advantage from having advance information.

This operation of Continental Grain includes six bakeries and a mill in Los Angeles and San Francisco, with annual sales of \$50 million. The baking industry has complained that they could not anticipate the Soviet sales and therefore could not hedge in the futures market against rising prices. If Continental had advance information on the Soviet sales, they would purchase cash wheat and futures early at lower prices for an additional reason: to give them a windfall profit or to broaden their margin of profit on their bakery operations on the west coast.

In his press conference last Saturday, Secretary Butz chastised those who would perhaps presume the worst on the basis of circumstantial evidence about "inside" deals in the Soviet sales. He called for "proof," for "evidence," and he said that he welcomed it. When asked whether he thought it proper for the public to question these things, he responded: "Question them on facts."

As the Secretary knows, the facts are closely held in this business. Dr. Ray Goldberg, a Harvard University professor of Agri-Business, found that in 1967 some six exporters handled about 90 percent of U.S. wheat exports. These were: Cargill, Continental Grain, Archer Daniels Midland, Bunge, Dreyfus, and Peavey. Five of these six—ADM is the exception—are privately held corporations, and don't even report basic financial data to the Securities and Exchange Commission.

Mr. Brunthaver suggested this morning that there has been some broadening of the business to other firms in response of Mr. Zwach's question. According to the statistics that I have, there has been perhaps a slight broadening since 1967, but not very much.

In fiscal year 1971, there were five top wheat exporting firms (Cargill, Continental Grain, Cook, Bunge, and Dreyfus). Note that Cook was not in the top six in 1967, but by 1971, the company from which Assistant Secretary Brunthaver came, Cook, had moved up to number three in rank—received \$92.6 million of the \$139.3 million of wheat export subsidies from USDA, or 66.5 percent of the total.

This information on fiscal year 1971 exports was finally secured last year by Senator Fred Harris after the Agri-Business Accountability Project—a private research organization here in Washington, tried without success to get similar information. The AAP made two requests for the subsidy figures. The first time they were given the names of several companies that exported but no subsidy figures. On the second try, they were told that the subsidy figures might be available but only if they paid \$1,493.28 to compile them. Later, Senator Harris made a request to the USDA for information on wheat exports. After several months of correspondence with the USDA, the

figures were finally released following a Harris-to-Palmby letter, a copy of which went to Senator Gale McGee, the chairman of the Agricultural Appropriations Subcommittee in the Senate.

Mr. Chairman, this is only a brief synopsis of what was gone through, as I understand it, to get these figures last year. There was a lot more haggling than I will go into at this point. This is extremely condensed.

So facts are hard to get. I would suggest that there is reason that you are still having difficulty in getting these basic facts. Apparently, there is something to be covered up. I think it is time that we go beyond worrying about whether revealing this information might hurt the competitive advantage of one company over another. The trading firms and the Department of Agriculture have the information that is necessary to clear up the issues surrounding the Soviet sales, to the extent they can be cleared up. Farmers Union urges you and your committee to continue to press until you get the vital information on this year's sales.

Mr. Chairman, I am about finished. I want to talk very briefly about whether we sold wheat too low to the Soviet Union. I will begin by quoting from then Assistant Secretary Palmby, at the hearings that your committee held last December 8 on the grain sales of last year. Assistant Secretary Palmby said at that time:

What has also happened since September is that Canada made substantial forward barley sales for export at very attractive prices to buyers . . . I frankly think that the Europeans, and to a degree the Canadians, sold too much barley, too rapidly, for too low a price.

The same question can be asked, did we sell wheat this year to the Soviets at bargain basement prices in order to clinch these sales for the grain trade corporations? Secretary Butz acknowledged in his testimony last Thursday that it was the established policy of this Government to hold the U.S. export price at about \$1.03 a bushel f.o.b. Gulf ports. I have a chart, which shows that U.S. export price for wheat was held around \$1.63 per bushel during July and August, 1972. Our export price was \$1.63 on July 10. It was between \$1.63 and \$1.67 during July and August as well as prior to that.

On September 1, the U.S. export price jumped overnight to \$1.87 a bushel. As of last Friday, when we got these statistics, about 4 o'clock last Friday, the U.S. export price had jumped to \$2.13 $\frac{1}{8}$  cents per bushel, or a 48 $\frac{1}{2}$  cent increase per bushel in some 10 trading days after the Soviet sales were completed and after the 47 cent per bushel subsidy period had expired.

(The chart referred to above follows:)

Date	U.S. export price	Subsidy	Export price plus subsidy
July 10	\$1.63	\$0.09	\$1.72
Aug. 1	1.64 $\frac{1}{2}$	.16	1.80 $\frac{1}{2}$
Aug. 31	1.65	.47	2.12
Sept. 1	1.87	.30	2.17
Sept. 5	1.88 $\frac{1}{2}$	.30	2.18 $\frac{1}{2}$
Sept. 6	1.87 $\frac{1}{4}$	.30	2.17 $\frac{1}{4}$
Sept. 7	1.88 $\frac{1}{8}$	.29	2.17 $\frac{1}{8}$
Sept. 8	1.88 $\frac{3}{8}$	.30	2.18 $\frac{3}{8}$
Sept. 11	1.92	.29	2.21
Sept. 12	1.99	.28	2.27
Sept. 13	1.99 $\frac{1}{4}$	.26	2.25 $\frac{1}{4}$
Sept. 14	2.04 $\frac{3}{4}$	.25	2.29 $\frac{3}{4}$
Sept. 15	2.13 $\frac{1}{8}$	.25	2.38 $\frac{1}{8}$

Mr. BARTON. No doubt, these increases would have started earlier if we had not held the price down for the Soviet sales. Indeed, there is a chance that the going world price might have overtaken the cost to the trading firms of delivering wheat to the port, yielding an inverse subsidy payment back into the U.S. Treasury. A taxpayer benefit might have resulted from this sale, rather than it costing millions of dollars to the taxpayer in terms of export subsidy, if we had not held down the world price.

Congressman Melcher's question to Assistant Secretary Brunthaver last Thursday I think tied down this question of whether there was much wheat that would have been in competition with our wheat, so that we might have lost the sale if we had gone up some in price.

Canada did not have available wheat, and also Canada's ports and facilities were committed. I was told this last Friday by E. K. Turner, of Saskatchewan Wheat Pool, and he has been saying this for months. Australia has basically exhausted its wheat supplies. France may have some wheat, but not much wheat. So I think the question should be pursued: did the trading firms sell U.S. wheat much too low under the protection of the USDA's liberal export subsidy policies?

The last and final thing that I want to briefly mention is the question of an international wheat agreement. I think if we had had at this time, at the time of these sales, a workable international grain arrangement with minimum and maximum prices prescribed in the agreement, that much of this dealing could have been brought on top of the table. We could have sold the same amount of U.S. wheat at higher prices. Indeed, I think you can say that we might not be here in this hearing today if we had had that kind of agreement.

I do want to get on the record that it was last year that we lost the International Grains Arrangement with minimum and maximum price provisions. It was a time when the grain trade was again opposing any meaningful agreement, as they have done consistently in the past. And it was the then Assistant Secretary for International Affairs, Clarence Palmby, who was the chief negotiator for the USDA and, in a factual sense, for the U.S. Government, who led those negotiations in Geneva for our Government to drop pricing provisions from the Agreement. So we now have a meaningless international wheat agreement, without pricing provisions, and this certainly opened it up to the kind of situation that you are trying to deal with here.

Mr. Chairman, that concludes my statement and I would be pleased to respond to questions which you might have.

(The following was attached to Mr. Barton's statement:)

#### LOSSES TO FARMERS

Under the 1970 Agricultural Act, the farmer should receive 100 percent of parity on the production from his domestic allotment.

Under the law, payments to the farmer are actually made as the difference between the parity price of wheat on July 1, and the average market price received by farmers during the five-month wheat marketing season: July-November.

Parity price of wheat July 1, 1972 : 3.02/bushel.

#### Average market price received by farmers

	Amount
July (actual)-----	\$1. 32
August (actual)-----	1. 51
September (estimated)-----	1. 75
October (estimated)-----	1. 95
November (estimated)-----	1. 95
Total -----	8. 48

\$1.70/bushel average for 5 months :

\$3.02  
 —1.70

1.32=payment/bushel

If farmer sold wheat in July (i.e. *after* the July 8 announcement of sale to Soviet Union, but *before* prices began to rise August 4), and he received the average of \$1.32/bushel :

\$1.32 payment  
 +1.32 market

2.64/bushel total received by farmer

\$3.02 parity on July 1  
 —2.64 total received by farmer

.38 loss/bushel

If 400 million bushels sold, 45% of which was domestic allotment :

180 million bushels  
 × 38¢/bushel

\$68.40 million loss on wheat certificate payments

In addition, on the other 220 bushels, the farmer would forgo the higher prices because he did not have the information that large shipments of *wheat* were involved—and therefore, that wheat was going up in price.

Assuming that, if the farmer had been given the information to make judgments in the marketplace he could have sold this other 55 percent at the 5-month average of \$1.70/bushel :

\$1.70  
 —1.32

.38/bushel loss

220 million bushels  
 × 38¢

\$83.6 million loss in the market

\$68.4 million loss on wheat certificate payments  
 +83.6 million loss in the market

152.0 million total loss because market information was withheld from the farmer

House Joint Resolution 1300 would provide reimbursement to the farmer only for his losses on wheat certificates.

Mr. PURCELL. Thank you, Mr. Barton. I want to ask if you will step aside temporarily until we hear from these other organization witnesses and we will question them and you together.

We will hear at this time from Mr. Charles Frazier, director, Washington staff, National Farmers Organization.

#### STATEMENT OF CHARLES L. FRAZIER, NATIONAL FARMERS ORGANIZATION

Mr. FRAZIER. Thank you, Mr. Chairman.

The National Farmers Organization appreciates this opportunity to raise some questions about the terms of the agreement reached by the Governments of the United States and the Soviet Union on the sale of grain. Our members are apprehensive because we are not satisfied that full information on the terms of the agreement, quantities of grain

to be moved and applicable prices have been publicly available in a manner that would benefit grain growers.

Our organization negotiates contracts for our members, marketing grain at the best possible price. We and others like us can operate efficiently only if we are provided full, accurate information on policy and day-to-day operations in the department that relate to grain programs.

It should be noted at the outset that those grain producers who have blocked or otherwise held their grain are in position to take advantage of the improved market. If more producers were committed to carrying out organized marketing programs such as we have in the NFO, they would be in a stronger financial position today. Unfortunately, many producers are not in that position; they stand to lose both in the price received and in the certificate payments to be made under the 1972 program.

For months producers were led to believe that grain prices would not improve for the 1972 crop. In contrast with their position, those export companies who were closely in touch with the department had definite advantages.

In order to pose certain questions that may suggest policy changes for your consideration, these observations are offered:

Until we received the 25th of August announcement with the wording, "the Department said it may no longer be able to hold U.S. export prices at world market levels \* \* \*," we were completely unaware of any price goal that now appears to have been agreed upon with the Russian Government.

In early 1971 the policy was changed in the USDA to make it unnecessary for a company filing for subsidy entitlement on a given quantity of grain to designate the receiving country. This information is disclosed only when the grain is loaded out and the subsidy claimed.

The Secretary, on September 14, spoke of 35 separate speeches, press conferences, et cetera, on the prospective sales to the Soviet Union. Not once was there any clearcut explanation to producers of how the export subsidy authority would be used to bolster sales of the grain surplus in foreign trade or the price goal recently disclosed.

The general farm organizations and commodity organizations maintain offices in Washington in order to be of service to their members. Although these organizations represent the vital food production sector, they have been excluded from USDA discussions of potential export sales, weather and crop conditions abroad, subsidy rates or any other aspect of this program.

The USDA is reported to have called in representatives of the trade prior to announcement of the 1973 wheat program provisions for advice and consultation. This program specifically controls the production and income of producers of wheat each year but, again, it apparently was not considered appropriate to include producer representatives who are available here and vitally interested.

Secretary Butz, himself, stated that he feels the Government has an obligation to play fair. He goes on to say, "The exporter is entitled to know what plan we are using, what the rules are and when the rules are changed." While we readily agree, the related question is obvious: Is it not equally important to keep producers, the smaller

companies engaged in the grain trade and the leadership of their organizations informed about impending policy changes?

In a meeting of 11 farm organizations representing producers in the United States and Canada on September 7 in St. Paul, Minn., we discussed the need for a more meaningful international grains agreement with minimum and maximum prices fair to producers. At that time we heard good reports from Canadian leaders on weather and sales prospects abroad, based on information obtained through Canadian channels, but I have yet to receive any timely advice from the USDA on these factors that obviously bear on our producers' prices—and we are all paying the bill to gather such information through diplomatic channels.

This may have been a historic grain sale but it also may turn out to be an historic example of the U.S. Department of Agriculture's forgetting who comprises its main constituency. Some of us believe the department should function primarily in the interest of farmers, not the interests of agribusiness and foreign traders.

The handling of the Soviet grain sale has given rise to very serious questions that are now being widely discussed in the news media. We in the NFO support the expansion of foreign trade on American farm products but we are equally firm in believing that export sales should be made at prices that return the cost of production and a reasonable profit to the producer.

In summary, why does the present administration of the USDA continue to oppose an international grain agreement with minimum price provisions, in spite of Senate Resolution 136 unanimously passed in 1971 urging that negotiations be undertaken pursuant to article 21 of the present agreement? The Soviet Government should pay the full price for American grain.

Why is there not an arrangement for representatives of producers to sit in USDA discussion with trade representatives when program policies, trade arrangements and similar matters are discussed? To do otherwise is to invite charges of secrecy and favoritism.

The export subsidy authority is a valuable tool to protect our position in the world market. Why should there not be a more open system of immediate reporting on companies filing for subsidy, amounts involved, countries of destination and the cost of the program?

At this point it should be noted that in order to rectify the damage already done, we will endorse any corrective legislation, as discussed by Chairman Purcell on September 14, to fairly adjust the value of wheat certificates on 1972 wheat for those producers who sold on the low market because they were not informed about the impending large scale purchases of the foreign traders.

Gentlemen, we have raised questions in the interest of improving the administration of our farm programs. You are urged to pursue them and are assured of our continuing cooperation.

Thank you.

Mr. PURCELL. Thank you, Mr. Frazier, and as I told Dr. Barton, I ask that you step aside and remain available for questions.

We will call at this time Mr. Eugene Moos, president, National Association of Wheat Growers.

STATEMENT OF EUGENE MOOS, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, ACCOMPANIED BY JERRY REES, EXECUTIVE VICE PRESIDENT, NAWG

Mr. Moos. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, my name is Gene Moos and as president of the National Association of Wheat Growers, I am here speaking for our grower members. Accompanying me today is Mr. Jerry Rees, executive vice president of the National Association of Wheat Growers.

We ask the committee's indulgence as we divide our statement into three parts: (1) the present wheat situation; (2) farm programs and their relationship to the Russian wheat sale; and (3) opportunities to improve U.S. policy to maximize future benefits.

Just about a year ago the National Association of Wheat Growers appeared before this same committee telling of our concern over the threat of overproduction of wheat and feed grains in 1972. Fortunately, and even though it meant additional Federal expenditures, the administration responded by offering additional voluntary diversion programs to grain producers. These additional diversion programs were successful in that they brought production more in line with expected disappearance.

Producers cooperated by stabilizing their production to anticipated market requirements and it appeared we would have another normal grain marketing year. USDA projected in early August that wheat prices would remain firm at \$1.31 per bushel for the coming marketing year. This would have meant another marketing year when domestic prices hovered at loan levels, a price somewhat less than producer production costs. With this price outlook, the net profit potential for most grain producers rested mainly with the Government payments they would receive. International wheat prices were even lower than domestic prices.

Now, within a few short months, everything has changed. The huge sales of grain by the United States and other exporting countries to the Soviet Union has turned the international grain market around from a buyer's market to a seller's market. Domestic wheat prices as well as international wheat prices have risen significantly and feed grain prices are beginning to follow.

Within a period of 2 months, the income outlook for wheat producers has changed completely. All of a sudden the situation that wheat growers have been looking forward to for years has become a reality. Wheat growers can now look to the market for a larger share of their income rather than to the federal treasury. This, then, is what the Russian wheat sale means to the U.S. wheat producers.

President Nixon and his administration deserve much credit and appreciation from the wheat growers. By taking the necessary steps to open up trade between the U.S. and the U.S.S.R., the grain sale became possible. The positive results from these sales as outlined by Secretary Butz in his testimony to this committee are real. Farmer income has been improved by hundreds of millions of dollars, taxpayers' costs are reduced, new jobs created, U.S. balance of payments improved and probably most important, the prospects for international stability and peaceful coexistence has been greatly improved.

Now that we have reached this happy state of affairs, how do we continue it to the benefit of both producers and national interests?

The following facts cannot be overlooked if we are to continue our most favorable position: (1) The size of the Russian grain sale relates more to a shortfall in Soviet production because of adverse weather conditions than it does to sales of a continuing nature. In other words, the United States and the other major grain exporters cannot depend on this volume of Russian purchases on a year-to-year basis. (2) World wheat stocks as well as U.S. stocks will be pulled down to a manageable level by the Russian demand this year. Burdensome surpluses will not hang over the United States or the world market at the end of this marketing year. (3) There still exists the threat of overproduction. Until demand increases further, the world's grain producers do have the capacity to oversupply the existing markets.

Relating these positive benefits accruing from the Russian sale points out the essential role that farm programs can play in the days ahead. As an example, pressure is already building to force USDA to relax production controls in 1973. NAWG sincerely believes that to relax production controls in 1973 would be to court disaster by inviting back the low prices and surplus stocks of just a few months ago. NAWG strongly recommends that the USDA stick with the 1973 program provisions recently announced.

The present Farm Act expires with the 1973 crop. The question arises, then, what effect will the Russian sale have on the chances of passing new farm legislation, especially since public support for farm programs has been diminishing in recent years, partly due to the increasing costs of the programs and partly due to the farmers' own dissatisfaction with the results of the program. Now NAWG believes if we capitalize on the benefits of the Russian sale and combine these benefits with proper production management by USDA, we could change that outlook. Given careful production management by USDA, grain producers could continue to receive a larger share of their income return from the marketplace.

This, in turn, would reduce to some extent government costs for price supports. Admittedly, this could increase food costs slightly but under any circumstances the public is going to have to provide a reasonable return to producers if these producers are going to be able to supply adequate supplies of food. How much better for our free enterprise system if producers could get a greater share of that reasonable return from the marketplace. Reasonable returns to producers will help keep people in rural areas, strengthen the rural social structure and at the same time reduce the need for rural development programs.

Relating the Russian sale to international wheat prices, one can also see some positive benefits. The present international wheat price is realistic in terms of the cost of production. Now the problem is to keep it at this level. NAWG feels that this is entirely possible if there is a reasonable amount of cooperation between the major wheat producing countries. The precedent for this type of cooperation already exists. NAWG calls on the USDA to cooperate in maintaining existing world wheat prices.

While there are many plus factors to the Russian sale and expanded world trade in grains, we should not overlook the opportunity to improve U.S. policy to maximize future benefits.

NAWG suggests: 1. reevaluation of the U.S. world wheat price policy. The U.S. has contributed to a stable low world wheat price policy for several years. Considerable criticism of this policy has come from many sources, including other major exporting countries. NAWG believes in the response of prices to supply and demand at both the domestic and world level and urges reappraisal of the U.S. policy.

2. The U.S. Government entered into a partnership with the private trade in an attempt to emulate the Canadian-U.S.S.R. type of grains agreement. Canadian-U.S.S.R. sales are a government-to-government contract developed through the Canadian Wheat Board. U.S. interests, Government and private, have been critical of these agreements because of the guarantee of quantity with options and set prices over an extended period of time. This has the effect of severely limiting competitive marketing and the movement of world prices in response to changing supplies and demand.

NAWG believes that every effort should be made to move away from the Canadian Wheat Board type of contract and every influence should be utilized to encourage competitive marketing conditions.

3. To accomplish the Russian sale, the USDA has overused the export subsidy program as a tool to hold world prices down. This has jeopardized public support for the export subsidy program. The export subsidy program is a vital tool to the U.S. producers and the grain trade in their efforts to be competitive in world markets. USDA should do everything possible to protect the creditability of this program.

4. Considerable criticism is leveled at USDA for being too trade oriented in its policy making, primarily because there have been a number of people from the grain trade appointed to high policy positions. NAWG would encourage USDA to restore more policy balance by the appointment of additional qualified people from the producer sector in policy positions.

5. While NAWG believes in the involvement of private grain trade in U.S. grain sales, many of these companies maintain offices in other countries for the purpose of exporting wheat and feed grains in direct competition with U.S. commodities. We feel, therefore, it would be in our direct interest if efforts and assistance were provided to the farmer-owned cooperatives to expand their activities as competitive entities in international grain trade.

6. The timing of the Russian wheat sales caught some of the wheat producing areas of the United States at a disadvantage. In the early harvest areas of the southern and central plains, many producers sold after harvest yet, before the market impact of the Russian purchases were felt. Normally, the income loss suffered by those who sold too early would be just the breaks of the wheat marketing game. However, since the 1970 Agriculture Act ties the value of wheat certificates to the difference between parity and the first 5 months' average market price, a new and complicating dimension has been added.

Prices can and have been influenced by governmental action. Government therefore has a responsibility to provide relief from such action. These producers reason that the Russian wheat sale added to

the volatility of the wheat market, penalizing those who marketed early unfairly.

NAWG, in sympathy with these producers, has called upon Secretary Butz for administrative action or, if necessary, an amendment of the Agriculture Act of 1970 and solicits his support to correct the inequity created by unusual market conditions.

If legislation is required, one approach would be an additional provision to title IV, wheat, section 379b, setting up an alternative method of computing payment. The alternative could allow payment to be based on the difference between the national average price for July—\$1.32—and parity July 1. Eligibility would be determined by producers establishing to the satisfaction of county committees early sales of 1972 crop wheat. The number of certificates eligible for the adjusted payment would be the amount sold, not to exceed the certificate allocation for the farm. A blend formula could be included to maintain equity between those qualifying under the original formula and an alternative formula.

There would be no additional funding needed. USDA computation for the preliminary certificate payment made in July was \$1.70 per bushel. With the increase in prices, the final payment based on the higher actual average market price will drop to the \$1.50 range. This would reduce the value of certificate payments to wheat growers on a national basis \$100 million.

Our suggested alternative would increase the income of producers not benefiting by higher prices \$20–25 million and still leave a savings to USDA of \$75–80 million.

In closing, NAWG thanks you, Chairman Purcell and the members of your committee, for the opportunity to make our statement.

If you will turn to the back two pages, there are some charts there for your reference which give a relationship of the wheat prices of the different classes as a result of the last year or so marketing.

Mr. Rees and I will be very happy to answer any questions later.

Thank you very much.

(Attachments to prepared statement follow:)

U.S. WHEAT PRICES—DOMESTIC AND WORLD<sup>1</sup>

	HRW ordinary—Gulf				Winter white—Portland			
	Cash (KC) <sup>2</sup>	F.o.b. vessel	Subsidy	Net or world	Cash	F.o.b. vessel	Subsidy	Net or world
July 7, 1971	\$1.50–\$1.54 <sup>3/4</sup>	\$1.69 <sup>1/2</sup>	\$0.02	\$1.67 <sup>1/2</sup>	\$1.60	\$1.65	\$0.01	\$1.64
June 28, 1972	1.46–1.49 <sup>3/4</sup>	1.64 <sup>1/2</sup>	.01	1.63 <sup>1/2</sup>	\$1.59–1.60	1.59	.00	1.59
July 5, 1972	1.51–1.53	1.69	.06	1.63	1.58–1.59	1.59	.00	1.59
July 12, 1972	1.58 <sup>1/2</sup> –1.60	1.76 <sup>1/2</sup>	.13	1.63 <sup>1/2</sup>	1.63–1.64	1.67	.03	1.64
July 19, 1972	1.61 <sup>1/2</sup> –1.63 <sup>1/2</sup>	1.79 <sup>1/2</sup>	.15	1.64 <sup>1/2</sup>	1.59–1.60	1.64	.02	1.62
July 26, 1972	1.59 <sup>1/2</sup>	1.77 <sup>3/8</sup>	.14	1.63 <sup>3/8</sup>	1.60	1.66	.03	1.63
Aug. 2, 1972	1.62 <sup>1/2</sup>	1.80 <sup>3/4</sup>	.17	1.63 <sup>3/4</sup>	1.61–1.62	1.66	.04	1.62
Aug. 9, 1972	1.75 <sup>3/4</sup>	1.96 <sup>1/4</sup>	.31	1.65 <sup>1/4</sup>	1.73–1.74	1.79	.08	1.71
Aug. 16, 1972	1.82	2.04	.36	1.68	1.79–1.80	1.85	.20	1.65
Aug. 23, 1972	1.90 <sup>1/2</sup>	2.14 <sup>1/4</sup>	.38	1.76 <sup>1/4</sup>	1.93–1.94	1.98	.23	1.75
Aug. 30, 1972	1.91 <sup>1/2</sup>	2.14 <sup>1/4</sup>	.32	1.82 <sup>1/4</sup>	1.99–2.00	2.07	.18	1.89
Sept. 6, 1972	1.95 <sup>1/4</sup>	2.18 <sup>1/4</sup>	.30	1.88 <sup>1/4</sup>	2.04	2.13	.22	1.91
Sept. 13, 1972	2.04	2.25 <sup>1/2</sup>	.26	1.99 <sup>1/2</sup>	2.05–2.06	2.17	.20	1.97

<sup>1</sup> Source: Daily Cash Prices USDA Agriculture Service, Calculated U.S. Wheat Prices USDA, Export Marketing Services.

<sup>2</sup> Kansas City.

<sup>3</sup> July 8 announcement on Russian grain sale announced.

<sup>4</sup> Export subsidy policy change reported effective Aug. 24 all sales not previously registered eligible for increased subsidy. HRW Gulf 0.09¢ and white wheat Portland 0.20¢.

## MOVEMENT IN WORLD PRICES OF U.S. WHEAT/PER BUSHEL

Export coast and class wheat No. 2	Protein level (percent)	Net f.o.b. vessel or world price		Change
		July 5, 1972	Sept. 13, 1972	
Pacific Northwest:				
Dark northern spring.....	14.0	\$1.74	\$2.05	+\$0.31
	14.5	1.76	2.09	+ .34
	15.0	1.78	2.15	+ .42
Hard red winter.....	Ordinary	1.60	1.91	+ .31
	11.0	1.61	1.93	+ .32
	12.0	1.67	1.99	+ .32
	13.0	1.71	2.04	+ .33
	14.0	1.75	2.12	+ .37
Western white.....	Ordinary	1.59	1.97	+ .34
California: Feed.....	Ordinary	1.70	1.92	+ .22
Gulf:				
Dark northern spring.....	14	1.77 $\frac{1}{8}$	2.09 $\frac{1}{8}$	+ 32 $\frac{1}{2}$
	15	1.84 $\frac{1}{8}$	2.12 $\frac{1}{8}$	+ 28 $\frac{1}{2}$
Hard red winter.....	Ordinary	1.63	1.99 $\frac{1}{2}$	+ 36 $\frac{1}{2}$
	11.0	1.63	1.99 $\frac{1}{2}$	+ 36 $\frac{1}{2}$
	12.0	1.63 $\frac{1}{2}$	2.00 $\frac{1}{2}$	+ 37
	13.0	1.64	2.01 $\frac{1}{2}$	+ 37 $\frac{1}{2}$
	14.0	1.66	2.02 $\frac{1}{2}$	+ 36 $\frac{1}{2}$
Soft red winter.....	Ordinary	1.57 $\frac{1}{4}$	1.89 $\frac{1}{2}$	+ 31 $\frac{1}{4}$
East:				
Dark northern spring.....	Ordinary	1.60 $\frac{1}{4}$	1.72 $\frac{1}{4}$	+ 12 $\frac{1}{4}$
	14.0	1.65 $\frac{1}{4}$	1.92 $\frac{1}{4}$	+ 27 $\frac{1}{4}$
	15.0	1.71 $\frac{1}{4}$	1.95 $\frac{1}{2}$	+ 24 $\frac{1}{4}$
Soft red winter.....	Ordinary	1.58 $\frac{3}{4}$	1.87 $\frac{1}{2}$	+ 28 $\frac{3}{4}$

Mr. PURCELL. Thank you, sir, and you have heard my request on the part of the other two witnesses, so we would appreciate your being present for questioning with the other witnesses.

At this time we will call Mr. Cleo A. Duzan of Oakland, Illinois.

**STATEMENT OF CLEO A. DUZAN, CHAIRMAN, UNITED GRAIN  
FARMERS OF AMERICA, OAKLAND, ILL.**

Mr. DUZAN. Good day, Mr. Chairman.

As you all know, in 1969 I drove tractors to Washington, D.C., for one reason only: to show that we don't want charity; we want parity. We will rebuild rural America if we can get parity.

I want to say also in these facts I have facts pertaining to the 22d District in Illinois, which composes about one-fifth of the State and I can report from what is being read to rural America.

Now, we do not have the availability of all the facts, but I want to propose to you people what we in rural America feel, that this is good for us to know the facts of what is going on in Washington. My statement is as follows:

I am Cleo A. Duzan, chairman of the United Grain Farmers of America. Thank you for allowing me the opportunity to testify. I will be as brief as possible. I limit myself to two aspects of this case: first, the results of this Russian grain deal on about one-fifth of the rural counties in Illinois; and, the second, a short list of requests that my farm friends have asked me to put before the committee.

I begin by reciting a quotation in a Chicago Tribune story printed September 10th under the by-line of Arthur Liddon. According to Mr. Liddon, and I quote:

Carroll Brunthaver, Assistant Secretary for International Affairs and Commodity, said the grain sale to Russia has totaled \$300 million to date and resulted in a \$200 million profit for American farmers.

Now, sir, you and I both know that the American farmers did not get a \$200 million profit on this grain sale. Unfortunately, too often the news media accepts the word of a governmental official at face value and without questioning. This has helped to undermine the credibility of Government and in terms of agriculture, at least, this has been a factor regardless of which political party is in power.

It is probably true that someone or some few individuals did get a \$200 million profit, but it wasn't the farmers, as earlier testimony here has shown. The truth of the matter is, the American farmers took a heavy beating on this deal. It has been shown here in this committee hearing that farmers had been urged by the USDA to sell wheat and, relying on the USDA forecasts, farmers in the 19 counties in central Illinois did just that. But they sold at a low price, as you know.

If it is true that the exporters are to get over a 40-cent subsidy for each bushel of wheat sold to the Russians, then the loss to the farmers in the 19 counties had to be about \$7 million. That is \$7 million that did not come into the local economy. I will not get into the projections of what it would have meant to the small businessmen in the 19 counties in terms of generating additional gains, except to say that some economists believe that every dollar added can mean the development of seven more; but that is speculation and we have had enough of that. I submit that the records show that wheat production in this area in 1971 was 14,239,750 bushels. We do have two certain figures—the wheat production and the subsidy to the exporters, money for grain the farmers did not get.

On this basis, from 19 counties the State of Illinois lost about \$350,000 in possible revenues from sales taxes and the communities in the 19 counties lost about \$75,000 which would have come back to them on a revenue-sharing basis with the State. I have listed in a written statement a breakdown of what that means for each county in the 19-county area.

Now, besides the figure of some 40 cents which we know the exporters got for each bushel of wheat, there is the fact that the Russian grain deal has driven the market up by at least 50 cents a bushel above normal price which is below parity—and it may go higher. But American farmers generally will get none of this gain because they have already sold most of their wheat, again on the advice of the USDA.

There are two points here: The first is that if farmers in the 19 counties I have talked about earlier in this testimony had gotten a chance at this extra 50 cents a bushel, it would have meant better than \$7 million more for the local economy. Using this added 50 cents, the State of Illinois lost about \$700,000 in sales tax moneys alone in the 19 counties, about \$150,000 of which would have returned for city and community governments.

The second point is that the increase in the price of wheat means a possible increase in the price of bread. The price increase may very well be a large one. Not only will the farmer end up being cheated out of money that is rightfully his, but he can also expect to be unjustly blamed for higher bread costs. The USDA officials have already set the stage for this with statements like that of Mr. Brunthaver that I quoted at the start of my testimony here today.

In conclusion, I offer these suggestions, put together by actual dirt farmers back home—suggestions and questions that I believe should have consideration.

First is a request for legislation that requires the USDA to make a full public report on all foreign commodity dealings instantly and that all foreign purchases of grain be made a matter of public record. This is vitally important for all American farmers as well as the farmers in the 19 counties involved with this testimony. If the other deals with Russia and the upcoming one with China are to be handled the same as this wheat deal, then the results could be disastrous. If the farmers in the 19 counties were to lose 25 cents a bushel on corn, for example, the direct loss to them and to the communities and governments they support would be more than \$40 million in 1 year.

The second request is for legislation that would require the USDA to use Government-owned stocks of commodities first in any dealings with nations that do not permit free enterprise activity. If there is a need for more of any given commodity, then the USDA, after all disclosure, can go into what has been misnamed "the open market" to pick up the amount needed.

Furthermore, this legislation should, if possible, cover the present wheat deal. This would result in a tremendous savings to the American taxpayer who is the person who is underwriting the entire deal—about \$750 million. I realize that if such legislation were attempted then the exporters would claim that the Government cost them huge sums of money because they acted in good faith on the Government's advice. So did the American farmer.

The third request is that legislation be passed calling for all commodity sales to be listed and always open to public inspection. The American farmer does his own marketing and he is clearly at a disadvantage because of the USDA manipulations and the close relationship between the major grain buyers and USDA officials. If at least the buying and selling records of the five leading buyers of grain were to be listed publicly, then this subcommittee could tell immediately whether or not the USDA had, in fact, tipped off the exporters so they could make a fat killing on the sweat and blood of the American farmer.

The fourth request is that this subcommittee subpoena the records of the major grain exporters involved in this Russian grain deal. The records would demonstrate, by the variation in buying and selling and the dates of fluctuations, whether or not the major grain exporters had benefited from the clearly demonstrated unethical behavior of high-ranking USDA employees.

The fifth request is that this subcommittee attempt to pin down the USDA on the exact dimensions of this deal with Russia.

According to the Government, the current administration, the guiding rule of this grain deal was that we would loan the Russians \$750 million so they could buy our grain, but no more than \$500 million was to be spent in 1 year. At this time we are now talking about a 400 million bushel wheat sale to Russia. That just about covers the extent of the total credit we have agreed to give the Russians.

What about the corn, soybeans and barley that are supposed to be involved in the deal? How is the American farmer supposed to compete in the open market against the manipulations of a conspiracy composed of USDA officials and the major grain companies? Can you force the USDA to make public the information needed?

The last request is one from me personally.

This subcommittee now meeting is engaged in an effort that is not well understood by the general public but nevertheless what you gentlemen do here and now is very important to the future well-being of this Nation and the world for several generations to come. I know that the distinguished chairman of this subcommittee is aware that there is now a food crisis in this world that has been long predicted. I believe we are in the first stages of this crisis, a crisis so serious that we see military ideologies become secondary to the need for food. This crisis will grow worse and, ultimately the brunt of feeding much of the world will come down on the shoulders of the American farmer. If he, his wife and his children fail in this historic undertaking, then the whole world will see the four horsemen ride as never before. Make no mistake about it; empty bellies make a mockery of all treaties negotiated by well-fed men.

I think the American farmer understands this challenge perhaps better than the highly paid USDA officials whose greed and grubby political games have helped undermine the faith of the American.

I ask that this subcommittee begin laying the foundations now for legislation based on the fact that the American farmer is going to have to meet this challenge.

I respectfully ask this subcommittee to take action that will prevent the American farmer from being turned into little more than a USDA serf as his reward for attempting to meet the challenge of what we in this room know is coming.

Thank you for your time and know that a great many rural people all across this Nation send their thanks for your efforts on this subcommittee.

I want to say here that I have some questions from the dirt farmers. They do not understand what is going on. These are direct questions from farm people. You may not understand them but this is the way they were given to me.

1. Is the \$750 million credit figure valid? If so, how many cash sales have been made?

2. Is it true that in any 1 year the credit will not go over \$500 million? If so, the 400 million bushel sale figure that is floating around is a lie or we have already violated the contract.

3. Why won't the USDA reveal the sales of all feed grains, so the farmers can make intelligent decisions on marketing their 1972 crops? It would only be logical that since public funds are used to subsidize exporters, complete disclosure of sales and shipping dates by all exporters and the USDA should be demanded and be given to the public.

4. Why didn't the USDA sell the CCC stocks of 352 million bushels of wheat to Russia? A sale of CCC stocks would have saved the taxpayers millions of dollars by limiting the subsidies paid exporters and would have let the market function as a free market.

5. Why did the USDA lead the producers to believe that they should sell at harvest? It is estimated that at least 90 percent of the farmers in the 22d district took this advice and sold at harvest.

6. How much corn has been sold to Russia? Continental Grain has reportedly sold all the corn; they should reveal their records.

7. Does Russia have the right to transship this grain? If they do, they may ship it to our enemies.

8. Why did Butts swear on the 12th of September that he had no knowledge of a sale to China and on Thursday, the 14th of September, the sale was announced? The subsidy applications were approved at least 2 weeks before this, in late August.

9. If the exporters didn't know of the sale to Russia, why would they pay \$1.595 for 89 million bushels of CCC wheat sold July 7 ahead of the announcement? It could have been bought at much less on the market.

10. Why was the 47-cent export subsidy made retroactive from August 24, back to July 8, instead of a floating subsidy like is in effect now?

11. Why beginning June 1, 1972, was Peavey Grain Co. in Alton, Ill., paying 2 to 3 cents a bushel more for wheat than the other grain companies on the river? Was Peavey Grain funneling this wheat to Continental to disguise what Palmby had told Continental about the Russian deal?

Now, on the back of this, may I submit complete production in the 19 counties that I am speaking for today?

This is county-by-county breakdown and you will notice the bushels per acre. You will notice also the total production and you will notice on the total, if they were to make 50 cents more per bushel, they would have had \$7,119,000 for 14,239,700 bushels.

Now, do you people know that there are more people, in my estimation, on relief in my district than there are farmers?

Do you people know that this represents approximately \$233 to every man, woman and child in my district?

Do you people know that if this money had gotten back to my district, we could rebuild our own rural America?

I just want to close and say I appreciate the opportunity to be here, Chairman Purcell, and I hope I have not delayed your hearings by my being here.

Mr. PURCELL. Thank you very much, Mr. Duzan. You will remain at the table. I will ask Mr. Moos to sit at your left, Mr. Frazier to his left, and Dr. Barton to sit at the right end of the table.

(The chart attached to Mr. Duzan's statement follows:)

## 1971 ACREAGE, YIELD AND PRODUCTION

	Acres-wheat		Acres-corn		Acres-soybeans		Production
	Yield	Production	Yield	Production	Yield	Production	
Christian.....	18,400	892,000	159,600	18,554,800	148,400	5,744,300	
Clark.....	14,800	707,000	78,300	7,694,700	86,500	3,001,300	
Clay.....	16,500	705,000	45,300	3,179,800	88,300	1,750,700	
Coles.....	13,000	621,500	108,700	11,445,100	89,600	3,108,800	
Crawford.....	18,100	773,700	168,500	5,838,600	72,200	1,937,500	
Cumberland.....	11,700	553,300	53,300	5,451,700	60,000	1,967,900	
Douglas.....	7,700	407,300	118,900	13,353,700	78,100	2,797,300	
Edgar.....	13,600	650,200	133,300	14,302,600	109,400	4,017,800	
Edwardsville.....	10,500	480,600	34,600	2,295,000	29,200	1,826,600	
Effingham.....	20,400	954,600	133,600	14,302,600	68,000	2,534,200	
Fayette.....	27,300	1,166,000	67,600	5,016,300	116,200	4,049,200	
Lawrence.....	16,000	715,100	57,400	4,547,200	44,100	3,249,300	
Montgomery.....	21,800	927,000	110,000	10,393,700	124,800	2,245,200	
Moultrie.....	7,400	382,900	78,300	9,432,000	59,600	2,470,300	
Richland.....	15,100	660,500	54,000	4,356,100	61,800	1,470,300	
Shelby.....	24,900	1,139,800	148,600	14,695,100	13,000	4,263,600	
Vermilion.....	17,800	837,800	183,800	21,571,100	163,300	6,290,700	
Webb.....	11,000	481,200	45,200	3,565,800	19,700	368,600	
Wayne.....	26,400	1,181,600	75,300	4,975,000	121,000	2,649,500	

Source: Figures taken from Illinois Agricultural Statistics Annual Summary 1972—Illinois Cooperative Crop Reporting Service.

Mr. PURCELL. At this time I recognize Mr. Foley.

Mr. FOLEY. Mr. Chairman, I would like to reserve my time.

Mr. PURCELL. Mr. Mayne?

Mr. MAYNE. I would like to reserve my time, Mr. Chairman.

Mr. PURCELL. We appreciate Mr. Stubblefield being here. Inasmuch as he is not on our subcommittee, we will at least save some time if he wants to ask you some questions.

Mr. Sisk?

Mr. SISK. No questions, Mr. Chairman.

Mr. PURCELL. Mr. Price?

Mr. PRICE (of Texas). Mr. Barton, as I gather from your testimony, you think that we should have an international grain board like Canada and the European Common Market rather than the USDA or free enterprise individuals handling grain sales to foreign countries?

Mr. BARTON. Congressman Price, I am not talking there about how we handle the grain here in this country; I was talking about the International Wheat Agreement. I am saying that I think we ought to have an international agreement, including all of the major exporting countries—the U.S., Canada, Australia, France, and so on—as we had under the International Grains Agreement until last year.

It was not very operative because, beginning in 1969, the grain trade began to undercut that arrangement and it fell apart before last year.

I was not advocating any change at all in our Government or in our system except that we ought to be signatory to an international agreement that has minimum and maximum pricing agreements, basing points, reference wheats, a price review committee, and all the procedures that are necessary to make that kind of an agreement work and to guarantee a certain floor price to whoever sells the grain. I think, as I said in my testimony, this would have brought a lot of this up onto the top of the table, brought it out into the open. There would have been less need for individual countries to try to second-guess each other in terms of forward sales, price, et cetera.

That is what I was advocating in my statement.

Mr. PRICE. Well, as you know, we have in the past announced our policy for international cotton trade and in all these other countries, the minute we announced what we were going to sell our cotton for, they priced their cotton at about 2 cents under ours and took all the market away from us.

Mr. BARTON. I recognize, Congressman Price, the real difficulties of making this kind of an agreement work, and I would come back to the price review committee that was part of the grains arrangement until last year. If there was a difficulty, you could get the people back together. You had procedures in that agreement to reduce the price if you had to do that to sell the grain. There were procedures to work that out. But at the same time there was an overall structure, a framework, that would guarantee to the farmer a minimum price for his wheat, and give some measure of predictability.

That is another thing. With that kind of an agreement the farmer would have more advance information, at least that the grain would have sold at those minimum prices. There would have been less of the necessity to predict and less of the possibility of the farmer being left out, and the grain trade monopolizing the information.

Mr. PRICE. Thank you, Mr. Barton. I will have further questions here.

Would you prefer, Mr. Frazier, that the elevators store all the grain, and pile up and receive storage payments costing taxpayers millions of dollars for storage payments, or would you rather see the sales overseas for cash. According to Secretary Butz' testimony this was a normal subsidization, not only this sale, but is available to all eligible countries. Subsidy in this sale amounted to \$153 million and a return of \$500 million in cash to the taxpayers of this country.

Secretary Butz' testimony said that in April he made an announcement that gave adequate notice to all parties—producers, elevator operators, independents, co-ops and so forth—that these grain sales were pending, there was a possibility that they would take place, and no one, I think, can crystal-ball gaze that these sales would have happened?

I want to reiterate that this has been the policy not only of this Administration but the previous Administration—these subsidies. It is nothing new; it has gone on before—to Japan and to the other countries that we have sold to.

Which would you prefer, sale of this nature or what would be your desire?

Mr. FRAZIER. Well, Congressman Price, of course, our organization strongly endorses the expansion of trade in farm products abroad; but we are concerned about the prices at which these grains are moved in the world market. I know Secretary Butz made the statement you described the other day but he still has not told us what companies have sold how much grain and the amount of subsidy they have drawn or the shipping schedule or enough detail about it that we may advise farmer members of what they may expect as a result of these Russian sales—certainly we did not know anything about the extent of it or the full implication of it when he was talking about it in April, May and June.

Mr. PRICE. Well, of course, as you heard his testimony, he very clearly stated that they did make an announcement and that they are now gathering material as to what procedures and what elevators did make these private sales.

This is a free enterprise country in which private sales can be made by elevator operators and by producers; and there is a bulletin that goes out almost weekly—I receive it in my office—every USDA official receives it throughout the U.S.—about the grain sales to every country on every product.

Mr. Moos, on page 5, you had the reimbursement theory, that the producers of wheat should be reimbursed. That is a very admirable thing. There has been no statement as to what this might cost. I think as you said, the corn producer—perhaps he had a loss also because he did not put it back into government storage in anticipation of the Russian sale. The oats and barley producers the same way—livestock prices dropped \$7 a hundred. They probably would like to be reimbursed, too, for selling their cattle too early.

Mr. PRICE. Do you think the 5-month average that is presently in the bill should be changed to perhaps a 10-month average at the first part of the year? Do you think that would be a beneficial solution to the problem?

Mr. Moos. It would certainly increase the base period of the average; it would give more exposure to the run of the market. Our feeling in this regard as concerns the wheat growers is that the government action did probably either intentionally or unintentionally influence the wheat market and since wheat certificates are tied into the 5-month average market price, then government does seem to have some share of responsibility and there is some accountability.

Mr. PRICE. You think that would be a fair proposal, then, to make it, say a period past the Russian grain trade sale figured in instead of the present 5-month period?

Mr. Moos. I don't know as that will really relieve those farmers or those producers who have sold earlier.

Mr. PRICE. Right. I come from an area where this affects them greatly and I feel sorry for those people who did sell their grain early, but I feel sorry for the grain sorghum producer who sold his early, too, and the corn producer and the oats and barley and the live-stock producer. Is it feasible to compensate all of these parties for this money that supposedly because of judgment, they sold earlier?

Mr. Moos. I could not answer your question whether it is feasible to provide deficiency payments for these other commodities. Our only point, again, is that we do think that since government did perhaps have some responsibility in the pricing, the price range, some government actions influenced the price range, and since the—

Mr. PRICE. Well, could anybody anticipate this? You know, they were dealing back and forth for months.

Mr. Moos. No; I don't think they could have anticipated it. I don't think the language of the law could have been written that way if they could have anticipated these wide swings in the marketplace. In past years this program has worked quite successfully, although whenever you average 5 months, that means some people had to sell below the average and some sold over the average; so there was some inequity or discrepancy between the returns to producers in past years. But this year, the size of the difficulty is quite large and it is of a very serious nature to these producers.

Mr. PRICE. As you know, at that time, when this committee and the full committee and the Congress passed that bill, there was no anticipation of a sale with Russia.

Mr. Moos. Exactly.

Mr. PRICE. That 5-month period was put in there because it was thought that this was the highest price that the farmer could receive for his product. But because of this sale, which no one anticipated, the situation has changed.

Mr. Duzan, I just suggest that you read Secretary Butz' statement. I thought some of your statements were very derogatory and uncalled for regarding the Department of Agriculture and its integrity.

Mr. DUZAN. That is your privilege, Mr. Congressman.

Mr. PURCELL. Mr. Melcher?

Mr. MELCHER. Mr. Barton, is the Farmers Union Grain Terminal Association a part of the Farmers Union family?

Mr. BARTON. Yes, it is.

Mr. MELCHER. Don't they handle grains in millions of bushels and have an export elevator at Duluth?

Mr. BARTON. Yes, they do.

Mr. MELCHER. Were they notified, to your knowledge, that the Department of Agriculture was prepared to protect the \$1.63 gulf export price to Russia with daily changes in wheat export subsidies so they, the GTO, could deal with the Russians?

Mr. BARTON. No, they were not, Congressman.

Mr. MELCHER. Did they have any opportunity to get in on this deal? If you do not know that of your own knowledge—

Mr. BARTON. I do not know. I tried to look at whether cooperatives got any piece of the action in this deal; I talked with Mr. Glen Hofer, of the National Federation of Grain Cooperatives, and others. He was aware of no sale that a cooperative made.

I did check the one cooperative that sold some wheat abroad during fiscal year 1971. That cooperative made an offer; the cooperative was Union Equity of Enid, Okla. They made an offer that was under the price that the Soviets had told them that they should be under in order to get into the ballgame. They made that offer and the offer was rejected.

Now, I do not know how many other cooperatives made offers. But I am aware of none that made offers that were accepted, and I did check rather carefully on this.

Mr. MELCHER. Will you attempt to provide for this committee the pertinent information as best you can gather from grain cooperatives that might wish to be notified of the protection of the \$1.63 price by the Department and provide it as part of this transcript?

Mr. BARTON. I will do that.

Mr. MELCHER. Mr. Chairman, I make that request.

Mr. PURCELL. Without objection, that will be done.

(The information was provided as follows:)

A number of cooperatives have the technical capacity to sell wheat and other grains directly in export markets, including the following:

1. Union Equity Cooperative Exchange, Enid, Oklahoma, has access to a plentiful supply of wheat (including hard red winter as purchased by the Soviets) from the surrounding Oklahoma-Texas area. According to USDA records, Union Equity during Fiscal Year 1971 received export payments on 29.6 million bushels of wheat; the cooperative has an export facility at Houston, Texas with storage capacity of 6.5 million bushels.

Union Equity made an offer to sell an amount of hard red winter wheat to the Soviets early in August, 1972; the offer was rejected, ostensibly on the basis of price.

2. North Pacific Grain Grower, Portland, Oregon, has an export facility at Kalama, Washington, with storage capacity of 4.2 million bushels. North Pacific made export sales of wheat and barley last year.

3. Farmers Export Company, Kansas City, Missouri has an export facility at Aina, Louisiana (near New Orleans) with storage capacity of 5.3 million bushels. Farmers Export Company has supply sources of wheat, but has made no direct foreign sales of wheat.

4. Producers Grain Corporation, Amarillo, Texas, has an export facility at Corpus Christi, Texas, with 6.3 million storage capacity. Recently exported some hard red winter wheat, but not to the Soviet Union.

5. Indiana Grain Cooperative, Indianapolis, Indiana, has export facilities in Chicago (6.7 million bushels) and Baltimore (4.0 million bushels).

Despite these and other cooperatives with direct exporting facilities, no cooperative shared in the 400-plus million bushel sale of U.S. wheat to the Soviet Union this year.

Mr. MELCHER. Mr. Frazier, is the National Farmers Organization interested in getting in on some sales?

Mr. FRAZIER. Yes, sir; we have in times past sold some soybeans to Japan, for example, and we do deal with the private grain terminals interested in the grain trade.

Mr. MELCHER. Were you or anybody else in the NFO notified of the grain deal with regard to rising export subsidies that would protect the \$1.63 price on Government wheat?

Mr. FRAZIER. No, sir, we were not.

Mr. MELCHER. I have already put into the record an August publication which indicates in part that wheat export would increase some but prices would only be somewhat above the \$1.31 of last season. Now, I have here the August wheat situation report which came out August 8 of this year, estimating our exports of wheat that year at 800 million bushels. Now, this is August 8, the month after the Russian pact was signed.

I have here also a special supplement to the wheat situation report which appeared last Friday, September 15, and it estimates exports at 1.125 billion bushels, up 325 million bushels from the August 8 report.

Now, is that the first official revelation of the huge jump in exports that you have heard, or are you aware of any other announcements by the Department of Agriculture indicating a huge jump in exports?

Mr. FRAZIER. No, sir; to the best of my knowledge, the records that you brought to our attention in this hearing disclosed the later estimates by department personnel; these are the only ones that have come to our attention. I do receive the regular flow of USDA press releases and announcements at the office. I do not recall any earlier notification of this enlarged export program.

Mr. MELCHER. Thank you.

Now, Mr. Moos, I am going to ask you substantially the same question I asked the other two: Were you told about the assurance given the big traders that the export subsidy would be hiked from day to day to protect the traders, the grain companies, against an advancing market?

Mr. Moos. No.

Mr. MELCHER. Were you given any indication of the price, quantity or anything else so you could inform your wheat producers?

Mr. Moos. No formal communication.

Mr. MELCHER. Then were you pretty much in the dark on the whole affair, except for whatever gossip you could pick up in the trade?

Mr. Moos. Yes, I think that is fair.

Mr. MELCHER. And would you have assumed from the August Wheat Situation Report, when they advised everyone that they thought \$1.31 would be about the average price, did you assume from that that there was not going to be a huge bulge in the wheat sales to Russia? If you had known that there was going to be such a huge sale, what would have been your interpretation of the market? What would have been your projection of the market?

Mr. Moos. I do not know exactly what time that you are referring to.

Mr. MELCHER. I mean on August 1.

Mr. Moos. At that time, we had no real indication from the Department or even from the trade of the size of the sale, but shortly thereafter, why, the gossip began to flow.

Mr. MELCHER. If you had known on August 1 that there was going to be 300 million bushels more wheat sold to Russia in August than previously had been announced by the Department, what would you have anticipated the market to do?

Mr. MOOS. It would surge quite strongly, I think.

Mr. MELCHER. Thank you.

Thank you, Mr. Moos. Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Sebelius?

Mr. SEBELIUS. Thank you, Mr. Chairman.

First, I would like to compliment Mr. Moos and Assistant Chairman Rees for their statement because I thought it dealt more fully with it rather than just an overall complaint. I think it is very regrettable that we have the problem with the certificate on the domestic production that hit those that sold; however, as Mr. Price has tried to bring out, that is one of the problems we have, and Secretary Butz did testify that ever since last April he has been speaking optimistically on that subject. Although I know that it is regrettable, my farmers at the present day can contract their next year's wheat for 50 cents more a bushel; and those that sold feel good about that.

But by and large, my wheat growers are basically happy. They look at the raise in price as a very fine thing.

I do share in the feeling that if something can be done to improve the situation so that more benefit can go to the farmer, I am all for it. To summarize some of this, I think perhaps we can say that there are two things that come to my mind: First, of course, sort of praying that we can someday get the foresight that is as 20/20 as our hindsight; and, secondly, to some degree I think I find that the spirit of Joe McCarthy is not, evidently dead.

Mr. Chairman, I would ask one question of Mr. Duzan there. Is it correct, Mr. Duzan, that you are a candidate for Congress on the Independent ticket in the 22d District?

Mr. DUZAN. I am, sir.

Mr. SEBELIUS. Then I would give you a piece of advice, that Page Belcher, the ranking member on the minority side of this committee, gives which I oftentimes do not take and probably are not taking now, however, he says you will never get defeated by what you didn't say.

Mr. DUZAN. May I answer you, sir?

Mr. SEBELIUS. You have answered my question. I say you will never get defeated by what you didn't say.

Mr. Frazier testified very much in point in his first page:

It should be noted at the outset that those grain farmers who blocked or otherwise are carrying out organized marketing programs such as we have in the NFO, they would be in a stronger financial position today.

And I say amen, because it is true. I know there was 83 percent not sold. I have one fine farmer who was talking to me at Labor Day time. We were discussing wheat prices. I said, well, as an old crapshooter, sometimes after the second or third good roll, you want to draw a little of it. He said, nope, I am not going to sell a bushel. He had 20,000 bushels; then he went and tipped it all, saying, "I never sell until after the first of the year." So he will follow his same pattern, as many have.

Now Mr. Duzan, I give you an opportunity to respond.

Mr. DUZAN. I think it is a good thing to sell to the Russians. I wish we had, since we are a little sort of gold in America. I think that most of—a lot of the gold is over in Europe and Russia. I think they could have paid a little.

Second, I would feel awfully honored if you would take our grain in overproduction in this nation and feed the poor of this world in some manner. This is what I was trying to tell you good people. We American people are overblessed with abundance. If we fed the people that are really hungry in this world in some method or other, we could take maybe 100 tons of ammunition and put it in the middle of the jungle. I do not wish to break the enemy of these other nations by giving them something but is there not some way that you great men here today can at least understand there are people hungry in this world? I do not think we would have an overproduction if we fed these people and I am sure our credibility would be better. I am sure we would be better liked people. Take this under advice.

I am sorry I offended you, Mr. Price.

Thank you.

Mr. SEBELIUS. Just to reply to one of your questions—my 5 minutes is almost over. When you asked about the \$500 million sales and the 400 million bushels, the fact is that it is a credit transaction; it is quite evident that what the Russians did was come in and contract, intending to pay with gold or otherwise everything that is not in the credit deal. Those weren't registered. There is an answer I have not heard from the hearings today, why your soybeans and your corn, which are much more important than your wheat to you have not been sold. I think you are gaining something, because if I am not mistaken, your corn is probably up 10 cents already.

Mr. DUZAN. Let me say this: I notice you have honorable intentions and I am sorry I offended Mr. Price, but what I am saying basically is I think there are ways to solve these problems and there are ways we can do it if we sit down around the world and we will not be hated so much.

Mr. SEBELIUS. I have heard a lot of changes here but I have not seen one of these statements documenting proof to back up one of them, and that distresses me.

Thank you, Mr. Chairman.

Mr. PURCELL. Mr Bergland?

Mr. BERGLAND. I reserve my time. Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Foley?

Mr. FOLEY. Mr. Chairman.

Mr. MOOS, I want to congratulate you on having made a very fine statement.

I would like to go back to some of the questions Mr. Price asked you regarding the concern of the National Association of Wheat Growers for those who had sold their wheat early. Weren't you, in answering his questions, expressing your concern for the effects the present method of computing wheat certificates will have on early sellers of wheat who will be shorted at both ends of the program—both by the lower than 5-month average market sale price they received for their wheat and their receipt of a lower wheat certificate this year?

Mr. MOOS. That is correct.

Mr. FOLEY. Going back to 1970, when the bill was passed by this congress amending the 1965 Food and Agriculture Act, this proposal to compute the wheat certificate on the difference between the 5-month average price and parity was opposed by some of us on this committee. You may recall that. It was also opposed by some of the national farm organizations who were concerned about this change in the program. Is that correct?

Mr. MOOS. Yes, this is correct; this was a change from the preceding type of policy when it represented the difference between parity and the fixed loan value.

Mr. FOLEY. If the original provisions of the 1965 act had been kept in the 1970 amendments we would not have this equity problem between early and late harvest areas that we now have; is that correct?

Mr. MOOS. That is correct.

Mr. FOLEY. Thank you.

Mr. PURCELL. Mr. Mayne, do you have questions?

Mr. MAYNE. Yes; thank you, Mr. Chairman.

Mr. FRAZIER, I know you were present on Thursday when Secretary Butz testified.

Mr. FRAZIER. Yes, sir.

Mr. MAYNE. And that you have followed this transaction closely throughout. I am sure you are fully aware that one of the things which was holding up an agreement was the terms of credit that the Russians were to receive on the sale; is that not correct?

Mr. FRAZIER. We are told that now, sir yes.

Mr. MAYNE. Well, it seems to me—I do not want to be unfair, but it seems to me that our good friends in the press were reporting when the President was in Moscow discussing this in April and when the Secretary was there, that it was being widely reported that the Russians were asking for much more favorable credit terms than our country was willing to give, that they were asking for long-term loans, 10-year loans, I believe, with as low interest as 2 percent. Do you not recall those press reports?

Mr. FRAZIER. Yes, I do recall some press comments on them.

Mr. MAYNE. Well, that is all that I knew about it at that time, too, but I knew that this was one of the points in controversy.

And you have heard the Secretary's testimony last Thursday that this difficulty was not resolved until about the time that the sale was announced on July 8, and that the Russians then did agree to our credit terms, which were our regular CCC 3-year credit terms and 6½-percent interest, which our other customers have available to them. Do you recall that testimony?

Mr. FRAZIER. Yes, sir.

Mr. MAYNE. I wonder what would be the position of your organization on that? Do you think that we should have accelerated this agreement by bowing to the Russians' demands on credit?

Mr. FRAZIER. No, sir; I did not mean to suggest that any more than I meant to suggest that we should take some action that would hamper trade by independent business outfits. The question was raised in Mr. Price's statement a moment ago. Our organization believes in strengthening world trade and the strength of our own companies to deal with world trade; but the overall thrust of my testimony and the point I

am trying to bring out, Mr. Mayne, is that there certainly was an opportunity for the meaning of these negotiations—the thrust of this whole thing—to be brought more readily to the attention of producers and producer organizations as these trade policies were being developed and as they were working with the grain companies.

That is the point that I hoped to bring forcibly to your attention in order that if we go through another period like this sometime in future, I would hope that producer organizations and smaller companies might have an equal opportunity to be well-informed along with a few large companies who obviously had open channels with the Department of Agriculture through their interchange of personnel, as has been discussed here recently.

Mr. MAYNE. Well, I would suppose, at least I would hope, that your organization would have supported our Government in refusing to give the Russians a sweetheart deal on interest; am I correct in that?

Mr. FRAZIER. We were not asked, but if we had been asked, of course, we would have supported a policy that treated the Russian buyers at least no better than our regular customers abroad.

Mr. MAYNE. Yes, even though that might delay consummation of the deal from April to July?

Mr. FRAZIER. I am not complaining about the timing of the deal or even the July 8 announcement; the thing that I mean to bring out—

Mr. MAYNE. But my question is, even though it might delay the deal from April to July. Could you please respond to that question?

Mr. FRAZIER. Quite so; I would not wish to give the Russians any special credit arrangement.

Mr. MAYNE. Now, your organization is well aware that this farm export equalization program has been in effect for many, many years?

Mr. FRAZIER. Yes, sir.

Mr. MAYNE. I take it that you do not have any objection to it as such?

Mr. FRAZIER. As a matter of principle, no, sir.

Mr. MAYNE. This is something that Democratic administrations and Republican administrations for many years have used as a part of promoting our agricultural exports?

Mr. FRAZIER. Yes, sir.

Mr. MAYNE. And there is nothing inherently wrong with the idea of having an export equalization program, is there?

Mr. FRAZIER. No, sir.

Mr. MAYNE. It is really the producer who gets the benefit of the equalization payment because it enables the exporter to be able to pay the higher domestic price even though he is going to have to sell to the foreigner at a much lower price—the world price?

Mr. FRAZIER. Your general statement is quite correct. I think it is possible that producers would be in a better position to utilize the benefits of the export subsidy program if they were kept better informed at the times of development of these arrangements than we have recently.

Mr. MAYNE. And, Mr. Frazier, we have also had for a long, long time private firms and individuals in the grain trade playing a key role in the development of these exports, have we not?

Mr. FRAZIER. Yes, sir.

Mr. MAYNE. Now, do you have any objection to private business playing an essential role in this process?

Mr. FRAZIER. Of course not, but I would have an objection if they are to be consulted in a continuing, private conference basis, so to speak, to the exclusion of other sectors of the agricultural picture.

Mr. MAYNE. But you do recognize that under the American system, they do play a key and necessary role?

Mr. FRAZIER. Of course they do.

Mr. MAYNE. Thank you.

That concludes my questions, sir.

Mr. PURCELL. Mr. Bergland? Do you have any questions?

Mr. BERGLAND. No, thank you, sir.

Mr. PURCELL. Gentlemen, I thank all of you very much for your cooperation.

We will meet at 2:30 this afternoon for continuation of the questions of the people from the Department of Agriculture.

The subcommittee will stand in recess until 2:30 this afternoon.

(Whereupon, at 1 p.m., the hearing was adjourned, the subcommittee to reconvene at 2:30 p.m., this date.)

#### AFTERNOON SESSION

Mr. PURCELL. The Subcommittee will please come to order.

Again, gentlemen, we appreciate your being here. There were indications this morning that there were several other questions that people wanted to ask and you are here for that purpose at this time. I have one or two, Mr. Brunthaver, which I think would be appropriately addressed to you.

The first one is that I understand that on June 28, there was an estimate made by our agricultural attaché in Russia that there would be a bigger shortfall of the Russian grain crop, particularly the wheat crop, than we had known about before. Now, do you have knowledge or did you gain knowledge or did the Department, as far as you know, have this information on or about June 28 regarding a further report of the Russian shortfall of the wheat crop?

#### STATEMENT OF DR. CARROLL G. BRUNTHAVER, ASSISTANT SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, AND CHARLES W. PENCE, DIRECTOR, GRAIN DIVISION, EXPORT MARKETING SERVICE, USDA, ACCOMPANIED BY FRANK G. McKNIGHT, ASSOCIATE GENERAL SALES MANAGER, EXPORT MARKETING SERVICE, USDA; AND CLAUDE T. COFFMAN, DEPUTY GENERAL COUNSEL, USDA—RESUMED

Mr. BRUNTHAVER. I think this is the attaché report that was mentioned in the newspaper, if I am not mistaken, where I think Mr. Schnittker indicated that this was hidden or not published or something.

Very much to the contrary, it was the subject of an ERS report that was published and released to the press people in the Department and

was published in such papers as the New York Times and others.

Mr. PURCELL. On June 28, or right after that?

Mr. BRUNTHAVER. I am assuming we are talking about the same one. It was near that period, yes.

Mr. PURCELL. Also, Mr. Brunthaver, I am informed that during the time that wheat was advancing in price so rapidly, there was a great amount of trading just—I have been led to understand—2 minutes before the commodity market would close each day and that in effect, the big grain companies were forcing the subsidy up by turning in buy orders, I guess, just moments before the grain exchange would close in order to get a bigger subsidy the next day. Now, do you have or have you had any information to this effect?

Mr. BRUNTHAVER. We have heard this accusation, as you have heard it. I do not believe it to be the case. However, after hearing it, I instructed our subsidy people to not follow the market directly so that the closes could not affect or would not affect the subsidy calculations.

Mr. PURCELL. Well, nevertheless, up until the day that you announced that you would hold the subsidy at the 47-cent level for another week, the subsidies had been going up. Whether they were following the market or not, they had been advancing. Is this not true?

Mr. BRUNTHAVER. They had been advancing, but we did not follow the market directly. In fact, the market may be up a dime one day and we would not increase the subsidy at all. The market might be flat the next day and we would increase the subsidy. So the closes would not affect the determination on the subsidy.

Mr. PURCELL. But over any series of days, the subsidy was advancing, was it not? If it did not one day, it did it next. You kept it fairly close to the price up to the point of the 47-cent subsidy?

Mr. BRUNTHAVER. Well, again, the accusation is made that the heavy bidding would put the market up at the close and therefore trigger a subsidy change. The facts are that we did not follow the market that closely. In fact, we did not use the closes necessarily in setting the subsidy. So that even if someone put a small bid in at close to try to force it up, we ignored that factor.

Mr. PURCELL. Have you ever found out if there were large bids put in immediately before the close of market?

Mr. BRUNTHAVER. I understand that this is currently being investigated by our Department officials. Whether it is CEA or OIG, I am not sure.

Mr. PURCELL. But you did not initiate such an investigation?

Mr. BRUNTHAVER. No, sir.

Mr. PURCELL. You said you did not use this to base your subsidy on. What did you use to base your subsidy on?

Mr. BRUNTHAVER. We were trying to keep our target price at \$1.65 and were trying to operate the subsidy over time to try to get the target price back to that level.

Mr. PURCELL. But in order to do that, you had to keep advancing the subsidy, if not each day, each few days?

Mr. BRUNTHAVER. Well, that is right. As it worked out, the market continued to rise over time.

Mr. PURCELL. And anyone with knowledge as to the amount or approximate amount of the grain order would be able easily to ascertain or predict what would happen?

Mr. BRUNTHAVER. I do not think so. This was brought up the other day, and you are assuming that the market was not in equilibrium here. You are assuming that someone had information, and my point is that if everyone knew or if the preponderance of the people knew, or if the big traders knew what the business was and knew that the price was going up, we would have had to limit moves until it got to that level. In fact, at any point in time, the market price reflected the best thinking of people in the trade as to what the value of wheat really was at that particular point in time.

Mr. PURCELL. Well, but anyone could who knew, certainly— I have not been able to find anybody else who knew, but surely a company knew what grain trade they had?

Mr. BRUNTHAVER. Yes.

Mr. PURCELL. And if you did not yet have the wheat bought that he was going to need, he would be interested in getting in there each day, would he not?

Mr. BRUNTHAVER. That is correct, and they were.

Mr. PURCELL. Well, by the same token, and I do not have absolute information, of course, but if he was interested in getting as much for the subsidy as possible, would it not have been to his benefit to have been acting in a way to build up a subsidy?

Mr. BRUNTHAVER. Well, we believe that exporters as they bought grain were taking subsidy as time went along. Not to do so otherwise would imply a certain risk on their part, because they did not know but what the subsidy would be lower in the future, depending on what the domestic price did. And the fact that 475 million bushels of subsidy was booked during July and August at an average price of 22 cents leads me to believe, at least, that exporters were taking subsidy as they were able to buy grain from the farmer or in the futures market.

Mr. PURCELL. But if I were company A, and I had grain that I owned and I did not have to sign up to deliver this grain until sometime in the future, and if I could do anything to get the price up, could I not sell the grain that I had for whatever additional price I was able to help get it up to?

Someone has testified that people were offering to sell to CCC grain, wheat, at a price that reflected the market price at that time, which was much lower than it was a few days later.

Mr. BRUNTHAVER. Right.

Mr. PURCELL. They didn't sell it to CCC, because you did not buy it. Is this not true?

Mr. BRUNTHAVER. We bought grain for Bangladesh. I am not sure what quantities were bought.

Mr. PURCELL. It indicates that people had grain to sell at a price that the market was then holding at?

Mr. BRUNTHAVER. Yes, 44 to 47 cents—well, the market has gone up 20 cents since then, to about 64 cents under current market levels.

Mr. PURCELL. Yes, and if they had grain to sell to you, they had grain to sell to whom else would be a prospective buyer.

Now, when they saw it going up, the further up it would go, the better off they would be with the grain they already owned.

Mr. BRUNTHAVER. That is right, if they were long, if they owned grain and not the sold grain, in excess of their purchases.

Mr. PURCELL. Obviously they did have grain or they would not be trying to sell it to you.

Mr. BRUNTHAVER. Some of them did, yes, sir.

Mr. PURCELL. All right, whatever price they could get the grain up to, they would be better off?

Mr. BRUNTHAVER. Yes, Congressman, except that with these sales, with 11 million tons, I think it is a fair assumption to make that the exporters during this period were basically short grain. They had sold grain that they did not have. Their problem was to get into the marketplace and get themselves covered as quickly and as cheaply as they possibly could.

Mr. PURCELL. Well, why would they? Because you started out giving them whatever offset it took to have them selling grain at the world market price anyway?

Mr. BRUNTHAVER. Well, yes, but they had grain sold for delivery in a certain time period and they had to get their hands on physical grain to get it on a ship to move it out of the country during those times.

Mr. PURCELL. Well, whatever grain they had, to get the price of that grain up would benefit them? We have already gone over this two or three times.

Mr. BRUNTHAVER. If they were not long, yes.

Mr. PURCELL. So the higher they would go, the better off they were for the grain they already owned.

Mr. BRUNTHAVER. That is right.

Mr. PURCELL. And until you put them on notice a week in advance, they could buy grain and get 47 cents to boot for it. They could offset whatever price they were selling to the tune of 47 cents and they had at least a week's advance notice that they could get the 47 cents for every bushel of grain they could book up until that week was expired? This is true?

Mr. BRUNTHAVER. No, wait. The 47 cents applied only to sales that had already been made. We asked firms to register the amount of sales that had already been made and the amount of subsidy that had not yet been taken. And the only way they could register for subsidy would be on a case in which they had actually sold an amount of grain and had not yet taken in the subsidy on it.

Mr. PURCELL. Well, but there is no way you have of knowing when the sale was made except when they certified it was made?

Mr. BRUNTHAVER. Yes, sir, but we did ask them to certify every sale, every bushel that was sold during this period to be eligible for the higher subsidy. And this can be checked by OIG or anyone else who wants to go to that company and ask for a verification of the date of the sale, the quantity of the sale, and the amount of subsidy that was taken against that.

Mr. PURCELL. Well, now, wasn't it during that week that CCC put on the market 86 million bushels?

Mr. BRUNTHAVER. I think it was after the 25th. I know the one you are referring to. That was made after the 25th.

Mr. PURCELL. But they could still be claiming the 47-cent subsidy for that grain if they just certified they were going to sell that amount during the week?

MR. BRUNTHAVER. No, they had to certify that they had already sold that amount before 3:30 on the 24th day of August.

MR. PURCELL. If they would be certified after the fact, then you or whatever the Inspector General's initials are or anybody else would have a hard time ascertaining whether it was really sold, except to look at a piece of paper that the man who was doing the selling claimed it represented?

MR. BRUNTHAVER. Well, sir, I think in fairness that these records can be checked. They have to have a bill of sale or some documentation that a sale has actually been made. I think our lawyers would indicate that this is a fair check.

MR. PURCELL. Well, they had an order in hand to sell or offer to buy *x* number of bushels of wheat and they were working toward filling that and they had the offer to buy in hand all through this. You don't know what it was, I don't know what it was, and they ain't telling anybody what it was. Is this not true?

MR. BRUNTHAVER. No, sir, they had to certify very directly that they had sold this amount to this person of this class.

MR. COFFMAN. And that they had agreed on the price. They had to certify—

MR. PURCELL. Yes, but if they certify at a time to comply with the law and as you sit there, you do not have any more idea than I do as to whether or not they were really certifying as they sold the grain or as they got their paperwork done, or anything other than comply with the rules and regulations laid down by the Department of Agriculture?

MR. COFFMAN. Well, until the certifications are verified, you are right.

MR. PURCELL. Well, how do you verify them?

MR. COFFMAN. We have the right to go in and inspect their books and records and see that they did make those sales.

MR. PURCELL. But they have gotten an order for—one company, I am told, had an order for 300 million bushels.

MR. COFFMAN. They had to establish that an acceptance was made, too, before August 25—August 24.

MR. PURCELL. And unless you know what their trade was, and you don't know, you will never know what the certification amounts to.

MR. COFFMAN. Well, of course, there can be false certifications. On the other hand, a certification procedure is not an uncommon feature of any program we have.

MR. PURCELL. Yes, sir, and unless it becomes uncommon, there is no reason to check it, is that not true?

MR. COFFMAN. This is not correct. There will be spot checks, there will be an effort made to verify it.

MR. PURCELL. I know there will be now, but this has gone on since 1949, and we do not know of any time that any real checking was ever done.

MR. COFFMAN. Now, you see, Congressman, that confuses two thoughts.

We did not rely on certification from 1949 on. It is just this special announcement that gave this higher subsidy for contracts that had

already been entered into that involved the question of certification. In the ordinary shipment, they simply have to ship the wheat and file their application for the subsidy.

Mr. PURCELL. All right, sir. In this special instance, you are asking them to certify?

Mr. COFFMAN. That is true.

Mr. PURCELL. So there is not any experience on our part—meaning us, the U.S. Government—on knowing how they keep their books or whether this is going to be easy to ascertain or not?

Mr. COFFMAN. Well, not on this particular announcement, but we have it on Public Law 480, we have on all of our farm programs. It is a customary part of our operation to require the man who collects money from the Government to make certain certifications.

Mr. PURCELL. Yes, sir, but unless the price of grain is accelerating rapidly, there is no particular difficulty, no benefit to be getting information quicker than somebody else has it.

Mr. COFFMAN. Well, all I can say is that this is not an unusual procedure.

Mr. PURCELL. I thought you just got through saying it was unusual.

Mr. COFFMAN. I don't believe I did, Mr. Chairman. I said it was unusual in this program, but in other programs, we have this requirement.

Mr. PURCELL. Well, we are talking about this program, this sale. And I think that all of us realize it is highly unusual that just this much grain can be sold. That is what I am getting at.

Mr. COFFMAN. Well, it is our every intent to check these certifications to see that they are correct, because as you say, there is a lot of money depending upon them.

Mr. PURCELL. And you say it is your intent to check them. Is there any process going on now in which they are being checked?

Mr. MCKNIGHT. Mr. Chairman, we have already asked the Inspector General to investigate the terms and conditions of these contracts and we have told them the exporters that have registered the sales during this period of time.

Mr. PURCELL. This is the Inspector General of the Department of Agriculture?

Mr. MCKNIGHT. Yes, sir.

Mr. PURCELL. That is all I have at this time.

Mr. Mayne?

Mr. MAYNE. Dr. Brunthaver, there still seems to be some confusion as to what the purpose of this announcement was that there was going to be an additional period of 5 days in which these subsidies could be booked. I get the impression that some people still think that during that 5-day period, the grain traders could rush into the market and buy a lot of grain and in some way, make a killing on it during those 5 days, because this was in some way secret, inside information to them that others did not have. Now, if that is the fact, I want you to say so. But if it is not, I wish you would try again to explain your version of it as to what they could actually do in that period and whether or not it is true that they could buy additional grain and reap the benefit from that because of the announcement.

Mr. BRUNTHAVER. Exporters could buy additional grain during the period and, to the extent that they had not covered sales that had already been made, they were naturally trying to buy it. But this 5-day period was a period following a cutoff, where we asked the exporters to certify what their sales had been and how much subsidy they had taken, and that any sales made after the 24th, were eligible for a lower subsidy.

Now, let me give an example. There are three ways the Government can run a subsidy program. The Government can say that there is no subsidy on exports, as we have in corn or soybeans. Or we can say that there is a fixed subsidy, a dime subsidy on each bushel or 15 cents, whatever it is. Or we can indicate that we will try to price U.S. wheat competitively or at a price that we determine to be competitive so as to move large amounts of wheat.

It is the latter case that we chose to follow. We chose to price our wheat at approximately \$1.65 for hard red winter f.o.b. the Gulf and to keep the price at that level so that we would be competitive and would maximize the sales of wheat because of that competitive price.

What, in effect, we said to exporters was, go ahead and price your wheat, e.g. at \$1.65. If the price works up over time, the subsidy will increase so that you can come out on the sale and make a normal profit, having based it at \$1.65.

Now, the 47 cents subsidy was just an announcement that we can no longer continue to follow this subsidy increase. We chose 47 cents because when you took the f.o.b. market on that particular day and subtracted 47 cents, that was back to our target price of approximately \$1.65. So in effect, we were just fulfilling an understanding with the exporters, you sell our wheat at \$1.65 and we will follow the subsidy.

To the extent that the exporters were able to get all of their wheat bought during that 5-day period or, really, at the first day of the 5-day period, at a price minus 47 cents to our target, they were all right. But the price continued to go up and to the extent that exporters could not cover, they had to pay a higher domestic price which gave them a net price in excess of the \$1.65 that we had indicated.

So to a degree, the Department reneged to the exporters on a certain amount of sales.

Mr. MAYNE. Well, then, in this 5-day period they could not go ahead and make additional sales to foreign customers and then claim the benefit of the higher equalization payment?

Mr. BRUNTHAVER. No, sir, not at all.

Mr. MAYNE. They were foreclosed from that by the cutoff date at the end of business on the 24th?

Mr. BRUNTHAVER. Yes, sir.

Mr. MAYNE. So it would seem to me, but if I am wrong, correct me, that they were not able to exploit the situation to make additional sales and unfair profits. Is that correct?

Mr. BRUNTHAVER. That is correct, and quite to the contrary, the market continued to rise during that period.

Mr. MAYNE. Well, now, was the matter of allowing 5 days at that time made necessary by the fact that you knew there was such a large volume of sales outstanding that it would require more time than what an immediate cutoff would permit?

Mr. BRUNTHAVER. The 5 days allowed the exporters time to certify how many bushels they had in fact sold and to go through their books and find out exactly how much subsidy had been taken so that they could correctly certify that they had sold this much and booked subsidy on this much. We indicated in the press release that the 47 cents is flat, it can't go up or down, so the 5-day period was simply to give them time to get their books researched.

Mr. MAYNE. Under the circumstances, do you think that was reasonable, to allow that much time?

Mr. BRUNTHAVER. It really did not matter to the Government. It did not cost the Government any more money one way or the other.

Mr. MAYNE. Now, there also seems to be some feeling that you should not have relied on the certificates of the grain trader that he had concluded this sale prior to August 24. Of course, this would be a rather serious charge against any individual, that he deliberately falsified the certificate to the Government, which should not be made lightly.

I would like to ask Mr. Coffman, what are the penalties under existing law for anyone who deliberately falsifies a certificate to the Government in this situation?

Mr. COFFMAN. Well, now, there are both criminal and civil penalties. I recall that the civil penalty will be twice the damages plus \$2,000 for each violation. I do not recall the exact criminal sanction, except that it is a violation of criminal law.

Mr. MAYNE. You think there is a criminal sanction?

Mr. COFFMAN. I know there is, I just do not know the extent of the jail sentence or the fine.

Mr. MAYNE. And we have heard testimony already from Mr. McKnight that the Inspector General, the IOG office, is making an investigation to determine whether there have been any false certificates filed by anyone in connection with this transaction.

Mr. COFFMAN. That is correct, sir.

Mr. MAYNE. Thank you.

Mr. PURCELL. Mr. Rarick?

Mr. RARICK. Thank you, Mr. Chairman.

Mr. Secretary, I was here last Thursday morning, when you were present with Secretary Butz. As I recall, at that time, anyone who felt there had been any phone calls or security leaks was accused of having impugned the integrity of Secretary Butz, members of the Department of Agriculture and even the President of the United States. Now, today before me, I see in your prepared statement where you admit that there had been phone calls, yet while you would impeach your previous position, you attempt to rehabilitate it by stating that you were not aware these were the calls referred to by Congressman Belcher, nor were you aware that McKnight had asked Pence to make the calls you had requested.

Mr. MAYNE. Would the gentleman yield for a moment—

Mr. RARICK. No.

Mr. MAYNE (continuing). Just to correct one name?

It was not Congressman Belcher. I would like the record clear on that.

Mr. RARICK. Excuse me, Congressman Melcher. I stand corrected.

Mr. MELCHER. Thank you, Mr. Mayne.

Mr. RARICK. You state that you had asked Mr. Frank McKnight to notify certain exporters, then say you were unaware that he had asked Mr. Pence to make the calls. Who would you have assumed would make these phone calls?

Mr. BRUNTHAVER. Mr. McKnight or Mr. Shanklin or many other people. I was not sure. But I think, sir, in fairness, the point was that these calls were referred to as calls made in advance of something, calls made to tip off. That is what confused me. I thought Congressman Melcher was talking about phone calls on the 20th or 21st or 22d. The inference to me was that someone was being tipped off to something.

Mr. RARICK. I am referring to the suggestion that I was impugning the integrity of my dear friend, Secretary Butz, almost, I guess, because I am a member of this committee. The Secretary has been quite verbose in his comments in the news and all over the country that this was all political flim-flam and untrue. Now I am looking at a statement where you, his assistant, are admitting that there were phone calls.

Mr. MELCHER. Would the gentleman yield at that point?

Mr. RARICK. Yes.

Mr. MELCHER. The transcript, on page 90, said, quoting myself asking Mr. Brunthaver, "Would he have made any telephone call on August 24 to anyone?"

The next question, the second question after that, "If there were some advance knowledge on August 24." I don't believe there is any reason to insert in our record that there was any reference to August 21 or 22. It was very clearly to August 24.

Mr. BRUNTHAVER. That is fair, sir. In my mind, I was thinking that you were referring to some calls before the fact.

Mr. RARICK. I think, then, in all fairness to Secretary Butz, it is reasonable to assume that if you had forgotten about the phone calls, you did not advise the Secretary, so probably everything else the Secretary has been referring to in relation to this matter may also then be and remain suspect. Would that not be a fair assumption?

Mr. BRUNTHAVER. No, sir; I would not think that would be a fair assumption.

Mr. RARICK. Is not Mr. Charles Pence the Director of the Grain Division of the Export Marketing Service?

Mr. BRUNTHAVER. That is correct, sir.

Mr. RARICK. And was not or is not Mr. McKnight the Assistant General Sales Manager?

Mr. BRUNTHAVER. That is correct, sir.

Mr. RARICK. Is there anything unusual about an Assistant General Sales Manager asking a Director to make phone calls?

Mr. BRUNTHAVER. No, sir; none whatsoever.

Mr. RARICK. And you didn't ask Mr. McKnight to report back to you that the assignment that you had given him to notify these exporters had been done and the nature of it and the reaction?

Mr. BRUNTHAVER. Yes, sir.

Mr. RARICK. Did not Mr. McKnight so report back?

Mr. BRUNTHAVER. Yes, sir.

Mr. RARICK. Yet you were not aware that Mr. Pence had made these calls?

Mr. BRUNTHAVER. That is correct.

Mr. RARICK. Well, sir, you were in the export business, and I assume from what I have been reading that you were doing a tremendous job, although there are a few of us that are appalled at the move to make trade with the Communists respectable, especially while we are mining the harbor of Haiphong to keep their weapons out of that area. Is it not reasonable to assume that in the export-import business that the market is very sensitive to what happens in your Department?

Mr. BRUNTHAVER. Yes, sir.

Mr. RARICK. Any conduct or even change in operation to people who are in the business of making a profit and trying to gain advantage over their competitors is just like dropping a high voltage wire in a group of businessmen, is it not?

Mr. BRUNTHAVER. There was no leakage that I am aware of.

Mr. RARICK. Well, now you have admitted that there were phone calls which were prompted by your suggestion or your recommendation to one of your people. Looking at the statement of Mr. Pence, he indicates that he called six export companies. Then he said that he was instructed to do several things.

Of course, if you were to call six exporters, it would be reasonable to assume that they would have leaks in their offices as to friends in other export—how many export companies are there doing business? A lot more than six, are there not?

Mr. PENCE. Probably 25 or 30 regular.

Mr. RARICK. So in other words, if there are phone calls being made to—yes, he identifies six. He said apparently, these are the six that are involved in sales of wheat to Russia.

Mr. PENCE. Additional calls were made to the rest of the exporters. We feel confident that most, if not all, of the exporters were notified that date. Notification of a change that had already been made the day before. No tipoff.

Mr. RARICK. I understand that, but still, these people are highly trained, skilled people, that are spying or trying to act informed on what the Department is doing, are they not?

Mr. PENCE. Yes, sir.

Mr. RARICK. And if they are advised that after a certain date, there will be a cutoff, these men have superior knowledge because they are immediately advised that something is going to happen after that date. And they can only assume that the subsidy price is going to go down or that it is going to go up.

Mr. BRUNTHAVER. Or stay the same.

Mr. RARICK. Well, if it is going to stay the same, you would not have one of your people calling them, would you?

Mr. BRUNTHAVER. No, not necessarily.

Mr. RARICK. So they are automatically tipped off that something is going to happen?

Mr. BRUNTHAVER. No, sir. They were notified that an action had already taken place.

Mr. RARICK. Well, of course, this is your statement. I believe this is not completely what Mr. Pence has said. You indicate that you did not even know Mr. Pence made the calls. Do you know exactly what he communicated to these people?

Mr. BRUNTHAVER. I have his testimony this morning as to what he notified them, yes.

Mr. RARICK. But it was a verbal statement, was it not? It was not on a tape?

Mr. BRUNTHAVER. That is correct.

Mr. RARICK. Was it a prepared statement that he read, that he said this and nothing more?

Mr. PENCE. On the telephone, sir?

Mr. RARICK. That is right.

Mr. PENCE. That is right, on the telephone, yes.

Mr. RARICK. You said it was something that happened previously, that you had notified these people, that is now, after the date.

Mr. PENCE. That is true.

Mr. RARICK. But it would at least be sufficient to make these highly sensitive people aware that something is in the wind, would it not? They would wonder what is going to take place now, would they not?

Mr. PENCE. Yes, sir.

Mr. RARICK. And could it not have the effect of having these people immediately try to either increase their sales or dump their holdings?

Mr. BRUNTHAVER. Except these exporters were not told anything as to the course of future events. They were not told that the subsidy may go up, no one inferred that the subsidy may go down or that target price may go up or down or stay the same. They were simply notified, do not make additional sales except at your own risk.

Mr. RARICK. Well, let me ask you this: Did anyone in your Department make any phone calls to any of the national farm groups or notify any of the small elevator people?

Mr. BRUNTHAVER. No, sir.

Mr. RARICK. Did you notify any of the baking concerns that they ought to proceed with caution now as the buying any grain stocks for bread or for baking purposes?

Mr. BRUNTHAVER. No sir, that would have been misleading, I believe, if we had done that. We notified people who were making export sales.

Mr. RARICK. You say it would have been misleading at that time. Today it would not have been bad, would it?

Mr. BRUNTHAVER. Yes, sir, I think—

Mr. RARICK. It might have been very valuable to these people to have increased their stocks.

Mr. BRUNTHAVER. I think the way the farmer would have read this was that it was bearish, that the Government was going to somehow discourage, perhaps, sales in the future, although nothing was said about whether the subsidy was going up or down or the target price. But it could have been read as being bearish, and had it been read that way, farmers could have sold wheat at something like 29 cents under the current market price. I think it would have been very unfair and misleading to have notified them of the change without saying in addition we think that new target price is this level or that the new subsidy policy is going to be this or that. And this information we did not know at that time.

Mr. RARICK. But you did notify the export people.

Mr. BRUNTHAVER. We notified them of a change that had already taken place, that would not have market impact, in our estimation.

Mr. RARICK. Are you suggesting that we should change the name of U.S. Department of Agriculture from Agriculture to Export-Import Business?

Mr. BRUNTHAVER. No, sir.

Mr. RARICK. Let me ask you, in making the new subsidy regulation, was that made completely in the Department of Agriculture between yourself and the Secretary and some of your advisers?

Mr. BRUNTHAVER. The new subsidy policy. You are referring to the announcement that was made on the 25th?

Mr. RARICK. Yes.

Mr. BRUNTHAVER. No, sir, it was not.

Mr. RARICK. Who was involved in this decision at that time?

Mr. BRUNTHAVER. Officials of the Office of Management and Budget, the Council of Economic Advisers, the Secretary of Agriculture, and myself.

Mr. RARICK. Then, Secretary Butz and yourself cannot be sure as to leaks or what information the other departments may have had going out from their subordinate officials?

Mr. BRUNTHAVER. We had no indication that there were any leaks on the meeting of August 25.

Mr. PURCELL. Mr. Rarick, we had a 5-minute rule this morning. You were not here. I am sorry, you were not here.

Mr. RARICK. Mr. Chairman, may I ask just one more question?

Mr. PURCELL. All right.

Mr. RARICK. I wonder, Mr. Secretary, if you could either deny or confirm the reports that the first load of Russian wheat was delivered to a port in Chile?

Mr. BRUNTHAVER. I have no information of that, no, sir.

Mr. RARICK. You can neither deny nor confirm it?

Mr. BRUNTHAVER. No, sir.

Mr. RARICK. I have no more questions, Mr. Chairman.

Mr. PURCELL. Mr. Zwach.

Mr. ZWACH. Mr. Chairman, one question.

Before 1967, when apparently there was a major change in rules, would the amount of sales, to whom the sales were made, the price at which they were made, conditions of the contract sales, would they have been available to the Department of Agriculture before the relaxing of the rules of 1967?

Mr. PENCE. Yes, sir, with the exception of price?

Mr. ZWACH. With the exception of price?

Mr. PENCE. Yes, sir. In other words, sir, before an exporter could book subsidy, he must back that up with a sale which had already been made.

Mr. ZWACH. In other words, the regulations established in 1967 now are much less informative than were the rules and regulations before 1967?

Mr. PENCE. The present regulations let you book subsidy before you make a sale, after you make a sale, just that it has to be made before shipment. Previously, it had to be backed up with a sale.

Mr. ZWACH. Now, Mr. Chairman, I would like to defer some questions. We have, I think, tomorrow, the grain trade is going to be heard. I might have further questions after we get that testimony. That is all for now.

Mr. PURCELL. You mean of these witnesses?

Mr. ZWACH. Maybe of these witnesses.

Mr. PURCELL. You are not asking that they be required to stay here again?

Mr. ZWACH. No, but before we finish this, we may want them again.

Mr. FOLEY. Would the gentleman yield before we finish with this subject?

Mr. ZWACH. Yes.

Mr. FOLEY. Mr. Pence, though I think the record was made clear on this, the change made in 1967 was a change from requiring that a sale actually be consummated before a subsidy could be booked to one which permitted a subsidy to be registered without a sale having been fully consummated; is that correct?

Mr. PENCE. Yes, sir.

Mr. FOLEY. There was no attempt by the Department before 1967 to require that it receive prompt notification at the time the sale was made? The only requirement was that the shipment be made before the subsidy was forthcoming.

Mr. PENCE. Yes sir.

Mr. FOLEY. So there is a middle ground between requiring that a notification of sale be made before subsidy is booked and a policy of not requiring that any information be submitted until after a subsidy is given, the middle ground being that you could require that any sales actually consummated after a subsidy is booked be reported promptly to the Department prior to shipment, along with destination information, always permitting any change of destination to be corrected. Is that not true?

Mr. PENCE. That is true.

Mr. FOLEY. If the gentleman will yield further.

Mr. PURCELL. Are you through?

Mr. ZWACH. I am through.

Mr. FOLEY. What I am still trying to determine is the reason or reasons for the Department's determination that information about exports is not relevant or useful? Now, we have had testimony, as I recall, that calls were made by you, Mr. Pence, on the instruction of Mr. McKnight and Secretary Brunthaver, to those companies you thought had engaged in Russian sales. But you had no actual information about whether they had or had not engaged in such sales. You could only receive such information when actual shipments were made. Would it not have been useful for you to know who actually had consummated sales with the Soviet Union when you were making these telephone calls? Aside from the other questions raised, would you not normally want to know who had consummated sales, especially if you were planning to contact Russian sale contractors or exporters?

Mr. BRUNTHAVER. Yes, sir, I think that after this large amount of sales had been made, it became evident to us that it would be useful to collect the type of information that you suggest. However, with the registration of these sales, the fact that the majority of them are registered and we do have information on the sales by class by port, we have essentially the same information that you deemed desirable for this year. And as we look into next year, we will have to reconsider this.

Mr. FOLEY. Mr. Secretary, perhaps I am wrong, but it strikes me that most departments of Government, if they err, err on the side of requiring more information than is necessary rather than less. This is the only occasion in my experience as a Member of Congress where I can recall the Department deliberately denying itself information which seems to me to be useful and valuable to them in the normal course of their administrative responsibilities. The Department has behaved, it would seem, most unusually; always not asking for information rather than otherwise; seeming to have an overwhelming need for the information and yet deliberately not requiring it. This is not the case of a department wanting information because it might possibly be useful and appropriate. There is no question that the Department should have had this information.

The Department's approach is confusing, particularly when I consider the fact that you, yourself, requested these companies to give you the information voluntarily. Even more puzzling to me is that although some of them declined, according to your testimony, you now feel their cooperation will not be necessary and that you have the information.

We ask of American citizens in the normal course of the census more information than you are requiring of trading companies involved in sensitive international trading agreements. I want to know why.

Are you afraid of leaks in the Department?

Mr. BRUNTHAVER. No, sir.

Mr. FOLEY. Is that one of the reasons why, that some of this information is market sensitive and you are afraid if you get the information from the companies, it will be difficult to hold it confidential?

Mr. BRUNTHAVER. No, sir, I don't think it is that.

Mr. PENCE, do you want to comment?

Mr. PENCE. No, sir. There are two or three things here, and I would not disagree with your statement. But many sales are made f.o.b. position, where we would not know the destination. In other words, a U.S. exporter may sell an export sale to another exporter f.o.b. Gulf. He may sell to an Italian grain merchant f.o.b. Gulf, and the seller would not know the destination.

Mr. FOLEY. I am not asking you to require exporters to give information they do not have. What I am suggesting is that you should be asking exporters for such relevant information as they have some time after they register for a subsidy, but before that shipment is actually consummated. It seems to me that it is not a great burden for a major international trading organization to keep certain records, or for the Department of Agriculture, which no doubt has the capacity to store and use such information, to ask for that information and receive it. Is there any reason why the Department denies to itself admittedly useful information in pursuing its responsibilities?

Mr. BRUNTHAVER. Mr. Foley, I think your point is well taken and whereas before, this information was not really valuable to us because we had plenty of stocks of wheat, we did not have to worry about running short, we could program Public Law 480, I think the situation is now changed and I think your point is well taken.

Mr. FOLEY. Thank you.

Mr. PURCELL. Mr. Price?

Mr. PRICE. Mr. Pence, I would like to ask you, could you furnish this committee with the names of who the exporters are in this country? Are there not a certain number of people who have been in the export trade business for a number of years?

Mr. PENCE. Sir, we have furnished the committee a list of everybody who has booked export subsidies since July 1; also an additional list of everybody who booked this special subsidy during the week of August 25 to September 1.

Mr. PRICE. Are there not certain people who make this a common practice in business to trade in international trade? There are certain companies that trade internationally?

Mr. PENCE. Yes, sir.

Mr. PRICE. All right. Can an agriculture organization, a private producer or elevator operator or grain organization, apply for foreign sale permits?

Mr. PENCE. Yes, sir, they can be eligible for registering subsidy, to take advantage of the subsidy program. The only main requirement that we have is that they are financially liable in case they do not export the grain.

Mr. PRICE. All right. There is not and has not been any restriction on any farm organization, any grain organization, or any private individual from going out on their own to any country on this planet and selling any grain he wants to without having the same privilege that the normal large exporter of grain normally has.

For instance, grain sorghum producers a few years ago in our part of the country went overseas and made their own sales in grain sorghum. And a lot of grain sorghum has been sold to Japan and western Europe. The cotton producers, cotton organizations have sold cotton themselves, private individuals, to Korea and to Taiwan. So there is no restriction as to whether he is a large exporter, a small businessman or a co-op or a privately owned grain operator. There is no restriction on that man from exporting if he gets out there and gets after it, as long as he shows, as you said, that he is financially able to meet the obligations. Is that correct?

Mr. PENCE. That is correct. He has the same opportunities that any other businessman has.

Mr. PRICE. Now, the people that you notified, that seems to be the big question, the people that you notified were the ones that had actually submitted and had made sales with foreign countries.

Mr. PENCE. Yes, sir.

Mr. PRICE. Therefore, there was no need for you to notify individual producers, individual elevator operators, or other individuals of any sort, whether he was a private grain operator or whether he is a private producer. There was no need or purpose for you to notify that person because he did not and had not been an exporter of grain to foreign countries. Is that correct?

Mr. PENCE. This is true. He must apply, put in an application to be eligible for the subsidy program.

Mr. PRICE. So then the persons that you notified were those known people who had trade agreements already in effect or applied for?

Mr. PENCE. Yes, sir.

Mr. PRICE. And the insinuations before this committee and by some of the press that you leaked or anybody in the Department leaked is strictly not true, as far as I am concerned, in this area.

Mr. PENCE. Well, I don't want to use the word "witch hunting."

Mr. PRICE. I mean let the facts speak for themselves. You merely notified those people who had grain export certificates and who applied for them.

Mr. PENCE. That is about right.

Mr. PRICE. And there was no need or purpose for you to notify any farm organization or any private producer about this transaction because they were not in the market at that time and on record as being in the market. Is that correct?

Mr. BRUNTHAVER. That is correct, Mr. Price. Had we believed, however, that this information was market-sensitive in any way, we would have had an obligation to notify other people concerned. But this was not considered, in our estimation, to be market-sensitive information.

Mr. PRICE. And you closed the transaction at 3:30 on Thursday, the 24th, is that not correct?

Mr. BRUNTHAVER. That is correct.

Mr. PRICE. Then you notified the next day after that time, after the market had closed, you notified these people that were involved in those sales so that they could not make any windfall. Is that not correct?

Mr. BRUNTHAVER. Well, let's get our dates straight here. We notified people starting about noon on the 24th that sales made after the 23d would not necessarily be protected at the previous target price.

Mr. PRICE. Right, and I have your news release here of that date of September 15, which says that the Department of Agriculture notified exporters by phone on Thursday, August 24, that there would be a change in export payment policy on the sales of wheat made after the close of business of the previous day, Wednesday, August 23. This was done to immediately prevent overselling of certain classes of wheat by those who had previously submitted permits to export.

Mr. PENCE. With one exception, sir. They could make a sale without having booked subsidy. If they were approved for booking subsidy.

Mr. PRICE. But that would have been at their own risk, would it not?

Mr. PENCE. Yes, sir, that is what they were told. This was the only thing that they were told in the telephone conversation.

Mr. PRICE. I can recite numerous procedures or sales to my colleague, Mr. Foley, where in previous years, private individuals have made sales to foreign countries and the Department has come along and capitalized and sold Commodity Credit stocks, undercutting individual private sales.

Mr. FOLEY. If the gentleman will yield?

Mr. PRICE. Yes, sir.

Mr. FOLEY. I do not understand how Mr. Brunthaver says on the one hand that the Department's decision was not market sensitive and that therefore a public announcement was not necessary; just private communications with trading companies would suffice. Allowing these private communications appears to contradict the Department's explanation that a public announcement would be bearish. That seems to me to be a market-sensitive term.

Mr. BRUNTHAVER. No, sir, I indicated that it could possibly be construed as being that if we did not indicate what the future subsidy level or the future target price may be.

Mr. FOLEY. Is it not true that any information or intimation that was given to the trading companies, rightly or wrongly, that the subsidy was going to be reduced would be, in their judgment, a bearish kind of information which could have led them to sell short on the commodity market?

Mr. BRUNTHAVER. This could have been an assumption on their part. Had they done so, however, they would have lost money. They could have assumed that the subsidy was going to be maintained or they could have assumed that we were going to get back to our target price as we had already indicated we were going to, and hold that, which would have meant an increase in subsidy.

Mr. FOLEY. I agree with that.

Mr. PRICE. I have yielded to the gentleman long enough. Have I used up my time?

One last question. Is it normal procedure for the Department to make reports of every grain sale that is made that goes out on a weekly or monthly basis? I have seen them, I get them in my office. This is normal procedure, is it not, whether it is soybeans, corn, whatever? I have seen announcements that come in on a weekly or monthly basis on whatever sales that have been made to all countries.

Mr. BRUNTHAVER. We estimate weekly the total amount of wheat or corn or soybeans etc. that was inspected for export. Census picks up the inspections by class of wheat and they publish this information monthly after the fact, yes.

Mr. PRICE. Thank you.

Mr. PURCELL. Mr. Melcher?

Mr. MELCHER. Mr. Pence, you testified that you started the calls at 11 o'clock on August 24, and you mentioned six large grain companies. Did you call all six of those prior to 12 o'clock?

Mr. PENCE. No, sir.

Mr. MELCHER. Did you call any during the noon hour?

Mr. PENCE. Yes, sir.

Mr. MELCHER. How many companies did you call by the close of business on August 24?

Mr. PENCE. I don't know that I can answer this truthfully, because I don't remember. But this is what happened.

I called the six first because we were asking them to come to a meeting. I immediately then started calling other exporters. I called the west coast—

Mr. MELCHER. Were they asked to come to the meeting?

Mr. PENCE. No, sir.

Mr. MELCHER. Nobody but the six?

Mr. PENCE. But the ones who had sold to the Russians.

Mr. MELCHER. Nobody but the six that you listed in your testimony were asked to come to the meeting?

Mr. PENCE. Yes, sir.

Mr. MELCHER. You cannot tell us today how many you called before the close of business on August 24?

Mr. PENCE. The reason I can't is because it became so well known in the trade that everybody was calling me about it and I can't remember who I talked to, but I can't say for sure whether I called one individual or he called me.

Mr. MELCHER. Could you supply a list to the committee of those calls you made on August 24 and those calls that came to you on August 24?

Mr. PENCE. I could only do what I can remember, sir.

Mr. MELCHER. You don't have a telephone record of these?

Mr. PENCE. No, sir, I do not.

Mr. MELCHER. I see.

I have a list of exporters who have submitted offers since July 1, 1972, which is one of the lists you referred to a few minutes ago?

Mr. PENCE. Yes, sir.

Mr. MELCHER. There are some 30-some different companies here. How was it determined which ones were going to be notified on August 24 and which ones were not? Obviously, you could not notify all these here by that time, could you?

Mr. PENCE. No, sir.

Mr. MELCHER. How was it determined which ones not to notify?

Mr. PENCE. We started out and called the ones who usually do the most business and we thought might be in the position of making additional sales: this is strictly judgment.

Mr. MELCHER. It is a judgment on your part or were you instructed on whom to call?

Mr. PENCE. No, sir, I was not instructed as to which ones to call.

Mr. MELCHER. Were you instructed to call the six?

Mr. PENCE. Yes, sir.

Mr. MELCHER. You were instructed to call the six, but none of the others. On the others, you just made up your own mind whom to call?

Mr. PENCE. No, sir, I cleared that with Mr. McKnight and asked if he didn't want to call the other exporters to give them the same information about the sales. The answer was yes.

Mr. MELCHER. Do I understand that you were told to call the six, but after that, you made up your mind which ones to call yourself?

Mr. PENCE. Yes, sir.

Mr. MELCHER. Now, in making these calls, I would assume that you talked to—by the way, in the course of these calls, did you get information on two grain companies making export sales that very day on August 24?

Mr. PENCE. No, sir.

Mr. MELCHER. You did not pick up any information of that nature?

Mr. PENCE. No, sir.

Mr. MELCHER. Mr. Brunthaver has previously testified that he heard there were two sizable sales made on that day.

Mr. BRUNTHAVER. Oh, no, no, sir. I testified this morning that I had rumor that two countries were possibly in the market for large quantities of grain at sometime in the near future and that is the reason for the urgency of the phone calls.

Mr. MELCHER. Mr. Brunthaver, was that two countries or two companies on that particular day?

Mr. BRUNTHAVER. Two countries.

Mr. MELCHER. I refer to your testimony regarding the reason that you thought the date should be changed from August 23 for the cut-off to August 24. Now, will you repeat to the committee now what your reason was? I understood you to say that you heard rumors of two sizable sales.

Mr. BRUNTHAVER. No, sir. The reason for the notification on the 24th, and the reason for the urgency of the phone calls was that we had rumors of two countries that possibly would book fairly large amounts of wheat and we were concerned about overselling of western white wheat, that was the reason—

Mr. MELCHER. Secretary Brunthaver, that is not my question and that is not what I am referring to.

Mr. BRUNTHAVER. Okay.

Mr. MELCHER. I am referring to the statement that was made that the cutoff date would be August 23 and then it was changed to August 24.

Mr. BRUNTHAVER. Yes, sir.

Mr. MELCHER. You testified this morning why that date was changed.

Mr. BRUNTHAVER. Right. We were concerned, as you brought out, that some of the exporters may not have been notified and would possibly have made sales on the 24th.

Mr. MELCHER. Did you know of any sales?

Mr. BRUNTHAVER. No, sir.

Mr. MELCHER. Did you hear of any sales on that day, Mr. Pence?

Mr. PENCE. No, sir, I did not.

Mr. MELCHER. Then why were none of the grain cooperatives called?

Mr. PENCE. There were grain cooperatives called.

Mr. MELCHER. There were?

Mr. PENCE. Yes, sir.

Mr. MELCHER. Do you have a list of those and which ones were called?

Mr. PENCE. The Equity Union or Union Equity, at Enid, Okla. was called. The one in the Pacific Northwest I know definitely was called.

Mr. MELCHER. Pacific Northwest?

Mr. PENCE. Yes.

Mr. MELCHER. North Pacific Grain Growers, Inc.?

Mr. PENCE. Yes, sir.

Mr. MELCHER. Which is a cooperative?

Mr. PENCE. Yes, sir.

I also had a call from their representative in town, who we also passed the same information on to.

Mr. MELCHER. Is that Mr. Hofer?

Mr. PENCE. Yes, sir.

Mr. MELCHER. Did you call Great Plains Wheat and Western Wheat Growers Association?

Mr. PENCE. No, I did not call them.

Mr. MELCHER. You were not calling any producer groups?

Mr. PENCE. No, sir, they are not in export.

Mr. MAYNE. I am sorry, I did not hear the last part.

Mr. PENCE. They are not in export.

Mr. MELCHER. In making these calls and talking to the persons you talked to, did you tell them there would be a special export subsidy rate to take care of outstanding orders, a dual subsidy system within the following week?

Mr. PENCE. No, sir, I did not. As I explained this morning, when I passed this information on, there were some people that said, does this mean that we will have a dual system, or how are you going to work it?

My answer was I did not know as to how it would be and that there would be an announcement later. I would not tell.

Mr. MELCHER. Who mentioned dual systems?

Mr. PENCE. Sir, I can't remember, but several of them. Not dual in that terminology. They would ask whether we would have two rates for the sales previous to August 23 and one from August 24 forward. This is something that you would naturally probably read into the statement I gave to them. And there were several of them that asked this and several that wanted to talk.

Mr. MELCHER. Mr. Pence, did anybody that you communicated with suggest the two-tier or dual system?

Mr. PENCE. Well, I think the statement that I made that there would be a change, indicating that there would no longer be a protection for them at the old world price level, could be indicated that may be there might be two systems, two subsidy levels. But there was nothing definite. I myself knew nothing about it at that time.

Mr. MELCHER. You didn't instigate the two-tier discussion, then?

Mr. PENCE. No, sir.

Mr. MELCHER. But it was mentioned to you by several people in the course of the calls?

Mr. PENCE. They had asked me how we would implement what I told them.

Mr. MELCHER. And you cannot recall any of the individuals that mentioned that to you?

Mr. PENCE. No, sir, I couldn't, I am sorry.

Mr. MELCHER. Now, this later turned out to be the very policy that was announced on August 25, is that correct?

Mr. PENCE. If you want to take it in general terms, there were two levels set up on the 25th, yes.

Mr. MELCHER. That is exactly what the announcement was, was it not?

Mr. PENCE. Yes, sir.

Mr. MELCHER. Now, did you tell Mr. Kenworthy and Mr. Kotz and Carl Craft—Mr. Kenworthy on September 10 or 11—that you made the calls on August 24 to at least six companies or more?

First, I will break down the question. Did you tell Mr. Kenworthy on either September 11 or 12 that you had made these calls?

Mr. MAYNE. Mr. Chairman, may we have for the record who Mr. Kenworthy is?

Mr. MELCHER. Did you tell Mr. Kenworthy of the New York Times on Monday or Tuesday, September 11 or 12, that you had made these calls on August 24?

Mr. PENCE. Yes, sir. I am not sure about the date, but about that time, yes, sir.

Mr. MELCHER. About that time, Monday or Tuesday of that week?

Mr. PENCE. Yes.

Mr. MELCHER. Then on September 14, while these hearings were underway, did Nick Kotz of the Washington Post talk to you about this date?

Mr. PENCE. Yes, sir.

Mr. MELCHER. And then soon after that, did Mr. Carl Craft of the Associated Press also talk to you about this date about the calls you made on August 24?

Mr. PENCE. Carl Craft, I believe, yes, later on in the evening.

Mr. MELCHER. All right. Now, did you tell one or all of these gentlemen that the calls you made on August 24 were to the effect that there would be a new policy on export subsidy that would be announced on August 25 and that there would be a cutoff date on August 24?

Mr. PENCE. No, sir, I did not.

Mr. MELCHER. I notice in the news stories—and this seems to be cited?

Mr. PENCE. Yes, sir, let me go one step further with you, because I did not know until about 3:30 on August 25 that there would be definitely a two-tier subsidy. I did not know until that time when an announcement would be released. As a matter of fact, when we were asked to look at our regulations in regard to such an announcement, our original draft was for release on the 28th. We did not think we would be able to get it out.

Mr. MELCHER. Your recollection now is that you told these gentlemen that it was August 23 that the cutoff date would be?

Mr. PENCE. Yes, sir.

Mr. MELCHER. How, given the fact that the two-tier system came back to you without you instigating it in the discussion with the grain companies, came back to you from several points, which would be, as I suppose a very unique situation—I do not think there has ever been such an export subsidy—did the thought occur to you that perhaps they knew more than you did?

Mr. PENCE. No, sir, because if I had been in their position, I would have also thought of the same thing.

Mr. MELCHER. Did any of them indicate to you that they had discussed this system with somebody in the Department or that there had been some thought given to this by somebody in the Department?

Mr. PENCE. No, sir.

Mr. MELCHER. But did it seem highly unusual that the system that was going to be promulgated by the Department was not coming from you but was coming back to you from the trade?

Mr. PENCE. No, sir, it didn't, Congressman, because at that time, when I made the telephone calls, I had no idea what it would be, and working in the subsidy system for 5 million grain merchants, I would assume that the only way there was a change, the only way there could be one was in a two-tier system.

Mr. PURCELL. Mr. Melcher, you have just had 15 minutes.

Mr. MELCHER. Mr. Chairman, I do have some more questions. That completes my questioning of Mr. Pence but I have some more questions of Mr. Brunthaver, but I would be agreeable to anything the committee likes. I would like to have Mr. Brunthaver available until I can have another turn of questioning.

Mr. PURCELL. All right.

Mr. MELCHER. Thank you, Mr. Pence.

Mr. SEBELIUS. I ask unanimous consent that an article in the Kansas City Star on September 17, 1972, which was written by Fred Kiewit, the Star's agricultural editor, of an interview he had with Oliver

BROWN, Liberal, Kans., in my district, who is one of the biggest if not the biggest farmer in the free world, be made a part of the record.

Mr. PURCELL. Without objection, so ordered.

(The article referred to follows:)

#### KANSAS FARMERS STOIC—CAN'T WIN 'EM ALL IN WHEAT GAME

(By Fred Kiewit, State's agriculture editor)

Oliver Brown of Liberal, Kan., is one of the biggest wheat farmers in the free world, but yesterday he admitted candidly he may not be one of the smartest.

What caused that doubt is that Brown, like many other wheat farmers, sold his wheat at harvest. Given the benefit of hindsight, he's sorry over the result.

As general manager of the Anschutz Farms Corporation, Brown oversees wheat operations on 320,000 acres of land in western Kansas, eastern Colorado and the Oklahoma Panhandle. Included in that staggering total are about 10,000 acres of Brown's own land. Anschutz is the successor to the former Baughman Farms, Inc.

Brown sold his hard red winter wheat at the local elevators for \$1.25 a bushel in July. If he had stored it or put it temporarily under a government loan, the price today would be in the range of \$1.69 to \$1.79. Once again that is at the country elevator; the price at terminal elevators is 20 to 30 cents higher for transportation, interest and handling margins.

The difference, of course, traces directly to the grain sales to Russia announced July 8 by the Nixon administration. The original trade was announced as \$750 million over a 3-year-period, but the Soviet Union already has purchased about 400 million bushels of wheat for delivery now, according to the best trade information. There also have been substantial purchases of feed grains, including corn.

A new price impetus may result from the beginning of grain sales to Communist China.

A Democrat and former chairman of the Seward County, Kansas, Democratic Committee, Brown blames no one but himself for not holding his own grain. As manager for Anschutz, however, he did order most of that grain stored, because the company at that time was trying to work out its own exporting program. The program did not materialize, but the company is enjoying higher prices.

Kansans this year raised 309 millions bushels of hard red winter wheat, the kind being purchased by Russia. That was one-quarter of the U.S. hard wheat crop and about one-fifth of all U.S. wheat raised this year.

Calculated at the support price of \$1.25 a bushel, also near the June local elevator price, the harvest was worth \$386.25 million to the Kansas farm economy. Now, based on the mid-September price of \$1.69, the crop was worth more than \$522 million, or an increase of \$136 million in Kansas alone.

The plain truth is that the economics of Kansas and the entire nation are enjoying a tremendous stimulus. Everyone, with the exception of bakers and possibly the exporters themselves, are prospering. Obviously, those farmers who sold at harvest will not reap as much as those who held, or can retrieve their wheat from loan.

The situation has far-flung ramifications reflected in the railroads, which are purchasing hundreds of new engines and hopper cars, and Gulf Port docks, where loading of wheat into ships has begun.

Yet politicians are picking the sale to pieces, calling it among other things "this apparent Russian wheat scandal."

Brown believes that controversy is a trumped-up political charge and much overblown as a legitimate farm issue. As general manager for the huge wheat-producing farm, he deals directly with more than 500 family farmers in the High Plains and has yet to hear his first complaint over the price situation. Virtually all of those farmers have their own farms and lease additional land from Anschutz on a crop-sharing formula.

"What I did in July was based on my own judgment and all of the cards were on the table at harvest time," he said.

"I have been operating and managing wheat farm land 32 years. We have found through the years your best price for wheat turns out to be the price you get at harvest time.

"That gets down to a matter of personal judgment. Obviously, now I wish I hadn't sold."

Brown doesn't actually ride a tractor or a combine these days, but he actively manages all of the property involved. From his own land, which is leased to farmers, he receives one-third of the crop. Based on the difference between the harvest and mid-September wheat figures, Brown estimates he lost a chance to earn an added \$6,600.

"What you've got to bear in mind there in the city is that the typical wheat farmer in the High Plains is a gambler," he explained. "He will raise a crop one year, have it hailed out the next and lose it to drought the third. What he does and how he reacts to those things and market play is entirely a matter of his own personal decision."

Brown said he believes it is political poppycock to raise such an issue. He asserted that many farmers have been injured not at all, because they took advantage of the \$1.25 government loan program. Those men can redeem those loans, then sell the wheat at the current market. Not only that, but some producers still had wheat grown in the two previous years under loan that they can now redeem at the current market.

"Those fellows are still in the buggy seat," Brown said, adding they include not only those farmers who put their wheat under loan but hundreds who sold only part of their wheat and were planning to hold the rest until January 1, 1973, or later for income tax reasons.

In that connection, J. E. Pallesen, state statistician for the Kansas Crop and Livestock Reporting Service, said in an average marketing year only 44 per cent of that year's wheat crop in Kansas is sold in the first quarter of the market year beginning in June. Year in and year out, January is the third biggest wheat sales month in Kansas, lagging only a percentage point or so behind the harvest months of June and July.

Because of current price levels, 1972 may not turn out to be a typical marketing year, Pallesen added. Still, one-half or more of the Kansas crop may still be under the control of producers.

"As producers, naturally we are for anything that will make the price of wheat go up," Brown summarized. "Russia normally is our biggest competitor in the production of hard winter wheat.

"So any time you are dealing with your biggest competitor and get a chance to sell him wheat on your terms, then I would say you are in business.

"I would definitely want to congratulate Nixon and the Department of Agriculture for their work in getting that job done."

Brown also doesn't see much to criticize in the employment of two former USDA officials by private grain exporting firms. The inside knowledge the two—Clarence Palmby and Clifford Pulvermacher—may have had, has come under political fire.

"When he (Palmby) was in the USDA, he didn't know a damned bit more than the grain people themselves, even though he had been to Russia," Brown said. "Those buyers and shippers are in the know quicker than our own government. Those accusations are wrong, but then this is a political year . . ."

Away from the economic and political arenas, the rapidly changing wheat situation also is having an impact in other U.S. markets, the world market and in production planning in Kansas and elsewhere, where seeding of the 1973 crop is now getting underway.

A Kansas State agricultural economist, Roy Frederick, said one facet of the change is that Kansans this autumn may seed 6 to 8 per cent more wheat than a year ago, or about 10 million acres compared with 9.6 million for 1972.

"Many farmers are bullish about 1973 price prospects and will plant more wheat," he said. "If production soars and sales to the Soviet Union do not continue at a high level, we could see a return to the situation of the late 1960s, when a glut of wheat had a depressing effect on prices."

Wheat farmers have three options as they make their 1973 production plans. They can:

Take part in the program at the regular set-aside level.

Participate in the program and exercise an additional set-aside option.

Not participate at all and plant as much wheat as possible, hoping that prices remain high through the 1973 harvest.

The wheat program for next year was announced in July, before the full extent of export requirements was known. There are no plans in the USDA to change the program. It will be up to individual producers whether to cut back in 1973 wheat production, as was the plan before U.S. surpluses were whittled away, or gamble on high prices with more acreages.

World-wide, the amazing series of sales also has put up wheat prices around the world, causing adverse reaction among some established U.S. buyers, including Japan. A key in the world price scheme is the U.S. subsidy paid to exporters, to keep U.S. export prices competitive with those around the world because our domestic price generally is above the world price. The export subsidy rate on any day is supposed to be the difference between our domestic price and the world price. That is set every afternoon by the USDA in Washington to apply the next trading day.

What has occurred since July 1, shortly before the Soviet purchases were announced, has been widely misunderstood.

On that day the cash price for hard red winter wheat at the Gulf was \$1.62 a bushel. Two cents must be added to load the wheat onto a ship. That made \$1.64. The subsidy at that time was 1 cent a bushel. Subtract the subsidy and the resulting total, or \$1.63, was the competitive or world price of wheat on board ship at that time.

When Russia began to buy wheat, domestic prices rose. The government began to increase the subsidy rate, finally reaching a level of 38 cents a bushel. Yet foreign buyers still were getting the grain for around \$1.63 a bushel at the Gulf.

Meanwhile, pressures were building at home from bakers and others to halt the rise in domestic wheat prices under the rising umbrella of the subsidy. Also, other nations were increasing their export prices. On Aug. 24, the USDA backed away from the policy of increasing the subsidy as the domestic price rose and the spread widened between U.S. and world prices. It announced it would protect exporters on all sales prior to that day, but afterward the rate would reflect any rise that had occurred in world prices.

Under the new policy any rise in domestic prices would have to be passed on to world prices. If trades were made at the higher prices, that would be the concrete evidence that the world price, in fact, had risen.

Prices change daily, but less than a week ago the Kansas City price on wheat was \$2.01 a bushel, about 30 cents above country elevator points. Freight to the Gulf was 14 cents, for \$2.15. Add 2 cents for loading to \$2.17. By that time the subsidy had been reduced to 30 cents a bushel. Subtract that from \$2.17 and the result, \$1.87, was the actual F.O.B. cost of wheat to a foreign buyer. Thus the world price showed an increase of 24 cents a bushel after July 1, but the Russians already had booked their orders at the lower figure.

Unless wheat exporting companies had protected themselves, they were now in a real financial bind delivering under those contracts. They were in effect in a directly opposite position of the farmer who sold too early, while on-farm prices were low. Unless the companies already had all the wheat they needed, they were paying too much for wheat to meet previously contracted obligations.

That bind, however, is not likely. Huge exporting companies are, after all, international trading experts, and without exception hedge their future requirements on the Kansas City Board of Trade and other commodity exchanges. Even so, the rapidly escalating price scale probably is making their profits less than major windfalls.

It has been documented in *The Star* and elsewhere that the Kansas City Board of Trade has taken the leadership from Chicago in wheat futures trading volume since July, chiefly because most of the trade interest has been in the kind of wheat traded here rather than other varieties of wheat. However, most of the activity has been hard-headed business hedging rather than wild speculation by in-and-outers trying to grab a fast dollar, another current political accusation.

If there has been one dark scene in the total wheat picture since July, it is the plight of the Southern and Southwestern wheat grower who marketed too early to catch any upturn. Through a quirk in the law, he may be suffering pangs of a double loss.

His plight was explained by Eugene Moos, president of the National Association of Wheat Growers, who is currently pleading with Earl Butz, agriculture secretary, to reverse a loss that may run from \$20 to \$25 million in gross income.

Moos explained that a change in the payment formula for domestic wheat certificates in the 1970 Farm Bill makes the difference. The formula calls for a payment based on the difference between the average market price for July through November and parity on July 1. Under normal marketing conditions that has had little effect, but as Moos explained:

"The formula will reduce this year's anticipated payment to wheat growers \$100 million because of the Russian sales and higher prices. For many producers that will be offset by higher market prices.

"The ones we are deeply concerned about are those in the early harvest areas

of the U.S. who sold before the full impact was known. The double loss comes from selling when prices were low and now from a reduction in the certificate payment because of higher average prices. In this case that is a 20 per cent loss in potential income and a possible 13 per cent reduction in certificate payments."

Raymond Dahl, vice-president and senior economist for the Federal Reserve Bank here, looked beyond any immediate benefits when he summed up the summer's developments.

"I am very glad they (the Russians) are buying wheat from us," he said. "I think this can't help but be viewed favorably. It is good business to develop new markets and this, plus other sales that have been mentioned, gives us the chance to develop new and perhaps permanent markets."

WHEAT PRICES FOR 21 MONTHS

[In dollars]

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1971 -----	1.22	1.31	1.30	1.31	1.33	1.39	1.29	1.28	1.26	1.29	1.29	1.33
1972 -----	1.31	1.30	1.31	1.35	1.35	1.27	1.31	1.56	1.69	-----	-----	-----

<sup>1</sup> Estimated.

Note.—July 8, 1972: President Nixon announces grain sale to Soviet Union. Estimated 400,000,000 bushels of wheat sold. July wheat price: \$1.31. Sept. 14, 1972: Sale to China of 15,000,000 bushels of wheat is confirmed. Estimated September wheat price \$1.69.

Source: Kansas Crop and Livestock Reporting Service based on local elevator prices.

Mr. SEBELIUS. It is regrettable that the gentleman from Louisiana was not here this morning so we would not have to plow this ground again. I just want to thank the gentlemen for their patience in coming up here again.

That is all.

Mr. PURCELL. Mr. Bergland?

Let me point out that I have tried not to put any pressure on the members. I do not mean to put any on you now, but these two gentlemen having to leave are due to go right now, so any expeditious manner you can ask your questions in, they would appreciate it, I know.

Mr. BERGLAND. Mr. Chairman, in light of that, I think I will reserve my time for a later date.

Mr. PURCELL. Your time will be preserved in perpetuity for an opportunity to question.

Mr. BERGLAND. This morning I asked Secretary Brunthaver about the 280 million bushels of grain that had been registered for the 47-cent subsidy and how much of this was destined for the Soviet Union.

I think your answer was 60 percent, is that right?

Mr. BRUNTHAVER. 59 percent.

Mr. BERGLAND. You indicated that you are now contacting the various exporting companies to find out if they will voluntarily give you information as to how much grain they had individually sold. Is that correct, sir?

Mr. BRUNTHAVER. Well, I had asked them to submit that to me at the meeting on the 25th; however, since then, we have received certifications of the amount of wheat by class that is going to all destinations, and really, this information is sufficient for our needs.

Mr. PURCELL. Mr. Bergland, may I just ask, if you do not have any questions of Mr. McKnight or Mr. Pence, we will let them go at this time. Mr. Brunthaver, I think, can stay here.

Mr. BERGLAND. Yes, sir.

Mr. PURCELL. Mr. Pence, we send you on your way with our best wishes, in spite of what some of us may act like we feel. We hope you continue selling grain to Japan.

Mr. PENCE. Thank you, sir.

Mr. BERGLAND. Mr. Secretary, I am not asking you to betray a confidence and you will have to be a judge of what has been given to you in confidence by these trading companies, but can you tell us the amount of grain that has been identified for sale to the Soviet Union? Would those companies have given you this information voluntarily?

Mr. BRUNTHAVER. No, sir; I do not feel I should do that.

Mr. BERGLAND. Can you give us an estimate about how much grain has been sold about which you have no information?

Mr. BRUNTHAVER. We think that 10 or 11 million metric tons of wheat has been sold to the U.S.S.R. In addition, we think approximately 1 million tons of soybeans, and on corn, we are not sure, but probably 3 to 5 million metric tons.

Mr. BERGLAND. Going back to the change in policy in 1967 with respect to whether or not the trading firm must have a sale in hand before they may register for the subsidy, I am a bit unclear. I think we have been told that the 1967 change permitted a company to file for a subsidy without actually having a sale booked. Is that correct, sir?

Mr. BRUNTHAVER. Yes, that is correct.

Mr. BERGLAND. Then was there not a change in the form used to register the subsidy in 1971, permitting a company to file without even registering the country to receive the grain? Is that correct?

Mr. MCKNIGHT. Yes, Mr. Bergland, there was a change.

Mr. BERGLAND. Then the regulations that we now have ask for less information now than you did even in 1971?

Mr. MCKNIGHT. That is correct.

Mr. BERGLAND. Under this system, it could be possible for the Soviet Union or for any other country to enter the U.S. market, as they did, very abruptly and buying massive quantities of grain, taking advantage of the lack of information generally available to Government, buy this grain and exporters could register for the subsidy. Grain could be sold to the Soviets and they in turn could actually transship it to Japan, could they not, at a higher price and profit by the transaction?

Mr. BRUNTHAVER. The trade agreement that we entered into with the U.S.S.R. indicated that they agreed to buy \$750 million worth of grain over a 3-year period. In the exchange of letters that accompanied the agreement, there is a stipulation that a small part of this can be transshipped to specific Eastern European countries. But that is the only transshipment that is allowed under the credit program.

Mr. BERGLAND. Which countries are they, Mr. Secretary?

Mr. BRUNTHAVER. Mr. Coffman may have that.

Mr. BERGLAND. If you do not have them, could we just have them placed in the record.

Mr. COFFMAN. I do not have them here, I do have them at the office, so we will insert it in the record.

(The information is as follows:)

The Eastern European countries are those which are presently full members of the Council for Mutual Economic Assistance. These countries are Romania, Bulgaria, Hungary, Poland, East Germany, and Czechoslovakia.

Mr. BERGLAND. Very fine.

That is all I have, Mr. Chairman. Thank you.

Mr. PURCELL. If there are no other questions—excuse me, Mr. Kyl.

Mr. KYL. I was absent for awhile and I do not want to plow the same ground, in the language of my colleague.

Mr. PURCELL. Mr. Mayne, do you have any questions?

Mr. MAYNE. I have no questions, Mr. Chairman, but inasmuch as Mr. Melcher has indicated that he does have additional questions for Secretary Brunthaver, I would like to suggest, if no member has any objection, that we proceed with those now rather than have the Secretary have to come back again.

Mr. PURCELL. That is what I was going to suggest, too.

Mr. FOLEY, do you have any questions?

Mr. FOLEY. I have no questions.

Mr. PURCELL. Mr. Rarick?

Mr. RARICK. No.

Mr. FOLEY. Mr. Price?

Mr. PRICE. No.

Mr. PURCELL. Mr. Melcher?

Mr. MELCHER. Thank you, Mr. Chairman.

Mr. Secretary, when you started this calling chain in motion, did you ask Mr. McKnight to call the six companies or in your own words, what did you tell Mr. McKnight to do?

Mr. BRUNTHAVER. Mr. McKnight was asked to invite the companies that we thought had done business with Russia into a meeting at 2 o'clock on Friday, and further, to notify as many exporters as he could of the change in policy that had been made effective on the close of business the 23d.

Mr. MELCHER. To notify them of that change?

Mr. BRUNTHAVER. Yes, sir; to notify them of the change that had already been made.

Mr. MELCHER. How would that be phrased, then?

Mr. BRUNTHAVER. Excuse me, how would what be phrased?

Mr. MELCHER. How would he notify them—how would he phrase that?

Mr. BRUNTHAVER. He was to notify the exporters that we could no longer protect our target price for sales made after the close of business on the 23d day of August.

Mr. MELCHER. Now, Mr. McKnight, when you asked Mr. Pence to do this for you, did you mention August 24? I mean that is the day he was going to do it, but did you mention to Mr. Pence that it was the close of business August 24?

Mr. MCKNIGHT. No; the close of business August 23d.

Mr. MELCHER. Now, on three different occasions—perhaps more, but three that I know of—Mr. Pence said that it was on the close of business of August 24.

Mr. BRUNTHAVER. No, sir.

Mr. COFFMAN. Mr. Chairman, the record just does not show that. He said the 23d over and over again. He didn't say that he called them and told them—

Mr. MELCHER. Mr. Chairman, I am not appreciative of this interruption. I have clearly defined three individuals, have stated so on the record, three individuals that Mr. Pence reported to them, told them

that he said in his calls at the close of business August 24. At no time in that conversation with three different individuals was August 23d mentioned.

Mr. MAYNE. Mr. Chairman, this is clearly improper hearsay testimony. Mr. Pence categorically denied those statements allegedly made to members of the press and no member of the press has so testified.

Mr. MELCHER. Mr. Chairman, I am not denying that he hasn't stated in his testimony that he did not make those statements. I am only referring to what was said prior to his official statement here.

Mr. PURCELL. Mr. Melcher, all of this is hearsay so far. You may ask whatever question you want and I am not going to try to govern which one of these gentlemen answers it.

Mr. MELCHER. That is correct.

Mr. PURCELL. If they have any information regarding any of them, I am going to let them go ahead and answer it.

Mr. MELCHER. My question is directed to Mr. McKnight, whether anything that he said to Mr. Pence would indicate that it would be at the close of business August 24?

Mr. McKNIGHT. No, sir.

Mr. MELCHER. Now, did anything that you said to Mr. Pence in asking him to make the calls have anything to do with the two-tier system?

Mr. McKNIGHT. No, sir.

Mr. MELCHER. Did Mr. Pence communicate with you this feedback he was getting from the grain companies that they were wondering about a two-tier system?

Mr. McKNIGHT. Yes, he did.

Mr. MELCHER. Now, under what conditions, Mr. Secretary, did you give assurance to grain companies that you were going to protect the world price?

Mr. BRUNTHAVER. There was no definite assurance ever given. The exporters had observed that for the past 10 months or so, the Department in the daily subsidy announcements was pricing hard red winter ordinary 12 at approximately \$1.65. When Russian buys became evident, many people asked me, are you going to change your target prices? And they were told at that time that we had no indication at this time that we were going to change the target prices.

Mr. MELCHER. At what date or approximate date was that?

Mr. BRUNTHAVER. Well, this was after the signing of the agreement on July 8, within the next week or so.

Mr. MELCHER. Can you tell the committee what firms were given that assurance?

Mr. BRUNTHAVER. They were not given any assurance. I indicated that we had no intention at this time of changing our target prices. The firms that asked the information were Cargill, Cook, I think Dreyfus, and Continental.

Excuse me, many other firms, I understand, inquired of EMS as to whether or not we were going to change our target prices, including the—

Mr. MELCHER. Mr. Secretary, I thought I was following your testimony that you gave assurance to those companies that you listed yourself, personally gave them assurance that you were following that target price. Is that correct?

Mr. BRUNTHAVER. State your question again, I am sorry.

Mr. MELCHER. I thought your answer, before Mr. McKnight said something to you, was to the effect that you personally assured those four companies that you were going to try to maintain that target price.

Mr. BRUNTHAVER. That is correct. I am saying in addition to these, others contacted EMS.

Mr. MELCHER. All right. But can you tell the committee what individuals in those particular firms that you talked to concerning your assurance to maintain the target price—

Mr. BRUNTHAVER. Mr. Steinwig of Continental; Mr. Middents of Cargill; Mr. Louis Dreyfus of Louis Dreyfus Corporation; Mr. Sparks, of Cook.

And again for the record, this was a question from them, are you going to change, do you have any intention of changing the target price in the near future.

Mr. MELCHER. And by the near future, what would you mean by that?

Mr. BRUNTHAVER. Well, I would think that until some notification is given by EMS, either in the subsidy program or otherwise, that a change was imminent.

Mr. MELCHER. For my information, what would you reply to them, that there would be no change in the near future, how long a time did that imply?

Mr. BRUNTHAVER. There was no indication. In my mind, I had hoped that we could maintain this competitive target price throughout the year.

Mr. MELCHER. Was this in writing?

Mr. BRUNTHAVER. Oh, no, sir.

Mr. MELCHER. This was just in conversation?

Mr. BRUNTHAVER. Yes.

Mr. MELCHER. Is it customary to do this, involving millions of dollars, it is customary to do it verbally?

Mr. BRUNTHAVER. Well, yes, sir, I think so.

Mr. MELCHER. I have looked over the transcript again to refresh my memory on last Thursday.

Carroll, you testified that because of the world situation now, Russia is forced to buy wheat from us if they are to buy wheat at the present time. What justification do you have for increasing the export subsidies, since you have testified that they need to purchase wheat and they must purchase it here in the United States and must pay whatever the market price is?

Mr. BRUNTHAVER. Well, this is after the fact, sir, and at the time that we went with the strategy to export large amounts of wheat at a price determined competitive, we did not know what the volume of business was. We set out to do large amounts of business and we have accomplished that.

Now, if we had known, I guess, that Russia had to buy large amounts of wheat in this magnitude regardless of what the price might be, then our strategy may have been different. But this is not known, it is not known today whether they would have bought as much wheat at a higher price as they did at the competitive price established.

Mr. MELCHER. Well, did you feel that, having made a verbal commitment to try to hold the target price for—I am not sure how long a time—but did you feel that as the export subsidy went up that you

had made a commitment that obligated this country to continue a higher and higher export subsidy?

Mr. BRUNTHAVER. Sir, as I indicated before, there are three ways for a government to run a subsidy program: Either to clearly specify to the traders that there is no subsidy, or to make it clear to them that there is a fixed subsidy, or to make it clear to them that there is a target price that we are shooting for. When we infer that this is our target price and we encourage you exporters to sell large amounts of U.S. wheat at a price that we determine competitive, I think we have some responsibility, yes, to make sure that those sales, once they are made, can be protected at that price. Otherwise, it would be to renege on the companies that you encourage to do the business.

Mr. MELCHER. Mr. Secretary, you testified that at the time you made this verbal commitment to four companies to maintain the current price, you did not know how great the Russian sales would be. The thrust of my question is, having made that commitment and watching the increasing volume of sales—you had to know there was an increasing volume of sales to the Russians—and watching the price climb and the export subsidy climb, how long did you think that you had to maintain your commitment to them? Did it only occur to you on August 24 that it had to come to a halt?

Mr. BRUNTHAVER. It occurred to me on August 24, when we heard rumors of two large additional sales, that we may be running short of particular classes of wheat and that if exporters are going to sell additional quantities, large quantities, they had to do it at their own risk, because after all, they knew more about the particular supply and demand in a particular class of wheat than the Government did.

Mr. MELCHER. Have you told us which companies those were, the two rumors on August 24?

Mr. BRUNTHAVER. Excuse me, countries, sir.

Mr. MELCHER. You did say companies, though, did you not? Just now?

Mr. BRUNTHAVER. If I did, I meant countries.

Mr. MELCHER. Excuse me, I misunderstood you.

On August 24, after having made the commitment to four companies soon after July 8, it became apparent that Russia could not buy the grain anywhere else and that we were in effect giving them large amounts of grain at a price that could no longer be maintained anywhere in the world, I mean the \$1.63 price that you mentioned that we started with as the world price in early July, it was obvious in August that this was no longer the world price, was it not? There were no longer any large quantities of wheat available anywhere at \$1.65, were there?

Mr. BRUNTHAVER. In what part of August are you referring to?

Mr. MELCHER. Let's say August 10.

Mr. BRUNTHAVER. Well, at August 10, before we had indications that the Russians came back for additional large amounts of wheat, we still considered a price target of \$1.63 to be competitive and to be desirable to maximize sales of U.S. wheat of which we had considerable volume.

Mr. MELCHER. Were we not right then establishing world price?

Mr. BRUNTHAVER. I think it is fair to say that the United States normally establishes world prices. We do it in corn, we certainly do it in soybeans and even in wheat. While Canada may lead, Australia may lead, the United States many times establishes the world price.

Mr. MELCHER. Well, the Washington Post Sunday editorial said the Russians took us for a hayride on this transaction. Do you think that is a fair statement?

Mr. BRUNTHAVER. No, sir.

Mr. MELCHER. They did take us for \$128 million or \$130 or \$131 million in export subsidies that were registered in 1 week, though, did they not?

Mr. BRUNTHAVER. Yes, sir, but in return for that, the U.S. Treasury gained approximately \$500 million.

Mr. MELCHER. If they wanted the grain, and it is obvious they did, if the export subsidy had not been that high, don't you think they would have brought it from us anyway?

Mr. BRUNTHAVER. We don't know that, sir. I don't think anyone knows that.

Mr. MELCHER. The Washington Post thinks they know and I think a lot of other people think they know by now.

Mr. BRUNTHAVER. Well, that is speculation on the part of the writers of the Washington Post.

Mr. MELCHER. Let's do some speculating right here.

Could a grain company have sold grain to the Russians at \$1.65 with a subsidy at 30 cents and purchased it at \$1.95, then registered the sale during the week of August 28 and gotten an export subsidy of 37 and 39 or up to 47 cents?

Mr. BRUNTHAVER. Yes, sir.

Mr. MELCHER. They could have done that?

Mr. BRUNTHAVER. Yes, sir. It would have been speculation on their part had they done that, and they would have taken a great deal of risk in working it that way, because the subsidy on the date that you referred to could have been 39 cents or it could have been 24 cents. If it had been 25 cents, they would have lost whatever the difference is on that particular sale.

Mr. MELCHER. Well, they got up to 47 cents. It would have been a windfall profit to them then; of what, 17 cents?

Mr. BRUNTHAVER. On your particular example, whatever the difference would be, yes, sir.

Mr. MELCHER. Now I would like to hear from you, Claude. Is that legal? Is there anything illegal about that?

Mr. COFFMAN. No.

Mr. MELCHER. Perfectly legal?

Mr. BRUNTHAVER. Yes, sir.

Mr. MELCHER. Is there any way for the Department to check whether that was done?

Mr. BRUNTHAVER. I know of no way of checking on that. The only check that we have is following the subsidy registrations daily, and as I indicated to the committee several times, we feel that the exporters were booking subsidy as they were making their purchases. We had, again, 475 million bushels of subsidy that was booked in July and August at an average of 22 cents.

Mr. MELCHER. But during this one week, during the 2-tier system, grain bought under the conditions I have just described could have been reused, reapplied for an export subsidy, while the application for a higher export subsidy could have been made.

Mr. COFFMAN. Oh, no, let me be sure I understand your question.

Mr. MELCHER. All right, I will reread the question.

Mr. COFFMAN. Had he applied for the 30 cent subsidy?  
Go back to your original question. We may have misunderstood your question.

Mr. MELCHER. All right.

Could a grain company have sold at \$1.65, with subsidy at 30 cents?

Mr. COFFMAN. I am not hearing you clearly. You are saying at subsidy. What do you mean? Do you mean he applied for a subsidy, or do you mean on that day, it so happened that the subsidy was that much? I don't hear you.

Mr. MELCHER. I will say applied for 30 cents.

Mr. COFFMAN. Oh, then that is quite different. He could not have come back in for the 47 cents, you see.

Mr. BRUNTHAVER. No, sir.

Mr. COFFMAN. He would have had a contract to export that much wheat at that subsidy. It would have been a violation of his contract, for which there would have been penalties, had he failed to do so.

Mr. MELCHER. Now, you are telling me, Claude, that it would have been illegal if he had done so.

Mr. COFFMAN. I didn't say illegal. It is a violation of contract. I don't know whether it is illegal or not, but he would have been subject to liquidated damages had he done that.

Mr. MELCHER. On what basis would he be subject to penalties.

Mr. COFFMAN. Well, our regulations say that once you agree—

Mr. MELCHER. It would be against the Department's regulations?

Mr. COFFMAN. Yes.

Mr. MELCHER. And he would be prosecuted?

Mr. COFFMAN. Prosecuted, no.

Mr. MELCHER. He would be fined?

Mr. COFFMAN. Liquidated damages he would have to pay. They are I think, 25 cents a bushel and—well, frankly, I cannot recall the exact amount of the liquidated damages, but it is severe.

Mr. MELCHER. Is it 25 cents a bushel?

Mr. COFFMAN. I had better not be too sure of that without referring to the regulations.

Mr. BRUNTHAVER. I am sure it is 25 cents a bushel. If it is different from that, we will correct it for the record.

Mr. MELCHER. Could he have registered for a 2- or 4-cent export subsidy and then come in during this 1 week and reregistered for a 47-cent one?

Mr. BRUNTHAVER. No, sir.

Mr. COFFMAN. No, sir; you would have the same problem.

Mr. MELCHER. If the penalty was 25 cents liquidated damage per bushel, would it not have been to his advantage to do so?

Mr. COFFMAN. As I say, I would like to refresh my recollection on what the penalty is.

Mr. MELCHER. Secretary Brunthaver has already testified he knows it is 25 cents. I would like him to answer the question, would it have been to his advantage?

Mr. COFFMAN. You want the correct answer. I am sure the committee wants the facts. It is not just a question of whether he answers it or I answer it. Is it not true that you want the committee to have the actual fact? So is it not important for us to put the regulations in the record and pin down what it actually is?

Mr. MELCHER. I am delighted at any time, Claude, to have the record include part of the regulations. But the fact is if it could be done, he could have paid off the penalty and still profited from it.

Mr. COFFMAN. I will not agree to that. Maybe the Secretary will, but I am not that familiar with whether he could do that.

Mr. BRUNTHAVER. We will submit that for the record.

Mr. MELCHER. All right.

(The statement follows:)

The exporter could book the 47 cents export payment only for sales made prior to 3:31 p.m. August 24, 1972, which were not already covered by subsidy contracts. Therefore an exporter who had booked a subsidy of two cents or four cents a bushel would be obligated to export that quantity of wheat at that subsidy rate. If he failed to do so, the regulations provide as follows:

"An export which has not been made at the time that there has accrued a total amount of liquidated damages of 25 cents per bushel shall be deemed not to have been made at all and the exporter shall not be entitled to an export payment and shall owe CCC, as liquidated damages, a total of 25 cents per bushel on the net bushels of wheat not exported (after taking into consideration the downward tolerance provided in § 1483.114)."

\* \* \* \* \*

"In addition to the foregoing, an exporter who fails to export in accordance with his contract with CCC may be suspended or debarred from participating in this program or in any other program of CCC for such period and subject to such terms and conditions as may be provided pursuant to the Suspension and Debarment Regulations of CCC (34 F.R. 12659, August 5, 1969, and any amendments thereto or revisions thereof)."

My next question is how do you know and what method do you have for checking that once an export subsidy is registered, it is not put through the very process that I have mentioned here?

Mr. BRUNTHAVER. Because when he make that commitment, when he says he will export a bushel of grain out of the United States at 2 cents, he must do it. He can book another bushel at 47 cents, but he must export another bushel to satisfy that booking.

Mr. MELCHER. All right. Now, did you at any time discuss a two-tiered system with anybody in the grain business prior to the August 25 announcement?

Mr. BRUNTHAVER. Well, the exporters were naturally getting very nervous as we let the world price go up on August 21 to \$1.73, then to \$1.74, and \$1.77, and I had many suggestions and questions from many different people as to how I was going to correct this? Are you going to get it back in line? Are you going to have to change? Questions to the effect, couldn't we chop it off here and have a settlement period? There were many suggestions presented to me, yes. But I did not indicate to anyone that we would have a two-tiered system; no.

Mr. MELCHER. It was presented to you?

Mr. BRUNTHAVER. Yes.

Mr. MELCHER. And prior to the August 24 calls?

Mr. BRUNTHAVER. Yes.

Mr. MELCHER. Then the assumption is that when Mr. Pence called on August 24 the various companies, their natural assumption was that there would be a two-tier system?

Mr. BRUNTHAVER. Well, you see, if you are going to establish a new target price, instead of \$1.65 you are going to \$1.75, then about the only way you can do that is to have one subsidy apply to the old commitment, and another subsidy to apply to the higher world price commitment. I don't know of any other way that the subsidy program could have operated.

Mr. MELCHER. There is nothing that requires you to assure anyone any further than today or tomorrow what the export subsidy is, is there?

Mr. BRUNTHAVER. That is correct.

Mr. MELCHER. I think Mr. McKnight would like to add to that.

Mr. McKNIGHT. Mr. Melcher, for a number of years, countries that have been buying large quantities of wheat on a tender, on a bid basis, where they hold this bid open in this country for 7 days, 8 days, over a weekend, the exporters would approach the Department of Agriculture and say, we are going to commit ourselves to offering 300,000 or 500,000 tons of wheat to this country; are you going to change your policy while our bid is outstanding? It has been done for years that we would say, this subsidy will not be changed during the week this tender is outstanding. Otherwise, we couldn't have done the business.

Mr. BRUNTHAVER. Mr. Melcher's question or statement, however, is correct: We do not have to indicate to the exporters what our target price is, and in effect, the way we are operating now, we have not indicated to anyone what our new target price is. We don't have a new target price at this point in time. The exporters are more or less operating in the dark as to what our goals are or what our subsidy level tomorrow or next week might be.

Mr. MELCHER. There never has been any time prior to this episode when an assurance or a commitment for a target price was made for such a long period of time, with such volume and with such huge sums of export subsidies involved as has been entailed in this past 30 days, 40 days, 60 days.

Mr. BRUNTHAVER. That could be, but we have never had a situation before of a demand this large and for one country to come in and book this amount of wheat.

Mr. MELCHER. Now, two final questions. A Japanese representative stated to one of the producer groups that he understands that the United States may abolish the wheat export subsidy system. Is that under consideration now?

Mr. BRUNTHAVER. No, I don't think that is in active consideration, no.

Mr. MELCHER. And how much did CCC sell in July and August, or commit?

Mr. BRUNTHAVER. Sale of CCC owned wheat?

Mr. MELCHER. Sell or commit.

Mr. BRUNTHAVER. It is my understanding that we have sold approximately 180 million of the 367 million bushels of wheat that we own.

Mr. MELCHER. At about what price?

Mr. BRUNTHAVER. At a price reflecting a Gulf value of approximately \$2.10 or higher. We can give you for the record the exact prices that we received on all of these if you would like.

Mr. MELCHER. Is that an average price during July and August?

Mr. BRUNTHAVER. No, I don't know. I just remember one sale being consummated at approximately \$2.08. I will furnish for the record the other prices.

Mr. MELCHER. Yes, the list and the commitments, to whom and at what prices.

Thank you very much.

Thank you, Mr. Chairman.

(The information requested is as follows:)

## CCC WHEAT SALES SINCE JULY 1, 1972

Date, buyer, and class	Protein	Quantity	Price	Basis
<b>July 3:</b>				
Louis Dreyfus:				
Hard wheat.....	11.70	14,190	1.70 $\frac{1}{2}$	Columbia River district.
Do.....	13.00	151,143	1.81 $\frac{1}{2}$	Do.
Cargill:				
Hard wheat.....	Ord	35,000	1.61 $\frac{1}{2}$	Do.
Do.....	11.00	47,800	1.62 $\frac{1}{2}$	Puget Sound.
Total, Hard wheat.....		248,133		
<b>July 5:</b>				
United Growers Corp.:				
Northern Spring.....	14.00	250,000	1.92 $\frac{1}{2}$	Columbia River district.
Do.....	14.00	250,000	1.92 $\frac{1}{2}$	Puget Sound.
Cargill:				
Hard wheat.....	Ord	174,600	1.61 $\frac{1}{2}$	Do.
Do.....	11.70	191,000	1.69	Do.
Do.....	Ord	50,000	1.61 $\frac{1}{2}$	Columbia River district.
Total, Northern Spring.....		500,000		
Total, Hard wheat.....		415,600		
<b>July 6:</b>				
United Grain: Northern Spring.....	14.00	500,000	1.92 $\frac{1}{2}$	Do.
Cook: Northern Spring.....	14.00	46,077	1.91 $\frac{1}{2}$	Do.
Continental:				
Northern Spring.....	14.00	361,469	1.92 $\frac{1}{2}$	Do.
Do.....	14.50	64,694	1.94 $\frac{1}{2}$	Do.
Do.....	15.00	73,835	1.96 $\frac{1}{2}$	Do.
Cargill:				
Northern Spring.....	14.00	18,600	1.91 $\frac{1}{2}$	Puget Sound.
Do.....	15.00	28,400	1.95	Do.
Do.....	15.00	55,700	1.95	Columbia River district.
Do.....	14.00	373,333	1.92 $\frac{1}{2}$	Puget Sound.
Hard wheat.....	Ord	49,400	1.61 $\frac{1}{2}$	Columbia River district.
Do.....	13.00	74,666	1.81 $\frac{1}{2}$	Puget Sound.
Do.....	13.00	370,000	1.80	Do.
Total, Northern Spring.....		1,522,108		
Total, Hard wheat.....		494,066		
<b>July 7:</b>				
Northern Pacific Grain Growers: Hard wheat...	13.00	147,000	1.81	Columbia River district.
Early & Daniel: Soft Red wheat.....		2,912	1.41 $\frac{1}{2}$	Origin.
Total, Hard wheat.....		147,000		
Total, Soft Red wheat.....		2,912		
<b>July 10:</b>				
Continental:				
Durum.....		2,017,287	1.81 $\frac{1}{2}$	Duluth.
Do.....		156,500	1.74 $\frac{1}{2}$	Minneapolis.
Do.....		23,999	1.74 $\frac{1}{2}$	St. Paul.
Do.....		465,476	1.77 $\frac{1}{2}$	Superior.
Do.....		1,236,243	1.80 $\frac{1}{2}$	Do.
United Grain:				
Hard wheat.....	11.00	17,714	1.65 $\frac{1}{2}$	Columbia River district.
Do.....	11.70	76,952	1.71 $\frac{1}{2}$	Do.
Do.....	Ord	76,190	1.64 $\frac{1}{2}$	Do.
Do.....	11.00	36,000	1.65 $\frac{1}{2}$	Do.
Do.....	Ord	17,428	1.64 $\frac{1}{2}$	Do.
Cargill: Hard wheat.....	13.00	200,000	1.81 $\frac{1}{2}$	Do.
Total, Durum.....		3,899,505		
Total, Hard wheat.....		424,284		
<b>July 11:</b>				
Louis Dreyfus:				
Hard wheat.....	11.70	166,667	1.72 $\frac{1}{2}$	Do.
Do.....	13.00	100,000	1.82	Do.
Northern Spring.....	14.00	22,380	1.97	Puget Sound.
Total, Hard wheat.....		266,667		
Total, Northern Spring.....		22,380		
July 12: Pillsbury: Durum.....		23,277	1.78 $\frac{1}{2}$	Origin.
July 19: Enid Terminal: Hard wheat.....	Ord	50,000	1.76	Do.
<b>July 20:</b>				
Cargill:				
Hard wheat.....	Ord	56,200	1.65 $\frac{1}{2}$	Puget Sound.
Do.....	13.00	40,000	1.82 $\frac{1}{2}$	Do.
Soft White wheat.....		15,242	1.60 $\frac{1}{2}$	Origin.
Total, Hard wheat.....		96,200		
Total, Soft White wheat.....		15,242		

## CCC WHEAT SALES SINCE JULY 1, 1972—Continued

Date, buyer, and class	Protein	Quantity	Price	Basis
<b>July 24:</b>				
Cargill:				
Hard wheat.....	Ord	96,667	1.67	Columbia River district.
Do.....	Ord	22,800	1.65½	Do.
Do.....	Ord	51,704	1.52¾	Origin.
Total, Hard wheat.....		171,171		
<b>July 25:</b>				
Cook:				
Northern Spring.....	14.50	33,800	1.96½	Columbia River district.
Do.....	14.00	340,572	1.96	Do.
Hard wheat.....	13.00	10,100	1.83½	Do.
Total, Northern Spring.....		374,372		
Total, Hard wheat.....		10,100		
<b>July 27:</b>				
Northern Pacific Grain Growers: Hard wheat.....	Ord	45,300	1.67	Do.
<b>July 31:</b>				
Northern Pacific Grain Growers: Hard wheat.....				
Cook: Hard wheat.....	Ord	69,100	1.66½	Do.
	Ord	500,000	1.78½	Origin.
Total, Hard wheat.....		569,100		
<b>August 1:</b>				
Cook: Northern Spring.....				
	14.50	38,200	1.96	Columbia River district.
Cargill:				
Northern Spring.....	14.50	34,761	1.97½	Puget Sound.
Do.....	15.00	35,904	1.99½	Do.
Do.....	14.00	160,000	1.95½	Columbia River district.
Hard wheat.....	11.00	58,800	1.68½	Puget Sound.
Do.....	13.00	250,000	1.83½	Columbia River district.
Louis Dreyfus:				
Hard wheat.....	Ord	31,619	1.68	Do.
Do.....	11.70	13,714	1.76	Do.
Do.....	Ord	1,850,000	1.78½	Origin.
Enid Terminal: Hard wheat.....	Ord	93,766	1.76	Do.
Continental: Hard wheat.....	Ord	50,000	1.75	Do.
Dreyfus: Hard wheat.....	Ord	1,150,000	1.78½	Do.
Total, Northern Spring.....		268,865		
Total, Hard wheat.....		3,497,899		
<b>August 2:</b>				
Mitsui: Northern Spring.....				
	14.50	213,808	1.98½	Columbia River district.
W. C.: Northern Spring.....				
	14.00	500,000	1.96½	Puget Sound.
Cargill:				
Northern Spring.....	14.00	390,476	1.96½	Do.
Do.....	14.00	109,523	1.96½	Columbia River district.
Mitsubishi: Northern Spring.....	14.00	144,285	1.96½	Do.
Continental: Northern Spring.....	14.00	38,952	1.96½	Do.
Louis Dreyfus: Northern Spring.....	14.00	34,285	1.96½	Do.
Cook: Northern Spring.....	15.00	24,200	1.99	Do.
Mitsui:				
Hard wheat.....	13.00	275,500	1.84½	Do.
Do.....	11.70	18,600	1.74½	Puget Sound.
Do.....	13.00	128,400	1.84½	Do.
United Grain: Hard wheat.....	13.00	500,000	1.84½	Columbia River district.
Cargill: Hard wheat.....	13.00	500,000	1.84½	Do.
Mitsubishi:				
Hard wheat.....	13.00	198,100	1.84½	Puget Sound.
Do.....	13.00	50,000	1.84½	Columbia River district.
Do.....	11.70	35,500	1.74½	Puget Sound.
Do.....	Ord	68,571	1.69	Columbia River district.
Do.....	11.00	20,285	1.71	Do.
Do.....	11.70	62,571	1.76	Do.
Louis Dreyfus: Hard wheat.....	11.00	18,571	1.71	Do.
Total, Northern Spring.....		1,455,529		
Total, Hard wheat.....		1,876,098		
<b>Aug. 3:</b>				
Central Warehouse Grainery: Hard wheat.....				
	12.50	7,631	1.65	Origin.
Union Equity:				
Hard wheat.....	Ord	3,419,822	1.77	Do.
Do.....	Ord	4,314,351	1.77½	Do.
Goodpasture:				
Hard wheat.....	Ord	41,989	1.82	Do.
Do.....	12.80	1,870,969	1.83½	Do.
Johnson Terminal:				
Hard wheat.....	Ord	453,765	1.77	Do.
Do.....	Ord	321,219	1.77½	Do.
Collingwood:				
Hard wheat.....	Ord	111,924	1.77½	Do.
Do.....	Ord	310,367	1.77	Do.

## CCC WHEAT SALES SINCE JULY 1, 1972—Continued

Date, buyer, and class	Protein	Quantity	Price	Basis
Aug. 3—Continued				
Salina Terminal:				
Hard wheat.....	Ord	54,025	1.77½	Do.
Do.....	Ord	22,365	1.77	Do.
Producers:				
Hard wheat.....	Ord	24,525	1.77	Do.
Do.....	Ord	234,795	1.77½	Do.
Wolcott-Lincoln:				
Hard wheat.....	Ord	68,692	1.77	Do.
Do.....	Ord	13,284	1.77½	Do.
Enid Terminal: Hard wheat.....	Ord	175,402	1.77	Do.
Ross Industry:				
Hard wheat.....	Ord	279,959	1.77½	Do.
Do.....	Ord	1,270,041	1.77	Do.
Cargill:				
Hard wheat.....	Ord	1,164,496	1.82	Do.
Do.....	12.60	889,474	1.83½	Do.
Far-Mar-Co.:				
Hard wheat.....	Ord	3,431,427	1.77½	Do.
Do.....	Ord	2,489,434	1.77	Do.
Sam P. Wallingford:				
Hard wheat.....	Ord	538,809	1.77½	Do.
Do.....	Ord	1,579,172	1.77	Do.
Bunge:				
Hard wheat.....	Ord	412,623	1.77	Do.
Do.....	Ord	380,244	1.77½	Do.
Do.....	Ord	625,773	1.82	Do.
Chickasha:				
Hard wheat.....	Ord	231,569	1.77	Do.
Do.....	Ord	183,287	1.77½	Do.
Pillsbury:				
Hard wheat.....	Ord	362,030	1.77½	Do.
Do.....	Ord	577,031	1.77	Do.
Davidson Grain: Hard wheat.....	Ord	131,888	1.77½	Do.
J. C. Crouch: Hard wheat.....	Ord	138,271	1.77½	Do.
Garvey Grain:				
Hard wheat.....	Ord	1,099,334	1.77½	Do.
Do.....	Ord	2,202,418	1.77	Do.
Security Elevators:				
Hard wheat.....	Ord	230,443	1.77	Do.
Do.....	Ord	72,625	1.77½	Do.
Continental:				
Hard wheat.....	Ord	372,450	1.77	Do.
Do.....	Ord	1,054,304	1.77½	Do.
Do.....	Ord	450,885	1.82	Do.
Do.....	Ord	171,906	1.81	Do.
Do.....	Ord	670,600	1.80½	Do.
Central Warehouse Grain: White wheat.....		7,813	1.50½	Do.
Northern Pacific Grain Growers: Northern Spring.....	14.00	56,100	1.97	Columbia River district.
Total, Hard wheat.....		32,455,618		
Total, White wheat.....		7,813		
Total, Northern Spring.....		56,100		
Aug. 7:				
General Mills: Northern Spring.....	15.04	336,334	2.07¼	North Coast.
Cargill:				
Northern Spring.....	15.00	346,316	2.1795	North Pacific Coast.
Do.....	14.50	132,577	2.15	Do.
FUGTA:				
Northern Spring.....	14.80	180,142	2.13½	Do.
Do.....	14.43	106,964	2.11½	Do.
Do.....	14.63	191,356	2.127	Do.
Cook: Hard wheat.....	12.00	5,000,000	1.92¼	Truck Gulf.
Wolcott-Lincoln: Hard wheat.....	12.00	93,000	1.90	Origin.
Pillsbury: Hard wheat.....	12.00	770,000	1.90	Do.
Continental: Hard wheat.....	12.00	1,800,000	1.90	Do.
Cargill: Hard wheat.....	12.00	380,000	1.90	Do.
Far-Mar-Co.: Hard wheat.....	12.00	1,270,000	1.90	Do.
Saline Valley: Hard wheat.....	12.00	20,000	1.90	Do.
Morrison Grain: Hard wheat.....	12.00	350,000	1.90	Do.
ConAgra: Hard wheat.....	12.00	250,000	1.90	Do.
C.G.F.: Hard wheat.....	12.00	1,600,000	1.90	Do.
Int'l Mul-Fds: Hard wheat.....	12.00	200,000	1.90	Do.
Simond-Shied: Hard wheat.....	12.00	600,000	1.90	Do.
Salina Terminal: Hard wheat.....	12.00	625,000	1.90	Do.
Bartlett: Hard wheat.....	12.00	950,000	1.90	Do.
Garvey: Hard wheat.....	12.00	790,000	1.90	Do.
Bunge: Hard wheat.....	12.00	170,000	1.90	Do.
Ross Industries: Hard wheat.....	12.00	410,000	1.90	Do.
Wallingford: Hard wheat.....	12.00	220,000	1.90	Do.
Collingwood: Hard wheat.....	12.00	90,000	1.90	Do.
Security Elevators: Hard wheat.....	12.00	40,000	1.90	Do.

## CCC WHEAT SALES SINCE JULY 1, 1972—Continued

Date, buyer, and class	Protein	Quantity	Price	Basis
<b>Aug. 7—Continued</b>				
Davidson Grain: Hard wheat.....	12.00	60,000	1.90	Do.
Gano Horace: Hard wheat.....	12.00	20,000	1.90	Do.
Wm. Kelly Grain: Hard wheat.....	12.00	30,000	1.90	Do.
Mo-Kan Grain: Hard wheat.....	12.00	200,000	1.90	Do.
Wichita Flour Mills: Hard wheat.....	12.00	90,000	1.90	Do.
Topeka Mill: Hard wheat.....	12.00	360,000	1.90	Do.
Seaboard Allied: Hard wheat.....	12.00	300,000	1.90	Do.
Kaw Valley Grain: Hard wheat.....	12.00	120,000	1.90	Do.
General Mills: Hard wheat.....	12.73	630,663	1.82½	North Pacific Coast.
Continental Grain:				
Durum.....		72,180	1.8575	Duluth/Superior.
Do.....		732,683	1.880	Do.
Total, Northern Spring.....		1,293,689		
Total, Hard wheat.....		17,438,663		
Total, Durum.....		804,863		
<b>Aug. 8:</b>				
Peavey: Northern Spring.....	14.38	264,784	2.12½	North Pacific Coast.
Cargill:				
Hard wheat.....	12.50	381,616	1.88	Do.
Do.....	12.50	127,648	1.8795	Do.
FUGTA:				
Hard wheat.....	12.69	132,578	1.85½	Do.
Do.....	12.48	198,461	1.83½	Do.
Do.....	12.61	282,068	1.85½	Do.
Peavy: Hard wheat.....	11.95	122,894	1.86	Do.
Total, Northern Spring.....		264,478		
Total, Hard wheat.....		1,245,265		
<b>Aug. 9: Padonia Grain: Hard wheat.....</b>				
	Ord	23,800	1.63	Origin.
<b>Aug. 10:</b>				
Cargill: Durum.....		6,149	1.67	Do.
Loveland Elevator: Hard wheat.....	11.00	65,965	1.55	Do.
Wolcott-Lincoln:				
Hard wheat.....	11.00	25,645	1.70	Do.
Do.....	Ord	5,986	1.68½	Do.
Total, Durum.....		6,149		
Total, Hard wheat.....		97,596		
<b>Aug. 11:</b>				
Wolcott-Lincoln:				
Hard wheat.....	13.00	72,553	1.98	Gulf Export.
Do.....	12.00	29,611	1.65	Origin.
Do.....	Ord	13,724	1.68½	Do.
Saline Valley: Hard wheat.....	Ord	110,000	1.95½	Gulf Export.
International: Hard wheat.....	Ord	200,000	1.95½	Do.
Salina Terminal:				
Hard wheat.....	Ord	350,000	1.95½	Do.
Do.....	Ord	800,000	1.96	Do.
B. C. Christopher:				
Hard wheat.....	Ord	47,240	1.63	Origin.
Do.....	Ord	100,000	1.59	Do.
Seaboard:				
Hard wheat.....	Ord	150,000	1.96	Gulf Export.
Do.....	Ord	140,000	1.95½	Do.
Far-Mar-Co.:				
Hard wheat.....	Ord	500,000	1.95½	Do.
Do.....	Ord	1,500,000	1.96	Do.
Kaw Valley:				
Hard wheat.....	Ord	350,000	1.96	Do.
Do.....	Ord	125,000	1.95½	Do.
Cook Industries:				
Hard wheat.....	Ord	255,000	1.98	Do.
Do.....	Ord	545,000	1.98½	Do.
Morrison Grainery:				
Hard wheat.....	Ord	1,500,000	1.96	Do.
Do.....	Ord	350,000	1.95½	Do.
Cargill: Hard wheat.....	Ord	550,000	1.98	Do.
Continental:				
Hard wheat.....	Ord	38,782	2.00½	Do.
Do.....	12.50	229,695	2.01½	Do.
Do.....	Ord	850,000	1.98	Do.
Do.....	Ord	3,130,000	1.98½	Do.
Total, Hard wheat.....		11,936,605		
<b>August 14: Cook: Northern Spring.....</b>				
	15.00	35,800	2.20	Columbia River district.
<b>August 17</b>				
United Grain Corp: Hard wheat.....	Ord	68,900	1.86½	Do.

## CCC WHEAT SALES SINCE JULY 1, 1972—Continued

Date, buyer, and class	Protein	Quantity	Price	Basis
<b>Aug. 17—Continued</b>				
Cargill:				
Hard wheat.....	Ord	82,095	1.88	Puget Sound.
Do.....	13.00	57,238	2.06	Do.
Louis Dreyfus:				
Hard wheat.....	Ord	9,238	1.88	Do.
Do.....	11.70	19,714	1.95	Columbia River district.
Northern Grain Corp.:				
Northern Spring.....	14.00	300,000	2.17	Do.
Do.....	14.00	98,571	2.17	Puget Sound.
Northern Pacific Grain Growers: Northern Spring.....	14.00	27,333	2.17	Columbia River district.
Mitsubishi: Northern Spring.....	14.00	253,523	2.17	Puget Sound
Cargill: Northern Spring.....	14.00	451,809	2.17	Columbia River district.
Total, Hard wheat.....		237,185		
Total, Northern Spring.....		1,131,236		
<b>August 18:</b>				
Aurora Co-op: Hard wheat.....	Ord	20,000	1.68	Origin.
Peavey: Durum.....		50,461	1.52	Do.
FUGTA:				
Durum.....		189,642	1.52	Do.
Do.....		105,650	1.62	Do.
Do.....		66,461	1.53	Do.
Do.....		178,600	1.50	Do.
Do.....		48,319	1.44½	Do.
Do.....		26,750	1.50	Do.
Do.....		18,861	1.58	Do.
ADM:				
Durum.....		55,259	1.50½	Do.
Do.....		97,458	1.46½	Do.
Do.....		68,117	1.47½	Do.
Int's Mul. Fds: Durum.....		54,717	1.88	Do.
Atwood Larson: Durum.....		18,870	1.45½	Do.
Total, Hard wheat.....		20,000		
Total, Durum.....		979,165		
<b>August 21:</b>				
Atwood Larson:				
Durum.....		21,742	1.57¼	Do.
Do.....		18,692	1.54¾	Do.
Do.....		31,440	1.60	Do.
Do.....		26,303	1.58¾	Do.
Do.....		24,244	1.60	Do.
Do.....		30,151	1.47½	Do.
Do.....		41,132	1.46½	Do.
Do.....		13,452	1.52½	Do.
Do.....		46,674	1.48	Do.
Do.....		21,811	1.51	Do.
Do.....		27,021	1.48½	Do.
Benson Quinn:				
Durum.....		36,148	1.51	Do.
Do.....		85,813	1.52	Do.
Kellogg:				
Durum.....		25,733	1.49	Do.
Do.....		47,028	1.50	Do.
Cargill:				
Durum.....		25,935	1.55	Do.
Do.....		24,202	1.54	Do.
ADM:				
Durum.....		21,425	1.53½	Do.
Do.....		18,530	1.55½	Do.
Do.....		30,396	1.58½	Do.
Do.....		29,321	1.55½	Do.
Do.....		18,790	1.45½	Do.
FUGTA:				
Durum.....		19,692	1.48½	Do.
Do.....		36,062	1.61	Do.
Do.....		25,930	1.61½	Do.
Do.....		25,331	1.49½	Do.
Do.....		32,416	1.53½	Do.
Do.....		26,628	1.48	Do.
Do.....		55,101	1.50	Do.
Do.....		27,061	1.51	Do.
Do.....		36,260	1.56½	Do.
Do.....		26,273	1.59	Do.
Louis Dreyfus:				
Hard wheat.....	11.00	27,809	1.96	Columbia River district.
Do.....	Ord	106,600	1.93¾	Do.
Total, Durum.....		976,797		
Total, Hard wheat.....		134,409		

## CCC WHEAT SALES SINCE JULY 1, 1972—Continued

Date, buyer, and class	Protein	Quantity	Price	Basis
<b>August 22:</b>				
Farmers Co-op: Hard wheat	11.40	8,000	1.66 $\frac{3}{4}$	Origin.
Northern Pacific Grain Growers: Hard wheat	Ord	69,000	1.96	Columbia River district.
Cargill: Hard wheat	Ord	44,600	1.96	Do.
Atwood Larson: Durum		48,880	1.48 $\frac{1}{2}$	Origin.
FUGTA: Durum		168,934	1.89	Do.
Cargill:				
Northern Spring	13.00	40,700	2.14 $\frac{1}{2}$	Puget Sound.
Do	12.50	100,400	2.12 $\frac{1}{2}$	Columbia River district.
Do	14.00	81,047	2.20	Puget Sound.
Total, Hard wheat		121,600		
Total, Durum		217,814		
Total, Northern Spring		222,147		
<b>August 23:</b>				
Cargill: Northern Spring	14.25	330,000	1.72 $\frac{3}{4}$	Origin.
Atwood Larson:				
Northern Spring	13.66	41,379	1.65 $\frac{1}{2}$	Do.
Do	13.05	26,186	1.61 $\frac{1}{2}$	Do.
Do	15.13	296,268	1.92	Do.
Do	13.00	7,953	1.73 $\frac{1}{2}$	Do.
Do	13.12	7,713	1.72 $\frac{1}{2}$	Do.
Do	12.50	59,800	1.14 $\frac{1}{2}$	Columbia River district.
FUGTA:				
Durum		6,581	1.60 $\frac{3}{4}$	Origin.
Do		83,026	1.89	Do.
Cargill: Durum		106,381	2.00 $\frac{1}{4}$	Do.
Peavey: Durum		34,409	1.59 $\frac{1}{2}$	Do.
Bunge: Durum		15,288	1.54	Do.
Northern Pacific Grain Growers: Hard wheat	Ord	60,000	1.99	Columbia River district.
Total, Northern Spring		769,299		
Total, Durum		246,685		
Total, Hard wheat		60,000		
<b>August 24:</b>				
Morrill Elevator:				
Hard wheat	13.37	1,422	1.86	Origin.
Do	11.29	17,004	1.78	Do.
Continental: Hard wheat	13.00	484,274	1.77 $\frac{3}{4}$	Do.
Garvey: Northern Spring	14.50	87,000	1.73	Do.
McMillan Co.: Northern Spring	13.71	102,100	1.69	Do.
FUGTA:				
Durum		9,235	1.63 $\frac{3}{8}$	Do.
Do		8,362	1.53 $\frac{1}{2}$	Do.
Total, Hard wheat		502,710		
Total, Northern Spring		189,100		
Total, Durum		17,597		
<b>Aug. 25:</b>				
Farmers Union:				
Durum		11,497	1.65 $\frac{1}{2}$	Do.
Do		13,254	1.63	Do.
Cargill: Northern Spring	14.00	31,428	2.26	Columbia River district.
Total, Durum		24,751		
Total, Northern Spring		31,428		
<b>Aug. 28:</b>				
Cargill: Durum		23,460	1.83	Origin.
Atwood Larson:				
Northern Spring	13.10	22,292	1.61 $\frac{3}{4}$	Do.
Do	13.66	37,748	1.66	Do.
Cargill: Northern Spring	14.00	40,952	2.25	Puget Sound.
Total, Durum		23,460		
Total, Northern Spring		100,992		
<b>Aug. 30</b>				
Continental:				
Durum		388,411	1.94 $\frac{1}{2}$	Origin.
Do		3,400	1.86	Do.
Cargill: Durum		9,311	1.93	Do.
Peavey: Durum		205,872	1.91	Do.
Atwood Larson: Northern Spring	13.48	31,684	1.69 $\frac{3}{4}$	Do.
Cooperative Service: Hard Wheat	11.30	4,402	1.76 $\frac{1}{2}$	Do.
Total, Durum		606,994		
Total, Northern Spring		31,684		
Total, Hard Wheat		4,402		

## CCC WHEAT SALES SINCE JULY 1, 1972—Continued

Date, buyer, and class	Protein	Quantity	Price	Basis
Aug. 31:				
Bartlett:				
Hard Wheat.....	12.75	140,000	1.81 $\frac{5}{8}$	Origin.
Do.....	Ord	3,031,068	2.05 $\frac{3}{4}$	Track Gulf.
Far-Mar-Co:				
Hard Wheat.....	Ord	3,000,000	2.06	Do.
Do.....	Ord	745,000	2.05 $\frac{1}{2}$	Origin.
Pillsbury:				
Hard Wheat.....	Ord	255,000	2.05 $\frac{1}{2}$	Track Gulf.
Do.....	Ord	310,500	2.05 $\frac{1}{2}$	Origin.
Bunge:				
Hard Wheat.....	Ord	277,000	2.05 $\frac{1}{2}$	Track Gulf.
Do.....	Ord	90,000	2.06 $\frac{3}{4}$	Origin.
Do.....	Ord	330,368	2.05 $\frac{1}{2}$	Do.
Garvey:				
Hard Wheat.....	Ord	352,807	2.05 $\frac{1}{2}$	Track Gulf.
Do.....	Ord	42,800	2.05 $\frac{1}{2}$	Origin.
Do.....	Ord	690,000	2.05 $\frac{3}{4}$	Do.
Enid Term: Hard wheat.....	Ord	32,913	2.05 $\frac{1}{2}$	Track Gulf.
Continental: Hard wheat.....	Ord	60,000,000	2.08	Do.
Cargill:				
Hard wheat.....	Ord	7,000,000	2.07	Do.
Do.....	Ord	1,190,625	2.05 $\frac{3}{4}$	Origin.
Union Equity:				
Hard wheat.....	Ord	2,265,943	2.06 $\frac{1}{2}$	Do.
Do.....	Ord	11,819	2.05 $\frac{1}{2}$	Do.
J.C. Crouch: Hard wheat.....	Ord	179,229	2.05 $\frac{1}{2}$	Do.
Burrus Mills: Hard wheat.....	Ord	35,666	2.05 $\frac{1}{2}$	Do.
Producers Grain: Hard wheat.....	Ord	423,538	2.05 $\frac{1}{2}$	Do.
W. B. Johnston:				
Hard wheat.....	Ord	73,766	2.05 $\frac{1}{2}$	Do.
Do.....	13.00	77,000	2.07 $\frac{1}{2}$	Do.
Johnston Terminal: Hard wheat.....	Ord	518,016	2.05 $\frac{1}{2}$	Do.
Farmers Co-op: Hard wheat.....	Ord	107,466	2.06	Do.
ADM: Hard wheat.....	Ord	614,100	2.05 $\frac{1}{2}$	Do.
ConAgra: Hard wheat.....	Ord	436,300	2.10	Do.
Vanice: Hard wheat.....	Ord	258,000	2.05 $\frac{3}{4}$	Do.
King Grain: Hard wheat.....	Ord	40,000	2.05 $\frac{1}{2}$	Do.
Leger Mill: Hard wheat.....	Ord	38,090	2.05 $\frac{1}{2}$	Do.
Attebury: Hard wheat.....	Ord	300,000	2.05 $\frac{1}{2}$	Do.
Farmers Co-op:				
Hard wheat.....	Ord	15,000	1.74 $\frac{5}{8}$	Do.
Do.....	12.00	81,549	1.76 $\frac{1}{8}$	Do.
Stillwater Milling: Hard wheat.....	Ord	52,862	2.05 $\frac{1}{2}$	Do.
Denver Flour Mills: Hard wheat.....	Ord	84,000	2.06	Do.
Wrobbel Grain: Hard wheat.....	Ord	68,706	2.07	Do.
Western Beef: Hard wheat.....	Ord	250,000	2.05 $\frac{1}{2}$	Do.
Shawnee Milling: Hard wheat.....	Ord	23,869	2.06	Do.
Mid Continent: Hard wheat.....	Ord	81,635	2.05 $\frac{1}{2}$	Do.
Wm. Kelly milling: Hard wheat.....	Ord	50,000	2.06	Do.
Collingwood:				
Hard wheat.....	Ord	71,500	2.05 $\frac{1}{2}$	Do.
Do.....	Ord	3,147	2.05	Do.
Ross Industries: Hard wheat.....	Ord	427,000	2.06	Do.
Wallingford: Hard wheat.....	Ord	337,000	2.05 $\frac{3}{4}$	Do.
Checkerboard: Hard wheat.....	Ord	213,470	2.05 $\frac{3}{4}$	Do.
Whitewater Flour Mills: Hard wheat.....	Ord	105,000	2.05 $\frac{1}{2}$	Do.
New Era Milling: Hard wheat.....	Ord	110,000	2.05 $\frac{3}{4}$	Do.
Int'l Multi-Fds: Hard wheat.....	Ord	61,721	2.05 $\frac{1}{2}$	Do.
Lincoln Grain: Hard wheat.....	Ord	2,830,000	2.05 $\frac{1}{2}$	Do.
St. Louis Grainery: Hard wheat.....	Ord	163,744	1.90 $\frac{1}{4}$	Do.
Worley Mills: Hard wheat.....	13.00	130,155	2.07 $\frac{1}{2}$	Do.
Fisher Grainery: Hard wheat.....	Ord	5,777	2.06	Do.
Do.....	14.00	14,000	2.09	Track Gulf.
Sherley Anderson: Hard wheat.....	13.00	507,927	2.10 $\frac{3}{4}$	Origin.
Feuquay Elev: Hard wheat.....	Ord	42,626	2.05 $\frac{1}{2}$	Do.
Hereford Grainery: Hard wheat.....	Ord	7,459	2.05 $\frac{1}{2}$	Do.
Dodge City Co-op: Hard wheat.....	Ord	200,400	2.10	Do.
Morrison Mlg: Hard wheat.....	Ord	4,815	2.05 $\frac{1}{2}$	Do.
Wilbarger Elev: Hard wheat.....	Ord	77,804	2.05 $\frac{1}{2}$	Do.
Total, Hard wheat.....		88,888,180		
Sept. 5:				
FUGTA: Northern Spring.....	13.46	64,036	1.55 $\frac{1}{2}$	Do.
Do.....	14.45	55,523	1.60	Do.
Do.....	14.24	75,576	1.60 $\frac{1}{2}$	Do.
Do.....	14.26	52,908	1.70	Do.
Do.....	13.18	60,498	1.63 $\frac{1}{8}$	Do.
Do.....	14.00	78,592	1.64 $\frac{3}{4}$	Do.
Peavey: Northern Spring.....	14.00	9,539	1.60 $\frac{1}{2}$	Do.
Do.....	14.59	11,025	1.70 $\frac{3}{8}$	Do.

## CCC WHEAT SALES SINCE JULY 1, 1972—Continued

Date, buyer, and class	Protein	Quantity	Price	Basis
<b>Sept. 5—Continued</b>				
Do.....	13.94	52,420	1.70	Do.
Do.....	13.54	35,213	1.68 $\frac{1}{4}$	Do.
Do.....	14.68	43,683	1.71	Do.
Benson Quinn: Northern Spring.....	13.32	60,681	1.72	Do.
Atwood Larson: Northern Spring.....	14.58	48,486	1.62	Do.
Do.....	13.69	30,828	1.69 $\frac{1}{4}$	Do.
Do.....	13.02	25,996	1.70 $\frac{1}{4}$	Do.
ADM: Northern Spring.....	13.27	83,076	1.96	Do.
Cargill: Northern Spring.....	13.00	48,470	1.59 $\frac{1}{2}$	Do.
Do.....	13.00	37,876	1.65 $\frac{1}{2}$	Do.
Do.....	13.00	51,222	1.52 $\frac{3}{4}$	Do.
Do.....	13.00	43,738	1.54 $\frac{1}{2}$	Do.
Standard Mfg: Northern Spring.....	15.00	150,000	2.28 $\frac{1}{4}$	Do.
Peavey:				
Durum.....		11,926	1.63 $\frac{1}{2}$	Do.
Do.....		10,416	1.55 $\frac{1}{2}$	Do.
Do.....		11,018	1.66 $\frac{1}{2}$	Do.
Do.....		12,373	1.55 $\frac{1}{2}$	Do.
Cargill:				
Durum.....		30,262	1.59	Do.
Do.....		11,269	1.73	Do.
Do.....		14,325	1.70 $\frac{3}{4}$	Do.
Atwood Larson:				
Durum.....		11,303	1.70 $\frac{1}{4}$	Do.
Do.....		14,688	1.54 $\frac{3}{4}$	Do.
Do.....		19,192	1.55 $\frac{1}{2}$	Do.
FUGTA:				
Durum.....		11,145	1.69	Do.
Do.....		27,080	1.64 $\frac{1}{2}$	Do.
Do.....		11,635	1.63 $\frac{3}{4}$	Do.
Do.....		24,927	1.65	Do.
Do.....		25,008	1.59	Do.
Do.....		13,862	1.55 $\frac{1}{4}$	Do.
Do.....		11,253	1.61 $\frac{1}{2}$	Do.
Do.....		11,583	1.62 $\frac{1}{2}$	Do.
Do.....		13,091	1.58	Do.
Do.....		17,777	1.67	Do.
Do.....		18,409	1.65 $\frac{1}{2}$	Do.
Do.....		16,491	1.58 $\frac{1}{2}$	Do.
Do.....		12,607	1.63 $\frac{1}{2}$	Do.
Do.....		17,149	1.53 $\frac{1}{4}$	Do.
Do.....		14,616	1.69	Do.
Do.....		6,244	1.66 $\frac{1}{4}$	Do.
Benson Quinn:				
Durum.....		17,183	1.67	Do.
Do.....		11,282	1.59 $\frac{1}{2}$	Do.
Do.....		10,424	1.72 $\frac{1}{2}$	Do.
Fairview Mill: Durum.....		4,135	1.56	Do.
Bunge:				
Durum.....		14,320	1.68	Do.
Do.....		13,807	1.64	Do.
Do.....		15,016	1.62 $\frac{1}{2}$	Do.
Do.....		21,700	1.65	Do.
Continental:				
Durum.....		12,291	1.664	Do.
Do.....		12,232	1.646	Do.
Do.....		14,964	1.676	Do.
Do.....		17,796	1.61	Do.
Do.....		12,020	1.592	Do.
Do.....		15,314	1.682	Do.
Do.....		10,765	1.634	Do.
Do.....		10,713	1.658	Do.
Total, Northern Spring.....		1,119,566		
Total, Durum.....		613,611		
<b>September 6:</b>				
Cargill:				
Hard wheat.....	Ord	46,800	2.05 $\frac{1}{2}$	Puget Sound.
Do.....	11.00	12,300	2.07 $\frac{1}{2}$	Do.
Continental:				
Durum.....		11,332	1.72525	Origin.
Do.....		28,216	1.74325	Do.
Do.....		4,459	1.586	Do.
Do.....		3,575	1.748	Do.
Do.....		12,255	1.682	Do.
Do.....		4,881	1.586	Do.
Do.....		5,601	1.628	Do.
Do.....		2,921	1.562	Do.
Do.....		13,518	1.694	Do.
Do.....		7,249	1.688	Do.
Do.....		5,000	1.604	Do.

## CCC WHEAT SALES SINCE JULY 1, 1972—Continued

Date, buyer, and class	Protein	Quantity	Price	Basis
Sept. 5—Continued				
Do.....		6,094	1.73	Do.
Do.....		2,694	1.72 <sup>3</sup> / <sub>4</sub>	Do.
Do.....		5,598	1.64 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		13,557	1.684	Do.
Do.....		16,281	1.61	Do.
Do.....		13,163	1.658	Do.
Do.....		50,241	1.724	Do.
Do.....		3,799	1.67	Do.
Do.....		2,439	1.718	Do.
Atwood Larson:				
Durum.....		16,425	1.83 <sup>3</sup> / <sub>4</sub>	Do.
Do.....		9,372	1.66	Do.
Do.....		6,579	1.55	Do.
Do.....		1,959	1.57	Do.
Do.....		7,735	1.59 <sup>1</sup> / <sub>4</sub>	Do.
Do.....		7,316	1.65	Do.
Do.....		2,455	1.67 <sup>1</sup> / <sub>4</sub>	Do.
Do.....		19,311	1.59 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		7,803	1.69 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		2,788	1.61 <sup>1</sup> / <sub>4</sub>	Do.
Do.....		9,885	1.72 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		5,467	1.70 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		2,906	1.67	Do.
Benson Quinn:				
Durum.....		9,575	1.62	Do.
Do.....		9,489	1.60 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		11,601	1.67	Do.
Do.....		16,420	1.65 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		5,797	1.56	Do.
Do.....		7,196	1.67 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		5,565	1.66	Do.
Do.....		2,212	1.56 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		6,054	1.70 <sup>3</sup> / <sub>4</sub>	Do.
Do.....		2,721	1.68 <sup>1</sup> / <sub>4</sub>	Do.
Do.....		2,426	1.71 <sup>1</sup> / <sub>4</sub>	Do.
Do.....		6,612	1.60 <sup>3</sup> / <sub>4</sub>	Do.
Do.....		8,661	1.68 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		1,925	1.66 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		7,613	1.62 <sup>3</sup> / <sub>4</sub>	Do.
Kellogg Comm:				
Durum.....		4,096	1.66 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		9,768	1.72 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		6,869	1.68 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		10,299	1.67 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		4,844	1.66	Do.
Do.....		2,259	1.69	Do.
Do.....		11,168	1.65	Do.
Do.....		5,273	1.54 <sup>1</sup> / <sub>2</sub>	Do.
FUGTA:				
Durum.....		3,460	1.69	Do.
Do.....		9,003	1.66	Do.
Do.....		6,436	1.57	Do.
Do.....		7,222	1.71	Do.
Do.....		25,237	1.63	Do.
Do.....		2,367	1.65 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		11,767	1.62	Do.
Do.....		2,755	1.62 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		21,271	1.65	Do.
Do.....		2,038	1.58	Do.
Do.....		12,137	1.62 <sup>5</sup> / <sub>8</sub>	Do.
Do.....		2,861	1.55	Do.
Do.....		2,305	1.73	Do.
Do.....		1,968	1.53	Do.
Do.....		12,261	1.65 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		8,133	1.64	Do.
Do.....		2,184	1.70 <sup>3</sup> / <sub>4</sub>	Do.
Do.....		9,675	1.57 <sup>1</sup> / <sub>4</sub>	Do.
Do.....		8,844	1.65 <sup>1</sup> / <sub>4</sub>	Do.
Do.....		7,317	1.65 <sup>5</sup> / <sub>8</sub>	Do.
Do.....		3,416	1.72	Do.
Do.....		3,527	1.69 <sup>1</sup> / <sub>4</sub>	Do.
Do.....		8,896	1.67	Do.
Do.....		14,636	1.68 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		3,609	2.20	Do.
Do.....		29,984	2.202	Do.
Peavey:				
Durum.....		6,842	1.66 <sup>1</sup> / <sub>4</sub>	Do.
Do.....		2,695	1.69 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		13,613	1.67	Do.
Do.....		3,717	1.69	Do.
Do.....		51,157	1.58 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		4,081	1.68 <sup>3</sup> / <sub>4</sub>	Do.

## CCC WHEAT SALES SINCE JULY 1, 1972—Continued

Date, buyer, and class	Protein	Quantity	Price	Basis
Sept. 12—Continued				
Do.....		2,326	1.61	Do.
Do.....		4,173	1.56 <sup>5</sup> / <sub>8</sub>	Do.
Do.....		8,470	1.57 <sup>7</sup> / <sub>8</sub>	Do.
Do.....		10,429	1.61 <sup>5</sup> / <sub>8</sub>	Do.
Do.....		2,891	1.61 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		3,178	1.57 <sup>1</sup> / <sub>4</sub>	Do.
Cargill:				
Durum.....		4,753	1.72 <sup>1</sup> / <sub>4</sub>	Do.
Do.....		3,719	1.65 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		1,874	1.69 <sup>1</sup> / <sub>4</sub>	Do.
Do.....		2,362	1.60 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		11,782	1.69 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		15,088	1.67	Do.
Do.....		6,919	1.61 <sup>5</sup> / <sub>8</sub>	Do.
Bunge:				
Durum.....		3,504	1.71 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		2,482	1.57 <sup>1</sup> / <sub>2</sub>	Do.
ADM:				
Durum.....		5,674	1.64 <sup>1</sup> / <sub>2</sub>	Do.
Do.....		6,296	1.71 <sup>1</sup> / <sub>4</sub>	Do.
Total, Hard wheat.....		59,100		
Total, Durum.....		872,641		
Sept. 7				
Atwood Larson:				
Northern Spring.....	13.59	13,013	1.56	Do.
Do.....	13.21	26,844	1.74	Do.
Do.....	14.04	39,833	1.73 <sup>1</sup> / <sub>4</sub>	Do.
Do.....	14.41	21,552	1.74 <sup>5</sup> / <sub>8</sub>	Do.
Do.....	14.11	8,005	1.67 <sup>1</sup> / <sub>4</sub>	Do.
Do.....	13.00	4,563	1.66 <sup>1</sup> / <sub>2</sub>	Do.
Do.....	15.15	16,359	1.72 <sup>5</sup> / <sub>8</sub>	Do.
Do.....	12.92	15,226	1.66 <sup>1</sup> / <sub>4</sub>	Do.
Do.....	12.31	13,158	1.68 <sup>5</sup> / <sub>8</sub>	Do.
Do.....	13.83	35,121	1.71 <sup>5</sup> / <sub>8</sub>	Do.
Do.....	13.67	15,337	1.64 <sup>1</sup> / <sub>2</sub>	Do.
Do.....	14.12	2,308	1.65 <sup>5</sup> / <sub>8</sub>	Do.
Do.....	14.60	11,614	1.75	Do.
Do.....	13.25	19,184	1.73	Do.
Do.....	13.40	5,228	1.72 <sup>1</sup> / <sub>8</sub>	Do.
Do.....	12.65	20,581	1.70 <sup>1</sup> / <sub>2</sub>	Do.
Do.....	13.80	14,197	1.69 <sup>5</sup> / <sub>8</sub>	Do.
Do.....	13.32	10,540	1.73	Do.
Do.....	12.91	27,370	1.72	Do.
FUGTA:				
Northern Spring.....	13.85	20,307	1.63 <sup>3</sup> / <sub>4</sub>	Do.
Durum.....		4,615	1.724	Do.
Do.....		3,804	1.712	Do.
Do.....		2,220	1.532	Do.
Do.....		1,868	1.586	Do.
Do.....		4,928	1.562	Do.
Do.....		8,834	1.556	Do.
Peavey:				
Durum.....		20,299	1.64	Do.
Do.....		5,517	1.724	Do.
FUGTA: Durum.....		45,585	1.95	Do.
Total, Northern Spring.....		340,340		
Total, Durum.....		97,670		
September 8:				
FUGTA: Northern Spring.....	13.00	2,096	1.47	Do.
Atwood Larson: Northern Spring.....	13.85	4,969	1.77	Do.
Russell Grainery: Durum.....		39,363	1.57 <sup>1</sup> / <sub>4</sub>	Do.
Continental: Durum.....		41,959	1.634	Do.
Total, Northern Spring.....		7,065		
Total, Durum.....		81,322		
September 12:				
Louis Dreyfus:				
Hard wheat.....	11.00	26,761	2.09	Columbia River district.
Do.....	11.70	42,000	2.14	Do.
Cargill:				
Hard wheat.....	Ord	84,571	2.07	Do.
Do.....	11.70	65,142	2.14	Puget Sound.
Atwood Larson:				
Northern Spring.....	14.25	37,103	1.65 <sup>1</sup> / <sub>2</sub>	Origin.
Do.....	14.22	51,122	1.62 <sup>3</sup> / <sub>4</sub>	Do.
Peavey:				
Northern Spring.....	13.76	46,329	1.61	Do.
Do.....	13.64	52,449	1.76	Do.

## CCC WHEAT SALES SINCE JULY 1, 1972—Continued

Date, buyer, and class	Protein	Quantity	Price	Basis
Sept. 17—Continued				
Benson Quinn: Northern Spring.....	14.25	15,142	1.66 $\frac{3}{4}$	Do.
FUGTA:				
Northern Spring.....	13.58	16,974	1.70	Do.
Do.....	14.35	82,342	1.80	Do.
Do.....	14.17	20,991	1.62 $\frac{1}{4}$	Do.
Do.....	14.35	34,731	1.67	Do.
Do.....	14.36	27,750	1.64	Do.
Do.....	12.67	74,622	1.71	Do.
Do.....	13.97	34,494	1.65	Do.
Do.....	13.53	12,412	1.64	Do.
Do.....	13.84	30,000	1.60 $\frac{3}{4}$	Do.
Total, Hard wheat.....		218,474		
Total, Northern Spring.....		536,461		
September 13:				
Cargill: Northern Spring.....	13.04	12,178	1.85	Do.
Atwood Larson: Northern Spring.....	15.03	5,188	1.81	Do.
Union Equitey: Hard wheat.....	Ord	1,167,169	2.25	Do.
Ted Reynolds: Hard wheat.....	Ord	81,145	2.26	Do.
ConAgra: Hard wheat.....	14.00	16,386	2.11 $\frac{1}{2}$	Do.
Total, Northern Spring.....		17,366		
Total, Hard wheat.....		1,264,700		

## RECAPITULATION

	Bushels
Hard wheat.....	163,019,985
Northern Spring.....	10,290,311
Durum.....	9,492,311
Soft Red wheat.....	2,912
White wheat.....	23,055
Grand total.....	182,828,514

Mr. PURCELL. Mr. Bergland, do you have much?

Mr. BERGLAND. Mr. Chairman, if I may just pursue for a moment another line of questioning of the Secretary.

Are you familiar with or do you have any working knowledge of the rules of the Commodity Exchange Authority? Do you know anything about the agency, Mr. Secretary?

Mr. BRUNTHAVER. I know something about it.

Mr. BERGLAND. My question has to do with the limitations imposed upon a trading company that engages in acquiring stocks under the futures program. Are there limits? Is there a limit as to how much they can buy or own at a given time?

Mr. BRUNTHAVER. There are speculative limits, I am sure, but a hedging limit, I don't know. We will get this and furnish it for the record.

Mr. BERGLAND. The point I wanted to find out is whether or not there would be any limits placed upon a trading company that had consummated a sale with Soviets and was attempting to cover that sale. Or are they free to buy openly and without restriction?

Mr. BRUNTHAVER. Let me get the information you request and furnish it for the record. I am not sure what or whether there is any requirement of this type. This would be a hedging limit that you mention and I am not sure whether we do have a hedging limit or not.

Mr. BERGLAND. Thank you.

(The following information was submitted:)

Bona fide hedging transactions are exempt from the speculative limits on position and daily trading in wheat of 2 million bushels established under the Commodity Exchange Act.

Mr. PURCELL. Any other questions?

Mr. MAYNE. Mr. Chairman, I thought we had all gone through our questions. I am willing to terminate at this point.

Mr. BERGLAND. You want to reopen?

Mr. MAYNE. No, Mr. Melcher said this was a good opportunity to question and I wanted to be sure. I am satisfied at this point.

Mr. FOLEY. Just a brief question, Mr. Chairman.

Secretary Brunthaver, granting in advance it would be of some advantage in any discussion to know what later events would occur, I am still a little perplexed by the Department's decision not to make a public announcement of its intentions to change the ground rules for subsidy payments on August 24 and instead to communicate that intention individually and privately to specific trading companies. Do you see now any particular advantage, in the light of subsequent events, in not having made a public statement of the Department's intentions on the 24th, rather than trying to communicate these intentions by telephone calls to particular companies?

Mr. BRUNTHAVER. No, sir; I think quite the contrary. Again, had we put out a public release without indicating what the future rules are, a future target level or a future subsidy policy, this would have been confusing and it would have been misleading. I think it conceivably could have been construed as being bearish, as the announcement on the 25th actually was for a short period of time, before the market took off. I think it would have been confusing and perhaps could have led farmers to sell some of their wheat at a price considerably under current levels.

Mr. FOLEY. The question was moot a day later; was it not? When you made the announcement on the 25th, you in effect did make a public announcement?

Mr. BRUNTHAVER. Well, yes, but on the 25th, we had additional information. We indicated what the subsidy policy was going to be.

Mr. FOLEY. And it is your contention that had you made public, on the 24th, the information you gave to the trading companies on the 24th, there would have been some possibly severe market and trading reactions?

Mr. BRUNTHAVER. No, sir; I do not want to say that. I want to indicate again for the record as in my statement that we did not consider this information to be market sensitive and that is the reason we did not make a public announcement.

Mr. FOLEY. You stated many times for the record that you did not consider the information market sensitive. But you did indicate, I understood, that an announcement of your intentions could lead to misinterpretations by farmers and producers, who might feel that your information would indicate falling subsidy and falling prices and thus might sell their wheat in advance, losing revenues, or sales. Is that correct?

Mr. BRUNTHAVER. Yes, sir; it could be construed that way. Because you could think, well, the Government is no longer going to maintain a target price; therefore, exports in the future may be less. And without specific information as to what the target price or the subsidy level is going to be, it could be misleading; yes.

Mr. FOLEY. I cannot quarrel with your right to make such a judgment. It seems to me that if the Department is determined to advise

the trading companies because the trading companies have a right to know that the subsidy may be changed, perhaps that same information ought to be available to the public and to farmers and producers as well. Perhaps they have a right to know, too. We cannot really protect everybody from misjudgments and misinterpretations.

To what extent does the Department, in your view, have an obligation to try to judge how the information you release will be itself interpreted by people in the private sector? If you make a judgment that information might be misinterpreted, do you have an obligation to withhold information from the public in an attempt to protect them against misinterpretation?

It seems to me it is at the very least a chancey business for the Department to try to protect people against mistakes they might make by withholding information from them so that they supposedly cannot make any mistakes.

Would you concede that undertaking such an obligation, if it is pragmatically possible, is at best a difficult sort of operation to carry off?

Mr. BRUNTHAVER. Yes, I will, and I would indicate that we have to make a judgment as to whether or not it is market sensitive. If it is market sensitive, we clearly have an obligation to announce it to the public.

Mr. FOLEY. To make the record clear, I understand you to say, that a misjudgment by farmers on the basis of that information was your concern in not releasing it publicly, and that that potential—

Mr. BRUNTHAVER. No, I am just saying after the fact that it could have been misconstrued and would have cost farmers a great deal of money. This was not the major factor in the original decision. The decision was based on, is it market sensitive or isn't it?

Mr. FOLEY. Well, I am, again, confused. I am sorry, Mr. Chairman.

What I am trying to decide, Dr. Brunthaver, is why the Department did not make a public announcement of the information it passed in private to certain trading companies. Now, I understood you to say—and correct me, please, if I am wrong, because I don't want to misinterpret what you have said—that the reason you did not make the information public was your concern that it might lead to misinterpretations among producers as to where the market would go and thus, place them in a situation of selling their wheat in advance. Was that not one of the reasons for your decision not to make in public?

Mr. BRUNTHAVER. That was not the primary reason. The primary reason was we did not consider it to be market sensitive.

Mr. FOLEY. I'm afraid I still don't quite comprehend. If you don't have a reason to keep information exclusive or private or limited. I would assume you normally would make in public. If it is not market sensitive, wouldn't that be a reason in itself to make it public, rather than the other way around?

Mr. BRUNTHAVER. Well, let's back up. The reason for the telephone notification was speed. We wanted to notify officers in these various companies that we did not want them to make additional sales on the assumption that the target price may be protected. We had an indication that some large sales may be in prospect. We were concerned about notifying them immediately that the rules had changed.

Mr. FOLEY. I understand that part of the testimony. What I don't understand is why at the same time you specifically delivered the message to these trading companies so that they wouldn't have to accidentally pick up the information, you didn't also make a public announcement, perhaps including the fact that you had given the information to these companies, so that anyone else who might be interested, and who might have a relevant need for the information, would be advised. Your answer is that you didn't consider it market sensitive.

Mr. BRUNTHAVER. And in addition, it may be misleading to issue just this without indicating what our future policy might be, either as to what the subsidy might be or the target price.

Mr. FOLEY. Well, isn't it possible that the information you delivered to the trading companies might have been misinterpreted by them? Might they not have misinterpreted it? You can't protect them for misinterpreting?

Mr. BRUNTHAVER. Possibly so, but we had to get them specific instructions that the rules as of the close of business the day before had been changed. Now, if they misinterpreted, that was unfortunate. But we did not have any additional information at that time.

Mr. FOLEY. I am just trying to understand. The facts appear to show that you had a bond of obligation or faith with the trading companies to let them know that something might be in the wind; that they could not rely, as they had in the past, necessarily, on the continuation of these subsidy levels.

Mr. BRUNTHAVER. No, wait; not that something might be in the wind. They were instructed, they were notified that the policy had been changed the day before.

Mr. FOLEY. Fine, all right.

You told them that the policy had been changed so that any decisions they made on selling additional classes of wheat would have to be made at their own risk.

Mr. BRUNTHAVER. That is right.

Mr. FOLEY. At the same time, you made apparently an affirmative determination not to release this information to the press, or to other elements in the agricultural community because of your concern that they might misinterpret it. What I am trying to understand is why an obligation exists to let the trading companies know that the policy has changed in advance of a public statement, but no such obligation exists with respect to anyone else. There seems to be a higher degree of concern about the trading companies having advance knowledge and less of a concern about their misinterpreting it than there is a concern that someone else getting the information publicly might misinterpret it.

Mr. BRUNTHAVER. The point, sir, though, is that the people who are going to make future export sales are the exporters and they are the ones who had to be notified that the rules had changed. The general public, the farmers, they are not making export sales and did not have to worry about a target price.

Mr. FOLEY. They don't even know who those people were except as they ship. You have to make guesses about who those people were.

Mr. BRUNTHAVER. Well, we know who the exporters are.

Mr. FOLEY. You didn't notify every exporter, did you?

Mr. BRUNTHAVER. Well, we notified the majority of them.

Mr. FOLEY. But if an individual who is not an exporter can be affected adversely by information relating to this change in policy, I would think the policy change would at least be of interest to some other elements in the agricultural community. I still find it difficult to understand why you can justify not disclosing this information publicly on the grounds that it might be subject to misinterpretation. It seems to me that the interpretation or misinterpretation has to be the responsibility of whoever gets the information if you don't in any way deliberately mislead them. And such deliberate misleading is apparently not involved in any way. You were just telling them what the straight facts were and I don't understand why that information shouldn't have been made available to everyone.

I think part of the problem here, if I may say so, Mr. Secretary, is that there is an unnecessary restriction on some of this information which concerns me. I would imagine that the Department would be better off when information is judged not to be market sensitive to release it publicly. If it is market sensitive, that is something else. Such a judgment, of course, has to be made on individual facts.

Mr. MELCHER. Mr. Chairman, I would like to straighten out a statement in the record, because it is very confusing. Could I do so now?

Mr. PURCELL. Just 1 minute.

Do you want to say anything?

Mr. MAYNE. Yes, Mr. Chairman; the gentleman from Montana and the gentleman from Washington have now been questioning these witnesses for 43 minutes. Inasmuch as the gentleman from Montana indicates he wants to still continue, I would like the privilege of at least asking a few questions. I had hoped we could terminate this, but if I may, I will try to proceed and stay within the 5-minute rule.

Mr. PURCELL. You may proceed. That is what you are recognized for.

Mr. MAYNE. Thank you.

Mr. McKnight, I believe Dr. Brunthaver testified that he received phone calls from four gentlemen whom he named, from four grain companies.

Let me first ask, Dr. Brunthaver, on what date was that? Dr. Brunthaver?

Mr. BRUNTHAVER. I am not sure of the dates exactly. It was sometime after the Russian agreement was announced on July 8.

Mr. MAYNE. And he, Dr. Brunthaver, testified that they asked him if the target price of \$1.65 was going to continue and he said that he had no indication at that time of changing it. Now, did you also, at about that time, give the same information to other grain firms?

Mr. McKnight. Mr. Mayne, in the normal course of my occupation, I don't talk on a usual basis with the grain companies. People in my organization do. This would be Mr. Pence and his direct superior, Mr. Shanklin. As the opportunities to do business with the U.S.S.R. and other countries developed, the trade contacted these gentlemen and asked, what is your pricing policy as regards export target prices? Are you remaining steady? What do you have in mind?

I think we indicated that we had no changes in view at the present time.

Mr. MAYNE. Then the answers given to them were substantially the same that Dr. Brunthaver gave to these four companies that he talked to?

Mr. McKNIGHT. Yes, sir; and, Mr. Mayne, this was not restricted to people in the export trade. This was also passed on to farmer representatives like Western Wheat and all other organizations that asked us, were in normal contact with us.

Mr. MAYNE. Then this information was also given to farmer cooperatives?

Mr. McKNIGHT. Yes, sir.

Mr. MAYNE. Dr. Brunthaver, could you just summarize briefly, inasmuch as—was it \$50 million paid in subsidy—inasmuch as that has been mentioned, I would like you to summarize why it is you say, over against that, that the U.S. Treasury gained approximately \$500 million.

Mr. BRUNTHAVER. Let me make sure that everyone is with me here.

The \$130 million is the export subsidy that was paid to Russia. The total export subsidy paid to all countries in this marketing area we estimate to be somewhere in the neighborhood of \$300 million.

Now, in talking about the Russians, the fact that the Russian sale was consummated in the volume that it was consummated had the effect of increasing prices to the U.S. farmer. As a result of these price increases, there are three effects: First, Commodity Credit Corporation was carrying into this current year 367 million bushels of wheat that increased in value approximately 50 cents. It is higher than that now and on the last sales that we will make, we will make even more than that. But assume 50 cents increase in value of 367 million, for approximately \$180 million increase to the U.S. Treasury. Not only did the value of wheat go up, but the opportunity presented itself so we could sell that wheat and collect money for it.

Second, for each cent that the market price goes up to farmers, the Treasury payments are reduced \$5.3 million. So there is a Treasury saving of approximately \$130-137 million because of this.

And third, we had announced a wheat program for 1973 that was designed to idle 10 million acres of wheat land on a voluntary basis at approximately \$27 payment per acre. As a result of the price increase to farmers, we now think that farmers will divert only 2 or 3, perhaps 4 million acres instead of the 10 million, a savings of at least 6 million acres times \$27.

So you add these up and you are talking about a Treasury return of approximately \$500 million.

Now, there are additional savings as we look into next year, because our stocks of wheat have been reduced, the price of wheat next year probably will be higher than it otherwise would have been. Again, the Treasury payments next year will be reduced as farmers get more of their income out of the market place, less out of the Treasury.

Mr. MAYNE. Now, you were asked about the possibility that companies who had indicated or signed certificates that their sales were a certain figure would, in effect, violate those contracts and instead, make a different sale which would in some way enable them to make a killing. Do you have any indication at all that any companies have in fact been guilty of any violation of their contracts?

Mr. BRUNTHAVER. No, sir.

Mr. MAYNE. So as far as any that you presently are concerned with, that is sheer speculation that that kind of improper violation of contract has occurred?

Mr. BRUNTHAVER. Very definitely, yes.

Mr. MAYNE. Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Melcher?

Mr. MELCHER. Mr. Chairman, the statement was made and I want to verify it, by Secretary Brunthaver. He said that on August 23 or August 24, the grain companies were notified that as of August 23, the rules had been changed on the export subsidy.

Is that a fair interpretation of your remark?

Mr. BRUNTHAVER. They were notified that they could no longer expect that the Government would protect the target price that prevailed before, yes.

Mr. MELCHER. All right. Yet as the facts unfolded later on, it was August 24 that the rules were changed?

Mr. BRUNTHAVER. That is correct.

Mr. MELCHER. So there was an extra day in there?

Mr. BRUNTHAVER. That is right.

Mr. MELCHER. And they were actually being notified on the day of August 24 that now it was supposed to have been August 23, but it was August 24.

Mr. BRUNTHAVER. That is right.

Mr. MELCHER. Now, are we to assume that that largest amount of grain, the largest amount of grain ever registered for export in any one week, at least the largest amount of wheat registered for export in any one week—

Mr. BRUNTHAVER. That is misleading, sir, because we never had a situation before when you forced people to register their subsidy within a 5-day period.

Mr. MELCHER. I had not finished my question.

Mr. BRUNTHAVER. Excuse me.

Mr. MELCHER. Are we to believe that the largest amount of wheat ever to be registered during 1 week for an export subsidy was sold on August 24?

Mr. BRUNTHAVER. Oh, no, sir.

Mr. MELCHER. All right, then on August 23?

Mr. BRUNTHAVER. No, sir.

Mr. MELCHER. At some time prior to August 24?

Mr. BRUNTHAVER. Sometime between, probably, July 1 and August 24?

Mr. MELCHER. You have repeatedly testified, Mr. Secretary, that you did not believe that a grain company would judiciously or prudently or wisely delay in registering for export subsidy after it completed a sale.

Mr. BRUNTHAVER. Well, that is right when he could physically buy—once he has sold, when he was able to buy that grain, he should have booked the subsidy that day and many of them did. To do otherwise would be speculating that the subsidy in the future would be higher.

Mr. MELCHER. You have told us that on a number of occasions, that you thought the grain company would register the very day it made the transaction.

Now, are we to believe that all the filing in this week of August 28 through September 1 was to be principally on August 24, sales made on August 24?

Mr. BRUNTHAVER. No, sir.

Mr. MELCHER. Well, it couldn't be any day later than that.

Mr. BRUNTHAVER. That is correct. It had to be before that or it had to mean that the companies had not yet purchased the grain, which was in fact, the case.

Mr. MELCHER. How do you know that, Mr. Secretary?

Mr. BRUNTHAVER. Well, we were told that.

Mr. MELCHER. You do not know that from your own knowledge, though, do you?

Mr. BRUNTHAVER. No, sir, you are right. We were told that. We sold large amounts of grain to exporters following this, which indicated that they were short of grain, they had to buy grain to fill commitments that had been made.

Mr. MELCHER. You are referring to CCC sales?

Mr. BRUNTHAVER. Yes.

Mr. MELCHER. Then referring back to your previous testimony, I think on at least four or five occasions it has been said that it is the regular procedure for grain companies to consummate their sales and register for export subsidy on the same date?

Mr. BRUNTHAVER. Well, that is the best way to do it. That has the least risk in it.

Mr. MELCHER. But it is obviously not what has been practiced or there would not have been those huge registeries for the what subsidy in the last week.

Mr. BRUNTHAVER. Well, again, we don't know that the firms have not yet—

Mr. MELCHER. Let me complete my question for the sake of the transcript. That was not the case or there wouldn't have been the huge registration for export subsidy during the week of August 28 to September 1.

Mr. BRUNTHAVER. Well, two things. The first is that we were not following on subsidy—not following the market price and protecting a target price since August 17, so there was a period when we were not following the market and obviously, exporters were not booking because they would have to book at a loss. So there was a bunching from August 17 through the 24th.

In addition to that, to the extent that firms had not yet purchased the grain that they had sold, they would have not yet booked the subsidy on that. These are two situations.

Mr. FOLEY. Would the gentleman yield?

Mr. MELCHER. Yes, I would be delighted to.

Mr. FOLEY. Mr. Secretary and Mr. McKnight or Mr. Coffman, we would welcome your comments, too, on this.

It seems to me that if a company books its export subsidy with the Department on the same day or the next day, the essential purposes of the export subsidy are served, protecting the company so that it can sell and acquire the wheat perhaps at a lower than the world price. Would you be disadvantaged in your judgment, if in obtaining the

export subsidy companies were required to notify the Department about the sale.

Mr. McKNIGHT. Mr. Foley, I think I can describe it by a situation that, from what I read in the newspapers, happened in the case of soybeans. Cook & Co. reported in the paper that they sold approximately a million tons of soybeans to the U.S.S.R. They were able to go into the marketplace in the futures market in Chicago and cover this million tons of soybeans in a relatively short period of time, 2 or 3 days. Thus they were in a position of confirming their sale and fixing their price. If an exporter tried to cover a million tons of wheat in this country in 3 days, there is no place to do it.

Mr. FOLEY. That is not my question, Mr. McKnight.

Mr. McKNIGHT. It is not? What I am trying to say is if you required many on the day he made his sale to book the subsidy that existed on the day he made the sale, which might be 30 cents, and he couldn't cover his wheat purchases in the country for a period of 5 weeks, then he is speculating on what he is going to have to pay for the wheat. That is a fixed subsidy system.

Mr. BRUNTHAVER. Wait. Did you say the date he made the sale or the date that he purchased?

Mr. FOLEY. The date he purchased.

Mr. McKNIGHT. Oh, that is different, yes.

Mr. BRUNTHAVER. That would be a tighter—

Mr. FOLEY. Just so we don't have the record confused, Mr. Brunthaver, I will rephrase the question.

It is not now required that the exporter book the subsidy on the date he purchases or 24 hours thereafter.

Mr. BRUNTHAVER. That is correct.

Mr. FOLEY. Would the purposes of the export subsidy system be disadvantaged if an exporter were required within a brief period of time after his purchase to register the subsidy?

Mr. BRUNTHAVER. I think that was the change, one of the changes, that was made in 1967, that allowed him not to or did not require him to book the subsidy on the day of purchase. It gave the exporter more flexibility. He could in effect go long to subsidy, or short to subsidy.

Mr. FOLEY. Mr. McKnight is shaking his head.

Mr. McKNIGHT. I don't believe the subsidy has ever been tied to the purchase of wheat, of physical wheat.

Mr. FOLEY. My question is, would a disadvantage occur to the export subsidy system if there were such a requirement?

Mr. McKNIGHT. I would hate to get into it right now, but I can see some serious disadvantages.

Mr. FOLEY. Yes, I don't want to force you to give a quick answer if you would like to consider it.

Mr. McKNIGHT. I think there would be some serious ones.

Mr. FOLEY. I am not sure in my own mind. This question is not asked with any pre-conception I might hold. There is a certain amount of potential for speculation in the export subsidy system which I think we all see. Whether speculation occurs is pretty much a determination made by the individual exporter.

Now, my question is asked because of my interest in the overall program, not just as it might relate to any possible interest of exporters in speculation. Would there be any disadvantage to the program if the exporter were required to book that subsidy within a brief period of time following the purchases?

Mr. BRUNTHAVER. Let me ask our specialist to look into this question and supply an answer for the record. I would be curious myself. (The following information was provided:)

Yes.

First, it is ordinarily not possible to relate the subsidy to the time wheat is purchased for shipment against a particular sale, or even for export in general. Wheat is a fungible, normally co-mingled commodity. All U.S. exporters are also domestic grain merchants. There are occasions when a particular lot of wheat is bought for shipment against a particular sale contract, but these are rather the exception than the rule. Usually an exporter sells from a co-mingled inventory comprised of many purchases, or he sells short with the intention to buy later in a continuing replacement operation.

Second, the American exporter must have the option to book subsidy at a time of his own choosing if American wheat is to compete on equal terms with wheats from other exporting countries. Without this flexibility the exporter could not assume a position in net (world) price wheat as he can do in Canada, Australia, Argentina, or the EEC.

Mr. FOLEY. All right.

Mr. PURCELL. Gentlemen, if there are no other questions, we do thank you and the committee stands in recess until 10 o'clock in the morning.

(Whereupon, at 4:55 p.m., the subcommittee was adjourned, to reconvene on Tuesday, September 19, 1972, at 10 a.m.)



## SALE OF WHEAT TO RUSSIA

TUESDAY, SEPTEMBER 19, 1972

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON LIVESTOCK AND GRAINS  
OF THE COMMITTEE ON AGRICULTURE,  
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 1301, Longworth House Office Building, Hon. Graham Purcell (chairman) presiding.

Present: Representatives Purcell, Foley, Rarick, Jones of North Carolina, Melcher, Bergland, Mayne, Zwach, Price of Texas and Sebelius.

Also present: Representatives Poage (chairman of the full committee), Stubblefield and Goodling.

Staff: Mrs. Christine S. Gallagher, chief clerk; and Lacy C. Sharp, general counsel.

Mr. PURCELL. The subcommittee will please come to order.

Our first witness this morning is Mr. Neal Smith, Member of Congress from Iowa. We appreciate, Mr. Smith, your being here.

This morning, so that the members of the committee will know, I am going to endeavor to enforce the 5-minute rule and we will appreciate everyone cooperating with that.

At this time, we will be glad to hear from Mr. Smith.

### STATEMENT OF HON. NEAL SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. SMITH. Thank you very much, Mr. Chairman, and my colleagues on the committee.

I commend the committee for holding these hearings. Although all the information needed will probably not be available to you until after the election, it is already apparent that some revisions in our marketing system and some new measures to improve information services are needed.

On one point, I agree with Secretary Butz but for a different reason than he stated. That point is that when there is a shortage of grain in Russia or elsewhere, we should sell the grain. A world grain market exists today and although we had the corner on the wheat reserves, through shifts and indirect transactions, any country can secure wheat anyway. However, I do not believe that a country like Russia which is an erratic customer and sells wheat in competition with us in some years should be given a better deal than steady customers like Japan.

In 1963, I was the only one who spoke up the first day against an

amendment which would have prohibited selling wheat to Russia on normal cash terms for full value. It is interesting to note that the most vigorous defenders of these recent sales voted against permitting a cash sale to Russia in 1963. I have not changed my mind on that point; however, I think the methods used in recent months leave a great deal to be desired and that the record thus far does not put the situation in very good focus.

In these hearings, it seems to me that one should keep a basic fact in mind at all times. That indisputable fact is that due to a severe drought in marginal highly populated areas on the other side of the world, the worldwide supply of grains decreased in mid-1972 in comparison to demand. The principal shortage was in wheat but a dramatic drawdown on any grain has some effect on any other grains which can, to even a limited extent, be substituted. The recent big sales of grain did not result from brilliant promotion by anybody either in the Government or in private industry and would have occurred one way or another in the world market whether supplied directly from the United States or indirectly. Thus, the increased value of the 1972 crop is not, as Secretary Butz claimed in his testimony, a result of sales the Department subsidized but rather a result of a drought reducing the world supply of grain. There is every reason to believe that the same sales could have been made during the marketing year at full value and without any subsidy.

At the time the reduced supply occurred, the U.S. Government and U.S. producers together had possession of the supply of wheat needed. Russia wanted that wheat and knew that the best way to get it would be to deal with certain grain exporters. They apparently have good intelligence sources on who to see and how our markets work and, in fact, know better how to operate in the free enterprise market than do some of our so-called experts in the Agriculture Department.

By July a situation existed where the world supply-demand situation warranted a price on wheat in excess of \$2 per bushel but the USDA was holding the price down to \$1.65. Given that situation, and before more than a few people in the United States knew the true situation, the Russians figured out a way to buy their entire needs before the market reflected the rise in price which was sure to come. They secured a contract from private companies and those companies eliminated their own risk of loss from a price rise by two methods: (1) buying before the change in supply became known and (2) having an understanding of some kind with the USDA that they would be protected by increasing the subsidy if the price rose before they completed their purchases.

To keep the price low while acquiring the grain, it was in the interest of both the exporters and Russians to keep the American farmers and regular grain marketers from knowing of the severe shortage of wheat in Russia.

It now appears that to help keep this important fact secret, they employed an old tactic of diverting attention. They talked about buying large amounts of corn—which we have in considerable surplus and everybody in the country wants to move, they talked of long-term dependence upon us for grain, and they haggled over credit terms on relatively small amounts of mixed grains while secretly closing cash deals on large amounts of wheat. It is one of the oldest horse-trading

tricks known to look at and brag on one horse while getting the owner to price another one the buyer really wants. Apparently Secretary Butz fell for their simple game—hook, line, and sinker. He ran around the country talking as if some supersalesmanship might result in selling additional corn but never mentioned the severe wheat failure in Russia.

Since the Department did have the information available of that severe drought, some people conclude that the Secretary was purposely cooperating with his grain exporter friends and the Russians to keep it secret; and his failure to deny that he had read the secret reports and knew of the drought help give credence to that possibility. However, it is also possible that he has been so busy away from the office that he did not keep abreast of the facts and, therefore, was unaware he was being used to help divert attention while they made their purchases of wheat at a very low price. I would prefer to believe he would not knowingly have been a party to this arrangement but was simply used by the Russians and grain exporters. However, the suspicion will remain that he knowingly cooperated until or unless he admits he did not know he was being used, and no amount of additional political blustering on his part will be a satisfactory substitute for setting forth the whole story.

Unfortunately, a great decline in credibility of the Department may also have contributed to farmers and American grain dealers misjudging the situation. Even if Secretary Butz had told the whole truth about the weather and wheat situation, many would have discounted it heavily because high Department officials have in the past 10 months on numerous occasions issued misleading, incomplete, and even false statements on matters which could affect the market.

For example, the Department did not buy large quantities of corn last winter as Secretary Butz said they would. In fact, they bought less than 20 million bushels and were selling almost as much feed grains during the same weeks. The Secretary in opposing the reserve bill also said he would take sufficient other actions to raise the price of corn but he did not, and as late as July 1, corn was still only 90 cents on the farm plus transportation, storage, and carrying charges. Also, USDA officials held back pertinent facts relating to the sale of grain to Russia last fall, which they finally completed by buying 7½ million bushels of barley on the market and selling it to the exporters a few hours later for \$2 million less than they paid. Previously, Department officials have for several decades taken great pains to reveal essential facts and to avoid misleading and inaccurate statements which might cause people to misjudge the supply-and-demand situation. However, that record has been greatly tarnished in the past 10 months and with that background, talk of any sales was naturally discounted. It is most important that the committee look into ways to restore confidence in the integrity of the USDA relating to information which is of significance in judging the grain market.

Principal attention concerning producers losses have been directed at those wheat producers who sold 1972 wheat while this supply information was kept quiet. However, losses really extend to all 1971 crop grain, including corn, marketed since last fall. It is now crystal clear that the price of all 1971 crop feed grains and wheat could

have and should have been higher and that the administration's excuses for opposing an increase in prices were wrong. Secretary Butz, in testifying against the H.R. 1163, said that even the increase in prices that could have been accomplished under that bill would hurt sales in world markets. Again it has been shown that there will be a periodic need for extra grain and whenever a country needs grain, they will gladly pay more than the bankrupt prices received for 1971 grain.

The Department did not release a copy of the agreement with Russia for several weeks and was then most reluctant to do so. An early examination might have tipped off farmers and U.S. interests as to what the Russians were up to. The agreement itself helps point up the extent to which our officials were being misled. While it required the Russians to take a minimum of \$200 million worth of all grains by August of next year, there was no assurance that they would not do just what they did and take 400 million bushels of wheat in a few weeks. With an assurance of a stable price on a rising market, the more they bought, the more it pushed the market up for everyone but them; and they could even buy more than they needed and resell at a profit or deliver to their allies.

They were given a tool for cornering the market in a way that private U.S. companies operated and reaped great profits 50 years ago before it was made illegal. There are an abundance of businessmen who are not experts in international trade who would know better than to leave that loophole. If our experts in the Department did not catch that, Congress needs to take another look at the authority of the Department to make such deals.

The past 10 months have provided just one more example of how farmers never gain back enough when prices increase to offset losses from low prices and that a strategic reserve is needed to help increase the price farmers receive while waiting for supplies to decrease or demand to increase. Prices received for the 1971 crops of corn, wheat and other grain could have and should have been increased but the administration was vigorously opposed. Secretary Butz with great fanfare announced a corn buying program as one alternative but it was a phony announcement. A statutory insulated reserve with the operating rules provided by law would help provide enough of a stabilizing influence to be of benefit to everyone.

This episode also provides clear evidence that more information in the normal course of business is needed on changes in supply and demand in foreign countries. In order to restore confidence in our commodity and stock markets in the 1930's, the S.E.C. was set up and requirements for accurate and immediate reporting of transactions were adopted with regard to both commodities and stock.

Exports and world trade have now become so large a factor in setting local prices that we also need more information concerning foreign supply and demand. Among the facts this committee needs which it does not have are the prices received by those companies which sold the grain and the methods our USDA uses to estimate supplies and crop yields in other parts of the world. If the USDA does in fact not know anymore than they claim they knew about these dealings by private companies, even when hundreds of millions of dollars in CCC grain and money were involved, then more information on sales is needed from grain exporters also.

Vast numbers of people affected by these transactions are small businessmen, including farmers, grain dealers, manufacturers using grain and others. The Small Business Subcommittee of which I am the chairman, has a study underway involving grain exporting as it affects all businessmen, and while that study and investigation encompasses a much broader area than is involved in these recent sales it could include much of what you are investigating. I recognize the chairman of this subcommittee as one of the most able, conscientious, and judicious Members of the Congress and I am anxious to cooperate with this subcommittee and to defer to this committee in areas where effort would be duplicated; however, I also want to assure you that I do intend to cover pertinent areas of this subject matter which this committee does not cover.

In brief summary, Mr. Chairman, it seems to me that the events of the past year indicate as follows:

First. A severe drought in part of the world reduced supplies of wheat substantially at a time when most of the world reserves were in the United States.

Second. This supply information was available to a few grain exporters, the Russians, and some people in the USDA considerably before it was available to others.

Third. Information on changes in subsidy rates was not made available to everyone simultaneously through accepted news release procedures.

Fourth. Secretary Butz and perhaps other Department officials, either knowingly or because they were misled, permitted themselves to be used to help the Russians or the exporters or both to acquire large supplies at a very low price when the supply-demand situation warranted a price of another 50 cents per bushel or more on wheat and lesser amounts on other feed grains.

Fifth. More public information is needed on a regular continuing and current basis concerning foreign supplies and foreign sales.

Sixth. We need not only a strategic reserve like H.R. 1163 would have provided for the United States, but we also need to work toward a world strategic reserve.

Seventh. Congress should take another look at the authority vested in Agriculture Department officials to enter into large grain deals. If the Soviets could hoodwink and use them the way they did in the past few weeks, how much worse could it have been? What protection is needed so steady customers will not be discriminated against in years when competitors become consumers?

Eighth. Positive steps need to be taken to restore confidence in the integrity of information and statements by USDA officials on matters of significance in judging the grain market.

Mr. Chairman and members of the committee, I thank you for this opportunity to appear at this important hearing.

MR. PURCELL. Thank you, Mr. Smith. In the area of the Strategic Grain Reserve, I think you know that sort of thing I have worked on long and hard and I particularly find that worthwhile and interesting in your statement.

I recognize Mr. Foley at this time.

MR. FOLEY. Mr. Chairman, I will reserve my time.

MR. PURCELL. Mr. Mayne.

Mr. MAYNE. Congressman, I gather from your statement, and correct me if I am wrong, but it sounds to me as if you are unwilling to give any credit at all to the Export Marketing Service in the Department for playing any part in these sales.

Mr. SMITH. They did not cause the sales. They did not cause the rise in price or the rise in value of the grain. That was caused by the drought in Russia. I do not think they can take credit for causing drought in Russia.

Mr. MAYNE. No, I agree they should not take credit for causing the drought in Russia. That is one point on which we are very much in agreement. But can't you find it in your heart to give them at least a little credit for doing a good job here and trying to increase exports of American farm products?

Mr. SMITH. I think they sincerely want to do anything they can to increase exports, but I don't think that they had anything to do with the increase in the value of this grain or with actually causing the exports to occur in this case. They were going to occur anyway.

Mr. MAYNE. In other words, you are saying that you do not think that the Export Marketing Services or anyone in the Department really made any contribution to bringing about these sales to Russia?

Mr. SMITH. That is pretty close to right.

Mr. MAYNE. Would you say the same thing about the sales to China?

Mr. SMITH. Certainly. There is not any question about that. The Chinese went to a French company. The French company started searching for wheat and they found it in the United States. They could not find it anywhere else.

Mr. MAYNE. Would you say the same thing about the grain sales announced last fall? Do you think the Department and the EMS, should get some credit for those sales?

Mr. SMITH. Well, if you call it credit for selling something for 75 percent of the value. That is the reason they made those sales. They sold it for less than they were worth. You can do that any day.

Mr. MAYNE. That was not true of corn, was it, which is something you and I as Iowans share an interest in.

Mr. SMITH. But they would not buy the corn without getting the barley for 75 percent of the value. That is how they spread it across. They didn't even guarantee they would buy the corn from the United States.

Mr. MAYNE. But corn is something we had in surplus and were interested in selling last fall, was it not?

Mr. SMITH. Certainly.

Mr. MAYNE. And the result of this sale is that corn was sold at the world market price, which is the same as the American market price?

Mr. SMITH. The corn was sold for \$1.20 f.o.b. Gulf port.

Mr. MAYNE. That is the world market price and also the American market price?

Mr. SMITH. It should not have been the world market price. The price should have been that in Iowa.

Mr. MAYNE. You are begging the question. I am saying that corn was in serious surplus last year. You and I were working together trying to see that that surplus was reduced.

Mr. SMITH. Certainly.

MR. MAYNE. And those sales did result in the movement of substantial amounts of American corn out of the surplus, did they not, last fall?

MR. SMITH. I don't know if those sales did or not. Forty million bushels moved out. This is a world market and there is no way of saying whether or not they would have gotten the corn or competing feed grains one way or another, anyway. What happened was we sold them to them at a discount.

MR. MAYNE. You are not contending we sold corn to them at a discount last fall, are you?

MR. SMITH. It was all one package.

MR. MAYNE. Well, corn went at the Chicago price, which is the world price, didn't it?

MR. SMITH. No, it didn't. It went \$1.20 f.o.b. Gulf port.

MR. MAYNE. Well, I think you will find that my statement is correct on that, Congressman. But I am capable of being wrong, too.

Now, it is true that the oats and barley which we had in Government stores were sold at a loss to the Government. But that was because their world price is so much lower than the American price, was it not?

MR. SMITH. No, it was sold less than it was worth at the time.

MR. MAYNE. Well, it was sold at much less than the American price.

MR. SMITH. It was sold at less than Japan could buy the same stuff for.

MR. MAYNE. It was sold at much less than the American price, was not it?

MR. SMITH. Yes.

MR. MAYNE. At the world price?

MR. SMITH. No, not world price; less than American price.

MR. MAYNE. I agree less than the American price, but you are saying that oats and barley were not sold at the world price?

MR. SMITH. That is right.

MR. MAYNE. Now, Congressman, whatever is the cause, and accepting your theory, for the sake of argument, that the Department of Agriculture really had nothing to do with it, whatever the cause may be, we have had a very substantial increase in the price of corn this summer since this sale to Russia was announced, have we not?

MR. SMITH. Yes, that is right.

MR. MAYNE. In fact, just last Friday, in Central Iowa, number two yellow corn was at \$1.17 to \$1.18.

MR. SMITH. That is right.

MR. MAYNE. And that is an increase of over 12 cents a bushel since early summer, is it not?

MR. SMITH. That would be approximately right.

MR. PURCELL. Mr. Mayne, your time has expired.

MR. MAYNE. May I ask one additional question?

MR. PURCELL. Yes, sir.

MR. MAYNE. And you are familiar, I am sure, with the elevator at Farnhamville, Iowa, which is between Calhoun and Webster County, Webster County being in your district and Calhoun in mine. And I am sure you are aware that there has been a very dramatic increase in the corn price there. They have put together some of the big trains

of corn for sale to Russia at Farnhamville. The price of corn, for January delivery there, is now \$1.17 compared with only 95 cents last year at this time. You would concede that there has been a very substantial increase in the corn market for some reason?

Mr. SMITH. No question about it, but it is all because of drought, drawing down on wheat; when wheat will not be used for stockfeed; they will use corn where they can. So it has to have a sympathetic reaction. In addition to that, there has been a devaluation of the dollar. That is 7 percent there and there has been an increase in the price of gold. All of this together is bound to cause at least that much difference in the corn price.

Mr. PURCELL. Mr. Rarick?

Mr. RARICK. Thank you, Mr. Chairman.

Congressman Smith, I want to thank you for a most thought provoking and thorough statement. You have certainly given us some new insight with your testimony this morning.

May I ask you, sir, are you an attorney?

Mr. SMITH. Yes, I am.

Mr. RARICK. Would you mind giving me the benefit of your opinion as to the relationship of these international exporters in this transaction of buying and selling? Would you say that they are the agents of the buyers or of the sellers?

Mr. SMITH. Well, I would assume they are the agent of the buyers. However, they are doing business in the United States and for the right to do business in the United States, of course, they are subject to regulations that might be applied here.

Mr. RARICK. But you would agree that they are the agent of the buyer, who in this instance is a foreign nation—the Soviet Union?

Mr. SMITH. That is all right. I am not saying they should not have done as they did and try to help the Russians get the wheat at the lowest possible price because they were their agent.

Mr. RARICK. But, they were the agent of the Russians.

Mr. SMITH. That is right.

Mr. RARICK. To get the best price was their agency relationship.

Mr. SMITH. That is right.

Mr. RARICK. We have heard a lot of flowery talk about free enterprise, that the wheat deal was a great free enterprise transaction. Yet the Secretary himself admitted that the U.S. Government did not interfere in the sales because we of a free country are not like the Soviet system where the government itself, through their normal channels of government, handles the trading. This would seem to bolster your statement that if there is any credit involved for the "historic" event, then it certainly does not belong to the Administration or to politics. It would seem to belong to the agent that is marketing wheat—in this instance a Soviet agent. Would you agree?

Mr. SMITH. That is true, except to this extent. We rely on the USDA and they are supposed to give us information on the supply and demand situation to the extent that they know it and in this case, it was not made available.

Mr. RARICK. But it was not made available to the American producer—the farmer, grain elevators, and other Americans.

Mr. SMITH. That is right.

Mr. RARICK. I thank you.

Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Zwach?

Mr. ZWACH. Thank you, Mr. Chairman.

Congressman, I always welcome your appearance before the committee. You do study matters and you are always very challenging. Now I would like to read to you a statement made by the President of a great producer organization, Eugene Moos of the National Wheat Growers Association and ask you if you would agree with the overall concept here.

Mr. SMITH. May I ask, was this statement made recently?

Mr. ZWACH. Yes, yesterday.

President Nixon and his Administration deserve much credit and appreciation from the wheat growers. By taking the necessary steps to open up trade between the U.S. and the USSR, the grain sale became possible. The positive results from these sales outlined by the Secretary in his testimony to this committee are real. Farmers incomes have been improved by hundreds of millions of dollars. Taxpayer costs are reduced. New jobs created; the U.S. balance of payments improved; and probably most important, the prospects for international stability and peaceful co-existence are tremendously improved.

Now, you would agree with that basic overall statement?

Mr. SMITH. That statement goes to a different point, with which I agree. That is that we should not prohibit sales to Russia just because we do not like some of the things they are doing. In other words, the Commerce Department grants export permission and it has not agreed with the opposition that a lot of people had back in 1963. With that, I would agree.

Mr. ZWACH. You would agree that by taking the necessary steps to open up trade between the United States and the U.S.S.R., the grain sale became possible. You of course know that in Russia many times, they have had a drought. They are in a very hazardous area. Many times they have needed wheat.

Mr. SMITH. That is right.

Mr. ZWACH. The United States has not sold that wheat.

Mr. SMITH. Well—

Mr. ZWACH. You would agree that opening up this trade in this area has been very good and basic and fundamental?

Mr. SMITH. Export licenses were granted in 1963 over the opposition of about 49 percent of the Congress, and export licenses were granted in this instance, and with that, I certainly agree.

Mr. ZWACH. Now I come to the part that bothers me also, and that is the rules, regulations, and the laws with regard to how to protect the producer, the consumer, the broad public interest. Now, before 1967, there is testimony that we have that there was required a great deal of additional information on who the sales were made to, the amounts of sale, the various conditions of the contract. In 1967, apparently, the Department of Agriculture, then under your and my good friend—and I worked with him for years in Minnesota—Orville Freeman—the rules were tremendously relaxed. And we are now operating under these rules. This bothers me and I am very concerned on how do we now look to improvements? And I am very open to suggestions. You state some things that we very definitely need to get into. But I think we have to say that this thing is, I hope, nonpolitical, and I hope that we can do it in the sense of protecting the producer. No one battles for the producer harder than I do, you know. And the public generally needs to be protected.

Mr. SMITH. I think from the producer's standpoint, we have just got to recognize that a major share of our market now is in exports, that we need just as much information on weather conditions in other countries as we need on it in the United States. This was not true back in the 1930's but it is now. This is what I am referring to. If companies want to do business in the United States, then they should report their sales fairly soon after they are made so that the people who produce the grain will know what the world supply and demand situation is.

Mr. ZWACH. You are right. Agriculture is finally on the front burner and we are really in the export business. We have been on the back burner since I was a boy, since the 1930's. Agriculture has arrived, so we need now constructively to come up with the things that are going to be necessary to properly protect everyone. I think you are giving us some input in this area, and that I appreciate.

But the overall opening up of the world markets to trade, goodwill, peace, understanding—I think we need to give some credit also where credit is due.

That is all, Mr. Chairman.

Mr. PURCELL. Your time has expired, Mr. Zwach.

Mr. FOLEY, do you desire recognition?

Mr. FOLEY. Mr. Smith, I would certainly like to join in congratulating you on your challenging and forthright statement. It is always a pleasure to have you before this subcommittee.

Mr. SMITH. Thank you.

Mr. FOLEY. Mr. Zwach has asked you if you agree with a statement made by Mr. Eugene Moos, president of the National Association of Wheat Growers.

I would like to ask you if you also agree with another statement he made yesterday. Would you agree that the world wheat market is now a seller's rather than a buyer's market?

Mr. SMITH. I think it has been as far as the U.S. is concerned for several months.

Mr. FOLEY. Would you agree that the size of the Russian grain sale relates more to shortfall because of adverse weather conditions than it does to sales of a continuing nature?

Mr. SMITH. I would agree 100 percent.

Mr. FOLEY. Would you agree there still exists a threat of over-production, that until demand increases further, the world's grain producers do have the capacity to over-supply the existing markets?

Mr. SMITH. I do, and I think this is one of the dangers existing right now. We are going to have a lot of people again—it happens every few years—who say, "open up the valves: we have a world market that we can never supply." The same thing will happen again and we will have another surplus.

Mr. FOLEY. On page 4 of the National Association of Wheat Growers' statement is the suggestion of the need for a reevaluation of U.S. world wheat prices. The U.S. has contributed to a stable low world wheat price policy for several years. Considerable criticism of this policy has come from many sources, including other major exporting countries. NAWG believes in the response of prices to supply and demand at both the domestic and world level and urges reappraisal of the U.S. policy.

Mr. SMITH. I am going to have to get a copy of that statement. I agree with all that stuff.

Mr. FOLEY. Do you agree that the U.S.D.A., in order to effectuate the sale of wheat to Russia has over-used the export subsidy program as a tool to hold world prices down?

Mr. SMITH. I certainly do.

Mr. FOLEY. And that this has jeopardized public support for the export subsidy program?

Mr. SMITH. I do.

Mr. FOLEY. Would you agree that the considerable criticism which has been leveled at USDA for being too trade oriented in its policy making arises primarily because there have been a number of people from the grain trade appointed to high policy positions? NAWG would encourage USDA to restore more policy balance by the appointment of additional qualified people from the producer sector to policy positions.

Mr. SMITH. I cannot assess what all the reasons are, but there are a number of people that feel that there is some kind of cozy relationship which makes them uncomfortable.

Mr. FOLEY. Would you agree with the following quote?

"The timing of the U.S. wheat sale caught some of the wheat producing areas of the U.S. at a disadvantage, particularly the areas of the Southern and Central Plains."

Mr. SMITH. Yes, it did. But also, the producers of the 1971 crop were at a disadvantage.

Mr. FOLEY. I also want to congratulate you, just in closing my comments and questions, on your point that in reaching these agreements with the Soviet Union, desirable as some of the results have been, we should not disadvantage our traditional customers like Japan, who over a period of many, many years have been largely responsible for the levels of our international agricultural trade and the consequent, favorable effect on our balance of payments situation.

Thank you.

Mr. SMITH. Thank you.

Mr. PURCELL. Mr. Price?

Mr. PRICE. My colleague, Congressman Smith, I appreciate your interest in these hearings today and I appreciate your statement.

I find it, of course, highly critical, which you have every right to do, and to point up what you feel are the shortcomings of the Department. In the first page of your statement, you say:

I do not believe that a country like Russia, which is an erratic customer, and sells wheat in competition with us in some years should be given a better deal than steady customers like Japan.

Now, what do you mean by better deal?

Mr. SMITH. I mean like, for example, on the grain sales last fall, Russia got grain at a less price than Japan f.o.b. Gulf ports and since they buy on a steady basis throughout the year, that they are at a disadvantage now.

Mr. PRICE. Well, a better deal—can you cite some prices last fall that you spoke about, that they received a better deal than Japan?

Mr. SMITH. Well, they were buying on the open market at full price. They were not given a deal like Russia got on that grain deal. They are our steady customers.

Mr. PRICE. Has not the export subsidy program been in effect for many years?

Mr. SMITH. Certainly. It does not apply to barley and corn.

Mr. PRICE. The methods, of course, used in this transaction was the same method that has been in effect since 1948, regarding the subsidy program.

Mr. SMITH. You are speaking of the recent sales?

Mr. PRICE. Yes.

Mr. SMITH. That is true.

Mr. PRICE. According to the testimony, there is \$153 million of subsidy to the Russians, of which there will be \$500 million worth of cash flowing back into this country, and could be estimated at a balance of trade payments to our country of a billion dollars.

Mr. SMITH. The point I am making is that instead of paying a subsidy, we could have gotten cash for that extra amount. The value was there.

Mr. PRICE. Well, the value was there, but the matter of trading, as you know, as you say in your statement about horse trading, that when Secretary Butz first went there, they wanted 3½ percent interest on this money and he would not agree to their terms because he could not; he could not by law. Therefore, he did not make the sale. However, when the Russians did come back, they did meet the credit terms that are allowed under the law that Secretary Butz had to comply with.

In your statement you say, "It is interesting to note that the most vigorous defenders of these recent sales voted against permitting a cash sale to Russia in 1963."

Who were these people?

Mr. SMITH. I don't have the Congressional Record with me. But I remember when I stood in the House well in 1963 and many looked at me as if I had a Karl Marx beard on my face when I said we should sell wheat to Russia. We were in session until the night before Christmas getting that straightened out.

Mr. PRICE. I would still like to know who were the ones who voted against making a cash sale to Russia.

Mr. SMITH. It is in the Congressional Records for the 3 days before Christmas in 1963.

Mr. PRICE. The fact of the matter is they are no different from anybody else. They want that credit. And also, as I understand, according to the testimony, it is backed by private banks at 6¼ percent interest.

Mr. SMITH. I am not complaining about the terms.

Mr. PRICE. Yes.

There is every reason to believe, you say in your statement, that the same sale could have been made during the marketing year at full value without any subsidy. Could you elaborate on that?

Mr. SMITH. Yes, I think that the grain had the value and that they would have bought it without a subsidy just as readily as they did with a subsidy. Naturally, they will get it as cheaply as they can. It isn't that they don't have the money. They got an increase in the price of gold and they raised the price that they charge to permit people to emigrate to Israel, you know; they raised it from a thousand dollars per person to an average of over \$10,000. They picked up enough there to pay for over 2 million bushels of wheat.

Mr. PRICE. Unless I misunderstand your statement, you said you believe that these countries had to have these subsidies in order to make these trades, just a moment ago.

Mr. SMITH. It depends on the circumstances. When Canada had lots of wheat—that is when we used the subsidy before—we had to meet the competition. But in this case, we were the only ones who had the wheat.

Mr. PRICE. You didn't feel we had any competition then from Canada?

Mr. SMITH. Very little competition.

Mr. PURCELL. Your time has expired, Mr. Price.

Mr. JONES?

Mr. JONES. Thank you, Mr. Chairman. I commend the gentleman on his statement.

I refer to your last page, item 7:

Congress should take another look at the authority vested in Agriculture Department officials to enter into large grain deals.

Congressman, how would you change this?

Mr. SMITH. Well, I am not positive. I think this Committee, though, is the right one to take a close look at the authority they have under the Commodity Credit Corporation charter to enter into large and long-term sales. Is there any kind of a deal they cannot enter into and any limit on the number of years which can be involved? I think they need considerable authority. But it kind of scares me to think what they could do in view of what was done in this case. It could have been a much larger deal, obviously.

Mr. JONES. In other words, your concern is based on recent action?

Mr. SMITH. That is right, that has caused me to have concern and think that you ought to look again at the Commodity Credit charter and see whether it would be advisable to have any limit on the deals that could be made without permission of Congress.

Mr. JONES. Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Sebelius?

Mr. SEBELIUS. Thank you, Mr. Chairman.

Mr. SMITH. I note at the bottom of your first page:

The recent big sales of grain did not result from brilliant promotion by anybody either in the government or in private industry and would have occurred one way or another in the world market whether supplied directly from the U.S. or indirectly.

By that I assume you are giving no credit at all to USDA or its officials or to Secretary Butz for any of this transaction, which has taken place.

Mr. SMITH. I think the sales would have been made whether they had done anything or not.

Mr. SEBELIUS. Would they have been made had not President Nixon back in June of 1971 administratively rescinded a directive requiring a 50-percent use of U.S.-flag vessels in exporting grain to the U.S.S.R.?

Mr. SMITH. I think they would, although I am in agreement with that action. I think that it is commendable that he did that. However, I don't think that had anything to do with making these particular sales, because they need the wheat so badly that when they could get it at a low stable price, they would have bought it anyway.

Mr. SEBELIUS. And you give the President no credit for his initiative in China that we have now in trading with them?

Mr. SMITH. I give him credit for instructing the Commerce Department, if he did—he gets the credit or blame for whatever they do—on issue export licenses to that part of the world.

Mr. SEBELIUS. I am just a little bit distressed on page 3, where you say:

Even if Secretary Butz had told the whole truth about the weather and wheat situation, many would have discounted it heavily because high Department officials have in the past 10 months on numerous occasions issued misleading, incomplete and even false statements on matters which could affect the market.

On page 5:

Secretary Butz with great fanfare announced a corn buying program as one alternative but it was a phony announcement.

Now, would you care to elaborate? Even false statements. Could you put your finger on it? We have had so many charges but so dog-gone little proof.

Mr. SMITH. He announced a corn purchase program and they made a great deal out of it, and if it had turned out to be true, it would have made a difference on the market, no question about it. They announced it and were careful about when they announced it so it would not affect the market until after it was closed. They were going to buy a lot of corn. They said the price of corn was too cheap. But in fact, they bought, I think it was only \$16 million worth—it was less than \$20 million—and at the very same time they were buying corn, they were selling it, so they didn't fulfill that announcement at all.

Mr. SEBELIUS. Did corn move up any during that period of time?

Mr. SMITH. No. As a matter of fact, shortly after he made the announcement, Secretary Butz put out guidelines for submitting bids for the corn that almost nobody could meet. So I think the trade knew right off that it was not a very sincere announcement.

Mr. SEBELIUS. I don't know. Maybe my farmers down on the prairie there have a little different look at a lot of this, but about—I can't get an exact percentage, but I suppose 80 percent held most of their wheat after it moved up the first 10 cents and 70 on the next 15, and they still hold a lot of wheat at the present time. Those that have sold this year's crop can contract right now for next year's crop for 50, 60, 70 cents more a bushel.

Would you not admit that is some kind of a benefit to them?

Mr. SMITH. Yes, I think drought in any other part of the world is a gain to those that have a big crop, or in any part of the United States. Those who have gain from those who not.

Mr. SEBELIUS. We have always had some tools—we have had oversupply, we have had undersupply. We have needed the tools, the communication, the rapport, to accomplish the connection of the two.

Mr. SMITH. That is true.

Mr. SEBELIUS. And you give no credit to Secretary Butz or his work in this situation?

Mr. SMITH. I don't think he had anything to do with it. I would like to give him credit for something, but I don't see where in this case—as a matter of fact, who gets credit is not important here, anyway. You should keep in mind what caused this increase in price;

otherwise, you are going to get fooled and dream that you can promote yourself out of surplus capacity to produce just by promotion.

Mr. SEBELIUS. I don't care about giving him credit. I want my farmers to get more for their wheat and they are getting more for their wheat and they are going to get more for next year's. I hope we hold the line on the planting requirements so we can continue and steady this thing off. It seems to me we have a lot of people running for Congress around this hearing. We have two members of the subcommittee, we had Mr. Duzan here yesterday from Illinois, who gave us a great plea with a lot of charges and very little proof.

Mr. FOLEY. Will the gentleman yield?

Mr. SEBELIUS. Yes.

Mr. FOLEY. I thought everybody on this subcommittee was running.

Mr. SEBELIUS. That is what I am leading up to. I too am in a race for Congress and I represent a district that grows more wheat than any place in the Nation. We are thankful for anything we get. I think I have detected things that I think need to take place in regulations in the USDA. So for that benefit, I am thankful.

I appreciate your coming here, because I think in your statement, you have summed up a negative conclusion toward Secretary Butz and what has taken place. That is your prerogative and we have had it here to look at and I thank you for being here.

Mr. SMITH. I have tried to give you eight specific things to look at constructively to try to understand and do something to avoid this situation again.

Mr. SEBELIUS. Thank you, Neal.

That is all, Mr. Chairman.

Mr. PURCELL. Mr. Melcher?

Mr. MELCHER. Thank you, Mr. Chairman.

Neal, I appreciate your testimony, and I particularly appreciate the eight points you have made on the concluding page of your statement. I have but one question for you and that is this: Would it be your opinion that in the face of the drought in Russia and their obvious great need for the wheat, if the export subsidy had been lower than it was, would the wheat have been purchased by Russia?

Mr. SMITH. I can't see any evidence that they would not have purchased it even if there had been no export subsidy.

Mr. MELCHER. Even if there were none?

Thank you, and thank you, Mr. Chairman.

Mr. PURCELL. Thank you, Mr. Melcher.

Mr. Bergland?

Mr. BERGLAND. I have no questions, thank you.

Mr. PURCELL. Mr. Smith, we thank you very much for being here.

Mr. SMITH. Thank you very much, Mr. Chairman.

Mr. PURCELL. Chairman Poage, I did not mean to neglect you.

Mr. Goodling, what we have been doing is having only the members of the subcommittee ask questions. Of course, the chairman is a member of the subcommittee.

Mr. GOODLING. I just want to thank you for the opportunity of tuning in.

Mr. PURCELL. Thank you.

Our next witness now is Mr. Clarence D. Palmbly, former Assistant Secretary of Agriculture, vice president, Continental Grain Co.

Mr. Palmbly, we will be glad to hear from you at this time.

**STATEMENT OF CLARENCE D. PALMBY, CORPORATE VICE  
PRESIDENT FOR MARKET PLANNING AND DEVELOPMENT,  
CONTINENTAL GRAIN CO.; ACCOMPANIED BY SHELDON BERENS,  
VICE PRESIDENT AND GENERAL COUNSEL**

Mr. PALMBY. Chairman Purcell, Chairman Poage, members of the subcommittee, Mr. Goodling, I want you to know that I appreciate the opportunity to appear before the Subcommittee on Livestock and Grains of the House Committee on Agriculture. Accompanying me to my right is Sheldon L. Berens, vice president and general counsel, Continental Grain Co., New York.

I do, Mr. Chairman, have a statement which is of medium length and with your permission, I would like to run through this rapidly. Following that, I have one or two additional very short comments which I would like to make.

Mr. PURCELL. You may do that, Mr. Palmby.

Mr. PALMBY. To again appear before this subcommittee, which has worked long and hard for the betterment of U.S. agriculture, reminds me of past appearances before the distinguished members of this committee. I recall vividly many painstaking hours I worked with the committee as a Government official in developing the Agriculture Act of 1970. Thus, it is a renewed thrill for me to again appear before the members of the subcommittee in my new position as vice president of Continental Grain Co., a position which I have held since June 8, 1972.

I also vividly recall testifying before this subcommittee and the Subcommittee on Department Operations of the House Committee on Agriculture on December 8, 1971, on what I then referred to as a historymaking grain export sale by U.S. exporters to the Soviet Union. I mentioned at that time that the U.S. feed grain exports to Russia opened up a brand new market for U.S. grains, and at a time when Russia and many of the East European countries had established huge goals for increased livestock production.

I look upon my appearance before the subcommittee today as an opportunity in the true American system to familiarize the subcommittee with my own activities during the last few months I served as Assistant Secretary of Agriculture and to further explain the role of Continental Grain in consummating additional grain sales to the Soviet Union. I also wish to describe my responsibilities in Continental Grain and to further illustrate the role of the private grain sector in selling grain to overseas buyers.

In order to best familiarize members of the subcommittee of the history making developments in exporting grain, I wish to review in a concise manner some of my own personal thinking regarding the promotion of trade between the United States and countries that have been at least partially economically and politically isolated from the United States for the past 25 years.

As was related to the subcommittee on December 8 last year, when I explained the feed grain sale last fall to the Soviet Union, I related that after having family involvement in the Vietnam tragedy in 1965 and 1966, I was firmly convinced that nations with conflicting political goals have a greater chance to build a peaceful world

through channels of trade than through confrontation. Perhaps because of this experience, I have been deeply dedicated to our Government doing everything possible to build improved trade channels with the Soviet Union and the People's Republic of China. It is because of this firm conviction that I was proud to have the opportunity to join Continental Grain on June 8, and I am particularly pleased to represent the company in these hearings. I am pleased because President Michel Fribourg, as well as other key executives with Continental Grain, have had a long history of trade with East European countries, including the Soviet Union. Perhaps one thing that has impressed me above everything else since joining Continental Grain, is the great emphasis that has been placed upon proper execution of contract terms. I am convinced that proper execution on the part of Continental through the years has created a trustworthy reputation for Mr. Fribourg and Continental Grain, particularly in that area of the world. In order to best familiarize the members of the subcommittee of my activities involving the Soviet Union during the last several weeks in my capacity as Assistant Secretary of Agriculture, I will with your permission trace those activities in chronological order.

As has been related to you, I did accompany Secretary Butz to Moscow on April 8, 1972. As was announced at that time, Secretary Butz was traveling to the U.S.S.R. at the invitation of the Minister of Agriculture, Matskevich. It is to be remembered that Minister Matskevich had visited the United States in December of 1971 at the invitation of Secretary Butz. This matter was related to the members of the subcommittee when I appeared before you on December 8, 1971. It was also announced prior to the departure of Secretary Butz to Moscow, that I would head a small negotiating team and would meet with representatives from the Ministry of Foreign Trade. Representatives of the USDA had been invited by the Minister of Foreign Trade to describe the CCC Credit Program (GSM-4). Others from the USDA and the Department of State accompanied Secretary Butz and myself, and this is matter of public record.

I spent a portion of my time while in the U.S.S.R. during this trip with Secretary Butz and Minister Matskevich. I accompanied them on a trip to the Crimea. At that time, we did visit the Ukraine and several farms in the area. It was quite apparent to us at that time that the area was badly in need of germination moisture. It was also obvious that some of the winter wheat stands were sparse, but it should be noted that Secretary Butz and I had never visited the Ukraine before. I, for one, was in no position to judge the degree of abnormality with the winter kill or the lack of germination moisture. It is worth repeating, however, that Secretary Butz did state in his concluding press conference prior to his departure from Moscow, which received worldwide attention, that it was obvious to him that a sizeable portion of the winter wheat crop in the Soviet Union was ruined and that germination moisture in the Ukraine was badly needed.

On April 11, Secretary Butz opened negotiations with the Senior Deputy Minister of Foreign Trade, Minister Kuz'min. I am referring to the negotiations which were later to be chaired by myself as U.S. delegate, having to do with the CCC credit program. Consequently, after the opening ceremonies, I, together with assistance

from my colleagues from USDA and the Department of State, described the CCC credit program and the manner in which it had been operated since 1948. We made particular mention that the CCC line of credit which we were prepared to offer to them against a commitment to buy grain, was a nonconcessional type of credit line, in that the maximum credit period would be 3 years with interest at six and one eighth, somewhat higher than the cost of money to CCC at that time. The U.S. delegation offered to extend a line of credit with maximum exposure over a 3-year period, keep in mind that the \$750 million credit over a 3-year period actually would provide for a purchase of about \$250 million grain annually, provided purchases were made on a regular basis. The U.S. delegation further stated that they would expect repayments to be made annually on a 12-month basis, together with accrued interest up to that date. While traditionally CCC has referred to this program as being a 3-year credit program, in actual practice with the demand for annual repayment schedule, it is an 18-month credit program. If my memory serves me correctly, and on this point I am a bit hazy, but I believe the U.S. delegation stated that at least \$200 million of grain would need to be bought over the first 12 months to effectuate the line of credit. I repeat, I am not quite sure of my ground.

The U.S. offer was refused outright. The Soviet delegation stated that the  $6\frac{1}{8}$  percent interest and the short period for credit exposure was nothing more than an offer of a commercial nature. The U.S. delegation agreed. The Soviets countered by saying they may be receptive to buying grain from the United States, if the United States would be in a position to offer 10-year credits at a low rate of interest, such as 2 percent. I advised the Soviet group that no such authority existed, nor did I give the group any indication that the executive branch of the Government would be receptive to seek such authority from the Congress.

The U.S. and Soviet delegations met for the second time on April 12. The provisions as outlined earlier were again reviewed, and again the Soviets stated that the CCC credit program was completely unacceptable.

I, along with my colleagues from U.S. Government, returned to Washington on April 14.

I had no further conversation with any representatives of the Soviet Union on any subject whatsoever until May 9.

On May 9, with a few minutes notice, Deputy Minister of Foreign Trade, Alkhimov, requested a meeting with me in the USDA. I was informed that he, along with other representatives of the Soviet Union, were in Washington meeting with representatives of the Department of Commerce on the subject of lend-lease settlement and other matters. I, along with Deputy General Counsel from the USDA and others, met for about 1 hour with Minister Alkhimov.

The Minister opened the conversation by saying that he wanted to be sure he understood how the GSM-4 or CCC credit program operated. He made it specifically clear at several times during the conversation that the request for information should not be interpreted as reflecting interest on the part of the Soviets to purchase grain, or to purchase grain on credit from the United States. He again repeated

that the 6½ percent interest and the 3-year maximum period was completely unsatisfactory to the Soviets. He again asked whether longer terms, with lower interest rate financing from Government, could be made available. I queried the Minister and his colleagues as to whether the Soviets might buy grain from the United States sometime in the future. He stated that he had no idea. In that he was not a representative of the Ministry of Agriculture, he was not particularly familiar with the Soviet grain requirements and that undoubtedly future grain requirements in the Soviet would largely be determined by crop conditions as they developed during calendar year 1972. This was the last conversation I had with the Soviets regarding CCC credit, grain matters, or any other item.

On May 12, I informally advised Secretary Butz that I wished to resign from my official position to return to private life. Secretary Butz was scheduled to take a few days rest the week following, and I wanted him to be informed of my decision to ask to be relieved of my official responsibilities.

On May 23, I submitted my resignation to Secretary Butz, with the request that he forward my formal resignation to President Nixon with the further request that I be relieved of my duties before June 8.

On May 23 through 29, I was on vacation in Minnesota.

From May 30 through June 7, I was back on official duty in my office, and engaged only in cleanup work. I considered no policy matters at any time.

On June 7, my resignation was accepted effective immediately.

On June 8, I joined Continental Grain Co. In Continental Grain Co., I have the title of corporate vice president for market planning and development. I look upon my duties described by President Fribourg primarily as being of a longer term nature, than of one of being involved in day-to-day operations. It is to be recalled that I was chief executive officer for 8 years of the U.S. Feed Grains Council from 1961-69, during which time I did develop many contacts in many nations of the world and familiarized myself with the grain, feed, and livestock industries of many countries. In many ways, my work with Continental Grain at this time is not unlike the work performed in that former capacity.

It has been stated that I visited with the Russian delegation in Washington the weekend of July 1. Please keep in mind that Mrs. Palmby and I continued to reside in Arlington, Va., until early August at which time we moved to New York. Consequently, I was at home in Arlington on Sunday, July 2. During the noon and afternoon of July 2, I accompanied Mr. Ziv, who had arrived in Washington on July 2 from Paris, France, of Continental's office in Paris to Alexandria, Va. Our guests were Mr. Kalitenko and Mr. Goldobenko, two members of the Russian buying mission. I had never met Mr. Kalitenko or Mr. Goldobenko until that day. In that Mr. Ziv, Continental's representative, had never visited Washington before, even though he was a long time employee of Continental Grain, he and the Soviets requested me to give them a tour of historical spots. As stated, I took them to lunch in Alexandria, Va., and did show them historic spots of interest in Washington, D.C. I repeat that I had never met these gentlemen before that day, and at no time did we mention the agricultural situation in the Soviet Union or the United States, nor the

grain industry in either country, nor any other official subject. I would hasten to state and if I would not, my wife would insist that I do, that a Sunday spent in this manner was not untypical of my activities during 8 years with the U.S. Feed Grains Council and during 3½ years as Assistant Secretary of Agriculture for International Affairs in the U.S. Government.

Much has been said about my involvement in this transaction between Continental Grain and the Soviet Union. Many of the comments are completely untrue. I am referring particularly to the statements that an agreement had been reached in Moscow with the Soviets in April of 1972. Any such statement is an outright lie. I categorically state I took no active part in Continental's commercial negotiations with the Soviets in this recent sale.

Still other statements have been made that I somehow or other had prior knowledge of the Soviet's intention to purchase grain from the United States and promptly carried that information to my new employer. This also is an outright lie. Consistent with these positive assertions on my part, I wish to share with members of the subcommittee an example of the comments I made during the winter months of 1972.

MASON CITY, IOWA, *March 31.*

Uncertain crop conditions exist this year not only in the USSR"—

Keep in mind, this was before I was in Russia—

but also in the East European countries. Virtually all countries in the area have been affected by similar freeze and snowcover problems. Again, we do not know—

Speaking as a deputy official—

what the ultimate effect will be. But it appears that the USSR-East European region could be a large net grain importer in 1972-1973 for the second consecutive year.

During several press briefings, I summarized my views regarding the possibility of the United States selling additional grain to the Soviet Union in 1972. As an example, at a question-answer period following an address to the New York Commodity Club on May 18, 1972, and during my well-covered final press conference in the USDA, Washington, D.C. on June 7, I stated that in my opinion the Soviet Government officials would sometime in the future, possibly August or September, make some policy decisions regarding their grain requirements. I stated that there were probably three general options that would receive consideration by the Soviet policymakers, the options being as follows: If I could ad lib this morning, the three options which I am about to describe, in my opinion, are very important in a country that is centrally controlled, because through many years of experience, we have found that a short-term or even a long-term need does not necessarily mean that purchases or sales will be made. The three options I describe were as follows:

1. The Soviets may decide to continue to maintain per capita caloric intake over the next 12 months for their people at about the present level without much regard to improved quality of diet. If this option were to become policy, grain import requirements would be  $x$  amount depending upon 1972 crop outturn.

2. The Soviets may decide to continue to expand livestock, poultry, and dairy production as announced in their 5-year plan which had commenced January 1, 1970. If this were to become policy—and this

is a well-publicized 5-year plan—their grain requirements from outside sources would undoubtedly be  $x$  amount plus, again depending on 1972 crop outturn.

3. The Soviets may decide to ask their citizens to go through a “belt tightening period.” If this option were to become policy, the grain requirements from outside sources would naturally be quite a different figure.

These were my three judgment options that might be considered by the Soviet Union, and they are my options, my suggested options.

Finally, if the members of the subcommittee will bear with me, I wish to review the role of the U.S. Government in the wheat export business, as well as the role of the private exporter.

On many occasions, in my public and private life, both as a public official and an interested observer on the outside, I have fully realized that countries such as Canada and Australia—great friends of the United States—who sell wheat to the outside world through wheat boards, can enter into long time commitments at fixed prices, and they do. In that there is no such central government or quasi-government entity in the United States, for which I am eternally grateful, the same type of mechanism simply does not exist.

Machinery, however, to accomplish the same goal does exist, and in this most recent huge sale to the Soviet Union, the machinery was used. This recent 400 million bushel sale made by the exporters to the Soviet Union on general assurance from USDA officials that a net export price would be maintained through the payment of equalization payments, is a forthright example of how the private sector and the USDA can use the marketing machinery to accomplish the very thing that Canada and Australia has been doing for years, particularly with the People's Republic of China and with the USSR.

Now, at this point, Mr. Chairman and members of the subcommittee, I would like to turn to explaining the role of Continental Grain Co. in this transaction and in the events in which this subcommittee has expressed such understandable interest. Although, as I have said, I did not negotiate the commercial transaction, at the request of the president of our company I have assembled the main facts from other officers who did. The basic facts are simple and involve no Government secrets or conflicts of interest. So that the members of this subcommittee may be informed of the manner in which Continental developed the contract to sell grain to the Soviet Union, I wish again to explain the happenings in chronological order.

First, a reminder of the pertinent commercial background. Continental is an American company engaged in worldwide grain merchandising with private and governmental customers and suppliers in many countries. Over the past decade, the company has successfully developed marketing opportunities with the Soviet Union and has been the major supplier of U.S. grains to the Soviet Union.

Continental first learned of the presence in the United States of the Soviet grain purchasing representatives by a telephone call on Thursday, June 29, 1972, directly from officials of Exportkhleb, the Soviet state trading organization responsible for grain imports, requesting to see us, meaning officials of Continental Grain.

The top executives of the company were at a conference in Europe at this time, and returned immediately upon receipt of this news. A representative of Continental in the New York office who had been in Paris then met in Washington with the Soviet officials on Friday eve-

ning, June 30th. It was at this meeting on June 30th that Continental first learned of the interest on the part of the Soviet Union in purchasing grains. The Exportkhleb officials requested Continental to make appropriate offers on Monday, July 3d.

These negotiations now shifted to New York City and took place intensively from the afternoon of July 3d through the afternoon of July 5th, when Continental and the Soviets signed a contract in preliminary form. The total quantity of wheat we sold to Exportkhleb on July 5th was 4 million tons, subsequently increased by another 1 million tons, to a total of 5 million tons by July 11th—this is about 185 million bushels when definitive contracts were signed by the parties.

These sales concerned primarily Hard Winter wheat and also included Durum wheat from any origin and White wheat and hard wheat from the Pacific Northwest.

In these negotiations, in addition to wheat, Continental sold to the Soviet Union  $4\frac{1}{2}$  million tons of feed grains, including some non-U.S. origin optional with the seller.

These contracts called for Soviet payment to be made to Continental in U.S. dollars, cash as shipped, and were in no way contingent on the Soviet's obtaining U.S. Government or other third party credit. The first indication that any officials of Continental had perceived that other Soviet officials in the United States were concurrently negotiating with the U.S. Government for establishment of a CCC line of credit came from the Russians themselves at the conclusion of their purchasing negotiations with us at that time. At their request, we made provision in the contract for the documentation of other mechanics of sale and payment in the event the buyer obtained financing.

It should be emphasized that whether or not payment was made through CCC credit lines arranged by the buyer, Continental's prices would have been the same, as it receives cash against shipping documents in either case.

Because of the unusual interest surrounding these transactions, let me say that our contract prices for the wheat were very close to the then prevailing export prices for U.S. wheat as ascertained by U.S. Government officials responsible for administering the export marketing program. In response to our inquiry, they had advised us that for the foreseeable future they wished to stabilize world wheat prices in the \$1.63 to \$1.65 range prevailing over the past 2 years through the usual export equalization payment formula. In good faith reliance upon this established policy and Government program, Continental had then entered into a 5-million ton wheat commitment to the Soviet Union.

To sum up, I wish to repeat that Continental had no advance knowledge of the proposed Government-to-Government credit agreement of July 8, either from me or from any other source, nor did Continental know until June 30th, that the Soviet Union was interested in buying U.S. grains. The company's market conduct bears this out. We cite the fact that against wheat sales to various destinations made prior to July 1, 1972, Continental had already registered 11.5 million bushels for export equalization payments, the last quantities being taken during June at levels ranging from 5 to 8 cents per bushel, to cover sales of approximately similar amount as quoted above. Further, against purchases of cash wheat and futures contracts made during July, Continental took further subsidies totaling 55 million bushels at 13 and

15 cents between the 12th and 20th of July. This was done in order to minimize the risks that the company was taking from this large commitment.

The really sharp advance in domestic wheat prices occurred during the first part of August after it became generally known that representatives of Exportkhleb suddenly had returned to the United States and in some private transactions had made additional purchases. Continental continued to buy in the domestic market at advancing levels and also continued registering corresponding subsidy, as evidenced by the fact that the company registered 50 million bushels between August 9 and 15 at levels ranging from 31 cents to 36 cents.

During the week of August 24, the domestic market advanced to about \$2.10—f.o.b. (Gulf, but CCC did not follow on the subsidy rate, keeping to a 38 cent subsidy, to yield a net export price of about \$1.72. There has been precedent for CCC not following daily fluctuations of the domestic markets with their subsidy levels, particularly when domestic markets are extremely volatile, as they were at this time.

On Thursday, August 24, we received a call from Mr. Pence of the Department of Agriculture, inviting us to a meeting with other grain exporters to be held the next afternoon, Friday, August 25, for a briefing on new export wheat policy. He advised us that the net price of U.S. wheat exports would no longer be maintained at the old levels, but he gave no details of what the new policy would be. We had no knowledge at that time that the Department would announce the next day, August 25, an increase of its subsidy rate to 47 cents for export sales made prior to August 24. We made no wheat export sales on August 24, 1972.

When the details of the August 25th announcement became known, Continental was faced with a situation that certainly did not portend so-called "windfall profits," as Continental still did not own about 70 million bushels of domestic wheat needed to cover export commitments already made long before August 24. During the week of August 28, Continental purchased about 70 million bushels of wheat in the cash and futures markets at the prevailing price levels. The company at the end of that week registered for the 47 cents subsidy on 71 million bushels.

The cost of Continental's purchases of the cash portion of this wheat will probably exceed \$2.10 per bushel f.o.b. Gulf ports. Since it took approximately the same quantity of hard wheat subsidy at 47 cents, resulting in a new export price of \$1.63 or higher, any suggestion of excess profits is amply demonstrated to be totally false in the light of commercial reality.

Gentlemen, it is obvious to me from this recital of facts that only lack of understanding can explain the continuation of the wholly unjustified attacks which have been levied on these private grain sales to the Soviet Union. Reasonable men might differ on what should be government policy or programs in the agricultural field, but that is very different for the shameful defamation characteristic of the criticism to date.

Accordingly, for its leading role in this complex and historic billion dollar trade, for its taking large financial risks in the best tradition of American private enterprise, for its bringing huge amount of foreign-owned dollars home to America to offset our national payments deficit,

for its providing jobs and income for all sectors of the agricultural and transportation industries, and, most of all, for its enhancing prospects of world peace through world trade, I am proud to be associated with Continental Grain Co. Like other members of the agriculture business community, Continental Grain takes justifiable pride in this splendid achievement for American agriculture and commerce.

Again, I thank you, Mr. Chairman and honorable members of this subcommittee, for this very fair opportunity to present this statement without interruptions. Then if I may, I would like to make one further comment, and then one comment which is a bit of a confession.

The confession first. In checking my personal accounts last weekend, I find that I used very poor judgment, keeping in mind that I still own a small farm and operate a small farm in Minnesota, that I sold last year's corn crop for May and June delivery, and I concluded delivery on June 30. I received \$1.10 a bushel for my corn. I used very bad judgment, but it is the facts of life. I apologized to my wife and I owe an apology to nobody else unless it be my banker.

The second comment I wish to make is that the statement has often been made that I appeared in Washington on June 28. I was in Washington on the evening of June 28, keeping in mind that my wife and home were still in Arlington. I came to Washington on the evening of June 28 for two reasons: (1) to attend a cocktail party and reception for the Deputy Minister of Agriculture from the country of Hungary, whom I had invited several months earlier to visit this country and I felt I owed him the respect to call on him; and (2) to attend the retirement party for Clifford Pulvermacher, with whom I have had a long professional acquaintance in the Department of Agriculture.

Then one thing more. In that there has been much written, not only regarding me but about the unprofessionalism of the manner in which not only the trade itself but others have operated—and also, I have been disappointed, of course, in some of the editorials appearing in the New York Times and the Washington Post. I want to take this opportunity to say one thing kind about the Washington Post. That is that I found in my files a copy of an article which appeared, I believe on the editorial page, many months ago. It is a column that to me has always given me a great lift. I have taken the liberty of photographing copies and I would like to leave a copy with members of the committee. They can easily destroy it or read it at their leisure.

The topic is "The Trained Professional, A Vanishing American," written by Jack Valenti. Many of you know Mr. Valenti. I do not know him personally. I respect and I have a high regard for the contents of this article because, as you would expect, I have been asked several times by many people writing about the Russian grain business and about my involvement with the Soviet Union, and almost invariably, the first comment is, of course, Mr. Palmby, I understand I do not understand the wheat business, I do not understand agriculture. And while I think that by nature, I attempt always to be courteous, not only to reporters but to everybody, the thing that runs through my mind is I hope I never profess to be an authority on a subject without trying to familiarize my facts, even though those facts are

difficult to learn, and the exporting of grain and agriculture policy in this country is a complicated subject I only mention this because I have been disappointed with many of the unlearned statements that have been made about the Russian grain business.

Gentlemen, I will do the best I can to answer any question that any of you may ask. I would remind you of one thing, that there probably are questions in the operating area which I may not be capable of answering. But if I cannot do it and if you do not get the answers from subsequent witnesses that might appear here, I assure you I will do the best I can to supply those of interest to you from the proper people at Continental.

Thank you.

Mr. PURCELL. Mr. Palmby, thank you for a very revealing statement, one that I know has received a great deal of your attention.

I want to say for the record that Mr. Palmby responded very quickly and very respectfully when this committee asked him to appear, and for that, we are very appreciative.

Mr. Palmby, I know that your statement spells out your activity quite well. I was not able to—I do not quite understand all of it. But do I understand that whereas you had no dealing with the Russians as a member of the Continental Grain Co. on their visit here in Alexandria on the date you spoke of, then on the second visit, do I understand that you did deal with them then, when they came back to actually negotiate the trade that ultimately came about?

Mr. PALMBY. I did not. The three principles in Continental Grain who negotiated with the Russian delegation are President Michael Fribourg, Senior Vice President Bernard Steinweg, and the head of the International Merchandizing Center, residing in Paris, who was in New York at the time, Francis Turion.

Mr. PURCELL. Would you spell Turion?

Mr. PALMBY. T-u-r-i-o-n. Those are the three officials from Continental that negotiated with the Russian delegation.

Mr. PURCELL. I take it, then, that you did not participate at any time, you have not participated at any time with the Russian negotiators or involved yourself with any of the Russian trades that we have been talking about?

Mr. PALMBY. That is absolutely correct.

Mr. PURCELL. Then do you know whether or not Continental Grain Co. is handling any of the administrative details for other grain companies that have sold grain to Russia in the transaction or transactions that we are now speaking of?

Mr. PALMBY. I guess, Mr. Chairman, I would have to ask for a clarification of "administrative detail." I am not clear what you mean there.

Mr. PURCELL. Is Continental Grain doing anything that has to do with carrying out the grain trade made between the Russians and companies other than Continental, any kind of a transaction? I call it administrative detail because I assume there is much administrative work that is necessary on a trade of this kind, a sale and handling of grain of this magnitude.

Mr. PALMBY. No; we are not handling any administrative detail.

Mr. PURCELL. Well, handling—maybe I am using the wrong word. Are you handling any work that relates to the Russian grain trade that has to do with other grain companies?

Mr. PALMBY. Mr. Chairman, I think I can clarify it this way, that our ocean shipping department is heavily involved with their counterpart in the organization known as Sovfracht, that is responsible for chartering ocean transportation. The answer to that question is "Yes," our vice president for ocean freight is working closely with that organization. Keep in mind that I suspect that this was the first sale that was made to the Soviets in this large a purchase, and of course in that some of our sales are C. & F. and some are f.o.b., this was one of the first items, as you would expect, that had to be discussed and settled with the Soviets. So we have been deeply involved with them in chartering from the beginning.

Mr. PURCELL. You would be chartering vessels to ship grain the Russians were buying from companies other than Continental?

Mr. PALMBY. We advise the president of Sovfracht and work with him—I think that is the best term I can give you. I might ask counsel if I could use a better term.

Counsel mentions this, that in the negotiations with him, keep in mind that this is a large transaction and they did—they, the Soviets—asked us for a lot of advice on the manner of how to charter freight and at the same time, not necessarily be competing with one another for vessels—meaning some f.o.b. and some C. & F. sales. As a consequence, we decided to work together in chartering vessels.

Now, deeply involved, Mr. Chairman, is an area in which I frankly am not equipped to testify, and I doubt if anybody from Continental is, that we have long been aware, and I was aware, of course, way back when I was still in Government, that there have been continued conversations hopefully leading to a maritime agreement. I know it has been discussed some in this committee. If and when there is a maritime agreement developed, I would expect that there would be a greater volume of vessels available to transport this grain, meaning including both American- and Soviet-flag vessels. Because as of this date, practically all of the grain has moved in non-U.S.-flag vessels and non-Soviet-flag vessels.

Mr. PURCELL. Well, I do not know whether we are talking about the same thing or not, Mr. Palmbly, because I am like those others you referred to. I am not an expert.

Mr. PALMBY. I did not mean that statement against anybody in this committee, sir.

Mr. PURCELL. Well, I did not take it that you did, but I want to say I am not an expert in this foreign sale area. But here I want to restate my question.

Is Continental doing anything in regard to the Russian grain trade that involves sales of grain by other companies, other than, let me say now, maybe they will have to use some of your ships or the ships that you have arranged to charter.

Mr. PALMBY. The answer is "No."

Mr. PURCELL. So you are not, Continental is not being paid anything—

Mr. PALMBY. No.

Mr. PURCELL. In fees by other companies—

Mr. PALMBY. No.

Mr. PURCELL. All right, sir. That is what I tried to ask you awhile ago.

Mr. PALMBY. I am sorry it took so long to get it.

Mr. PURCELL. Now, I think again—you have said this, but at this time, how much total grain has Continental sold during the period of time we are speaking of here to the Soviet Union?

Mr. PALMBY. As I mentioned in my statement, we sold 5 million tons of wheat. I will turn to this page in a minute. I think that is quite clear in the statement. When the Soviets returned to the United States in August, we did not sell them any additional amount of wheat.

Mr. PURCELL. So the total amount that Continental has sold is about 183 million bushels—I do not find it myself right now.

Mr. PALMBY. It is on page 10.

Mr. PURCELL. And that is the total amount of grain that you have sold to the Soviets during this period of time?

Mr. PALMBY. And by "this period of time," so I understand, what do you mean?

Mr. PURCELL. The same period of time you have been speaking of in this statement.

Mr. PALMBY. I wanted to be sure I understood your question and I think I understand it. The 5 million tons of wheat that we sold is the totality of wheat that we sold in those negotiations, and during the same negotiations, at which time we sold 41½ million tons of feed grain, of which I stated to you, some maybe originated from other sources.

Mr. PURCELL. Now, can you give us the dates that the specific amounts were sold and the corresponding drawdown on subsidies day by day during the period that we are speaking of?

Mr. PALMBY. Mr. Chairman, I think that my statement on page 11, while it does not give it day by day, describes the entire package as we put it together. If you will turn to page 11 a minute—give me a second here—where I start with the sentence in the first paragraph, near the end of the first paragraph, I state:

"Further, against purchases of cash wheat and futures contracts made during July"—you see the great step-up in activity during that time following the consummation of the contract, where I state that we took subsidies of 55 million bushels at 13 and 15 cents between the 12th and the 20th. Then I go on further in the next paragraph and say that we registered another 50 million bushels. This is not necessarily all Russian business; we had other business going along with it.

Then I continue on further and state that we finished, that we did finally complete this transaction as far as fixing subsidy and maintaining cash or futures in the week of August 28, when I described that we had been taking subsidy on another 71 million bushels and had acquired 70 million bushels of cash and futures.

That in general terms—if you wish, counsel here has the exact figures day by day.

Mr. PURCELL. I would like you to submit them for the record if you have no reason to oppose that, please.

Mr. PALMBY. I see no reason why we should not do so.

(The information referred to had not been submitted at the time of publication of this hearing.)

Mr. PURCELL. All right, sir. And by looking at those figures, how much was shipped, if any, or how much was bought and subsequently claimed for under the 47 cents or maximum subsidy payment?

Mr. PALMBY. 71 million bushels.

Mr. PURCELL. This is what you refer to in the last part of your statement.

Mr. PALMBY. Correct.

Mr. PURCELL. All right, sir. Now, your company, Continental, has had experience in the past trading with Russia, whether American grain or some other country's grain. Does the company have an office in Moscow? I would think this would be—

Mr. PALMBY. No; they do not. It is certainly no secret, because we still are striving to find the best way, really, to deal with business in Moscow, because, as you fully realize, the exposure we have in this contract is almost unbelievable. So our direct contact with Moscow is largely through our Paris office.

I must hasten to say that there is a good deal of commuting back and forth and I would expect this will continue through the life of this contract, because there are many, many problems in carrying out the terms of such a massive contract.

Mr. PURCELL. And, of course, there is, in addition to that, all sorts of telephone communication that you indicate in your statement has been—you indicated there was a call. I take it there would be a great deal of telephone conversation between whoever in the Soviet Government your company officials are dealing with. Would this be correct?

Mr. PALMBY. Yes; there is a great amount of communication—Telex, telephoning, and as I say, commuting. There is a great deal of communication.

Mr. PURCELL. I might have other questions, but I recognize Mr. Foley at this time.

Mr. FOLEY. Thank you, Mr. Chairman.

I certainly would like to join in welcoming you, Mr. Palmby. I hope you do not view these hearings as in any sense an accusatory process. I personally have had a long and high regard for your capacity, experience, and integrity. There is nothing in the questions that I am about to ask that reflects on my continuing belief in those qualities. You have been very forthright in setting forth your role with respect to the Soviet negotiations and your subsequent employment by the Continental Grain Co. I just want to ask one or two questions to make the record.

You indicated in your statement that on May 12, I believe, you had a conversation with Secretary Butz in which you indicated your desire to leave the government and return to private life. Is that correct?

Mr. PALMBY. Yes; that is correct.

Mr. FOLEY. At that time, did you indicate to Secretary Butz that you had received an attractive offer of employment from the Continental Grain Co., one which you felt for your own personal and family interests, you should accept?

Mr. PALMBY. I related to him that I had received an offer. There is always a little humor in these things, I guess. I am not so sure, after living in New York City for several months, whether it was all that attractive or not.

Mr. FOLEY. But in any case, you did tell him that it was your intention to leave the Government and join Continental?

MR. PALMBY. That is correct. And Congressman Foley, I must say I am thrilled with the 3½ years experience I did have as Assistant Secretary of Agriculture. Nobody could have had finer treatment, and I am not flattering this committee, but nobody could have been treated finer by this committee and the Congress generally. I am proud, really, of the many things that we did and were able to put together. But I did have a very real hankering to get back into the field which I did so thoroughly enjoy when I was with the Feed Grain Council, because, as one Korean businessman mentioned to me once, there are so many things happening, I hate to go to bed at night. There are market opportunities around the world today—I have seen them in many commodities—if we can just keep them going.

MR. FOLEY. Mr. Palmbly, will you tell us about the times when the Continental Grain Co. approached you with the offer of employment which you subsequently accepted?

MR. PALMBY. Yes, the general timing of this was around the first of March. I would say to you that at that time, I did not really take this very seriously, because I just did not know what role I could perform for that company. But as this has become a conversing kind of thing, keep in mind that without bragging, at a time when there is a Cabinet change, I find things do happen. Secretary Hardin left, as you know, and at that point, I did have several offers made to me, or really, several people approached me, would you be interested in an offer. Generally, my comment was, no. But then you find yourself talking a bit.

MR. FOLEY. I assume that between March and May, you had some occasional conversations with the Continental Grain Co. about their interest in you?

MR. PALMBY. Very limited. I talked only with the president and they were very limited conversations.

MR. FOLEY. Can you give us any idea about what time you personally determined to submit your resignation to the Department and to accept the Continental Grain Co. offer?

MR. PALMBY. I firmly made up my mind on the night of May 11.

MR. FOLEY. And then immediately communicated that decision to the Secretary?

MR. PALMBY. Right.

MR. FOLEY. At the time, for example, on May 9, when you had your conversation with Deputy Minister Alkhimov, you had not yet determined to accept that offer?

MR. PALMBY. Correct.

MR. FOLEY. Was Continental's offer firm at that time, on May 9?

MR. PALMBY. Yes, the offer was firm.

MR. FOLEY. About what time would you say, from March to May, roughly—I know it is hard to pinpoint a precise date—were the specifics of your employment, salary, responsibilities, and so forth, indicated to you by Continental?

When did they make a firm offer?

MR. PALMBY. The answer—the firm offer came finally along—gee, as I recall, somewhere around the first part of May, in that area.

MR. FOLEY. And from that time until May 11, you were considering whether you would accept that offer?

MR. PALMBY. Yes.

But Congressman, could I add something here? The question has run through my mind many times, as would through yours, I think, I have had quite a few years involvement, first on the outside and then in government, in wanting to remove some of the impediments that kept us from selling grain to these areas that were restricted from us. The question had always run through my mind, had run through, as I say, up until May 11, what would have been my decision had I known there was going to be interest in a credit line? I cannot answer that, because I was so firmly convinced after the several sessions I had that the Soviets would never simply buy grain from the United States on credit because they had not bought grain on credit from the western world before. I was more shocked than ever that finally they did, after I left the Government, evidently want to negotiate further on this credit.

Mr. FOLEY. I understand from the Chairman that my time has expired. Mr. Palmby, if I have another chance, I will return.

Mr. PURCELL. Mr. Mayne?

Mr. MAYNE. Mr. Chairman, I will defer my questions until later.

Mr. PURCELL. Mr. Rarick?

Mr. RARICK. Thank you, Mr. Chairman.

Mr. Palmby, as I understand your testimony this morning, during the time you have been with Continental, you have never taken part in or been involved in any of the negotiations between your principal and the Soviets on any of the grain deals, is that correct?

Mr. PALMBY. That is correct.

Mr. RARICK. May I ask if you at any time counseled or gave any advice or any of the benefit of your superior knowledge to any of the Continental grain negotiators before they met with the Soviet people?

Mr. PALMBY. Congressman Rarick, it has been an eye opener to me on how little I knew about, really, the export business and to a degree the manner in which grain finally was sold through negotiation with the Soviets. So in answer to your question, I of course have sat in policy groups when we, as a policy family, talk about the grain situation in this country, what we think the crop prospects might be here and globally, what the price outlook would be. This is what the game is all about. And of course, I have sat with them and given the benefit of my judgment. I am not sure, sometimes, how good that judgment is.

Mr. RARICK. Did you also discuss with your fellow members of Continental the grain situation in the Soviet Union? Specifically, I am referring to the condition of the wheat fields that you say you inspected sometime in April of 1971 in the Ukraine.

Mr. PALMBY. I never shared one word with my principals in Continental that I did not share publicly with the entire world the day I left Government on June 7 and prior to that in speaking engagements. And I can supply you copies of several speaking engagements around the country.

Mr. RARICK. Did you publicly make the statement that you had inspected the wheat fields?

Mr. PALMBY. That I had seen them, yes.

Mr. RARICK. And the condition in which you had found them.

Mr. PALMBY. That I had flown over them and the way they appeared to me.

But Congressman Rarick, I would want to say one thing in the record. I vividly recall two former cabinet officers, and believe me, I am

not critical of them when I say this, having been to Russia and come home to report to the American people, to report on the crop conditions in that country, and later it was proved within weeks that they were almost 100 percent wrong. That is why I say when I see a wheat field in the Ukraine, having been in the Ukraine once and seeing it from an airplane, and very limited from an automobile, I am no authority and I would never advise anybody who was expecting to take a market condition as to the condition of that crop. I am just not that good, that is all.

Mr. RARICK. You have seen fit to include that information in your statement, which would indicate you must have felt it was relevant.

Mr. PALMBY. I did, I said it was, but how does that compare with what it was last year, 5 years ago, 10 years ago?

Mr. RARICK. I ask the question with regard to the testimony this morning that the Russian grain sales this year result from a crop shortage, apparently as a result of a drought in Russia, and not be taken as a new policy of that country to develop long-term grain sales for this country.

Mr. PALMBY. Congressman Rarick, I did not say that. What is important in my statement is that at this point, we do not know how much of this grain was bought because of a very bad crop situation. We think a substantial amount, of course, but we do not know, and frankly, I don't know of anybody who knows, how much of this grain was bought with the goal in mind to continue to increase livestock, poultry, for example, poultry and dairy production. I doubt if we know that. And I would not want to leave an impression which may be that I know the answer to that question, because I don't know.

Mr. RARICK. Mr. Palmby, in December of last year, you testified before this same committee, announcing the 1971 feed grain sales. Looking at your testimony, you said "second, it paves the way for expanded future grain trade with Russia" following the President's decision reversing the flag carrying method of transportation.

I was only asking you whether or not you had counseled or consulted with other members of your principal, Continental. Your answer would be that you did consult with the Continental negotiators before they discussed the matter with the Soviets. Your answer would be affirmative, then?

Mr. PALMBY. I have told everybody in the world.

Mr. RARICK. Now, sir, you were an Assistant Secretary of Agriculture for 3 years, is that not correct?

Mr. PALMBY. Yes, nearly 3½ years, yes, sir.

Mr. RARICK. And before that, from '61 to '69, you were chief executive officer for 8 years with the U.S. Feed Grains Council—from '61 to '69?

Mr. PALMBY. Correct.

Mr. RARICK. This is from your testimony. And you did go to the Soviet Union in the month of April and you returned the latter part—I think you said the first contact you then had with the Soviet representatives was with the Deputy Minister of Foreign Trade, Alkhimov here in Washington. That was on May 9.

The Soviets did know who you were, inasmuch as you had been Assistant Secretary of Agriculture, you had been to Moscow with Secretary Butz and you had discussed the possibility of a grain sale.

Then on May 12, you notified the Secretary of your intent to resign and on June 7, you did resign. On June 8, you joined the Continental Grain Co. in the position of corporate vice president for market planning and development.

Then within 30 days, you visited with the Russian delegation in Washington and on a weekend of July 1 and the afternoon of July 2, accompanied by one of your fellow employees from Paris, you had certain Soviet guests in Washington and you took them on a tour of the historical spots with lunch in Alexandria. But you are here to tell us that you at no time mentioned the agricultural situation in the Soviet Union or the United States. This is your testimony this morning?

Mr. PALMBY. Yes, sir.

Mr. PURCELL. Mr. Rarick, your time has expired.

Mr. RARICK. Thank you.

Mr. PURCELL. Mr. Zwach.

Mr. ZWACH. Thank you, Mr. Chairman.

Mr. Palmby, among other things, much has been said that the wheat producers, and the general public, was not properly informed regarding these grain sales. Now, according to your testimony, Continental had no knowledge that Russia was interested in purchase of grains until June 29, 1972. That in previous conversations, they had demanded more liberal credit terms. But on June 29, 1972, they did contact your company to say they were interested in the purchase of grain. That was the first knowledge that Continental had. This is on page 9, just below, in your statement.

Mr. PALMBY. That is correct, it is on page 9, yes, by a telephone call on June 29.

Mr. ZWACH. Now, so previous—

Mr. PALMBY. Wait. I would hasten to say that in that phone call, and the phone call was to the president of the company, who, as I said, was in Paris.

Mr. ZWACH. Yes.

Mr. PALMBY. So one of our vice presidents, Mike Laserson by name, did take the call and the substance of the call was that the member of the Exportkhleb calling said that he would like to see some of the senior officers of Continental Grain, whom he knew from prior deals. And this message was relayed, of course, to Mr. Fribourg and Mr. Steinwig, who were in Paris, and Mr. Steinwig immediately flew to Washington.

Mr. ZWACH. By that date, June 29, and then the development came on July 5, the wheat harvest in the southern edges of the Wheat Belt were already fully underway, were they not?

Mr. PALMBY. Yes.

Mr. ZWACH. And the market had responded and there really was no knowledge of any purchases.

Now, these purchases in July were not massive: 5 million wheat, 4½ million feed grains. The market did not react very strongly.

But then I think on page 11, you say the really sharp advance in domestic wheat prices occurred during the first part of August, after it became generally known that representatives of Exportkhleb suddenly returned to the United States and in more private transactions made additional purchases.

Now, was this the first indication Continental had that there perhaps was a real crisis in Russia with regard to their harvest?

Mr. PALMBY. I think our judgment would be just like yours, Congressman Zwach, when we realized that they had returned. In our

mind, we would have the same observation that you would have, gee, they must have some real problems, much greater than they thought they would have earlier. Keep in mind, and we are responding, by the way, Mr. Fribourg is, in a letter to the chairman on some questions asked. Mr. Fribourg is saying in that letter that maybe the whole world should have had a little more of an indication that things were worrisome in the Soviet Union. As testified, the Soviets did buy after all 3½ million tons of wheat from Canada on February 28, with an option for an additional million and a half tons. That is a little early, much earlier than would be normal. Hindsight is always much better than foresight, but as we think back upon that, maybe that was a little bit of an indicator that they had some worries that maybe the world was not aware of at the time.

Mr. ZWACH. I presume that the Russians asked that their negotiations be carried on quietly?

Mr. PALMBY. Certainly.

Mr. ZWACH. Without world notice.

Mr. PALMBY. Certainly.

Mr. ZWACH. And Continental, I presume, honored this.

Mr. PALMBY. Certainly, as we do with any other customer.

Mr. ZWACH. So gradually, the news came that they were here buying additional wheat.

Do you believe that the producer of wheat was denied deliberately information that might have been helpful to him in getting a fair price, getting the advantage of the increased price?

Mr. PALMBY. Congressman Zwach, this raises the age old question that I as one Minnesota farmer to another, that I used the comment that I did that I used the poor judgment of selling 30,000 bushels of my own corn in May and June. You asked me why didn't I have the sense to realize that there might be a huge or a sizable feed grain export movement. Certainly, I should have used better judgment, but I did not.

Was I denied information? I just should have been smarter, I guess. There was a lot of information around.

Now, the wheat producer in the southern part of the United States—

Mr. ZWACH. In 1967, the Department relaxed—oh, were you through?

Mr. PALMBY. But go ahead.

Mr. ZWACH. In 1967, the Department relaxed its rules and regulations regarding required reporting from exporters.

Mr. PALMBY. Registration sales, I believe.

Mr. ZWACH. Yes. What would be your reaction to some tightening up. Do you have recommendations, first as a Government official, now as one in the trade? I hope what comes out of this is improved reporting so that everyone will be satisfied that it is operating in the best possible interests of all. Do you have any recommendations to this subcommittee?

Mr. PALMBY. I do not. Now, we may have, and certainly we would like to think about it, not only as a person but with other people in the industry and with producers. The reason I say that is it is common knowledge that the availability of wheat for consumption, or carry-over if you will, June 30 of 1973 will probably be about half of what it was on July 1, 1972. To an exporter like us, this is not bad news.

But there are several things happening in the world. No. 1, we have a lot more people each year. No. 2, it seems that even countries that once did not seem to care so much seem to be placing more emphasis on the quality of diets. I hope this is true. It appears like it is real.

So, yes, I think that it is a good time to look at some policies. It would be tragic, in my opinion, if it would just happen that we, the exporters, would sell more of a class of wheat than really exists in this country.

Mr. ZWACH. We do not want to jeopardize world trade.

Mr. PALMBY. That is correct.

Mr. PURCELL. Congressman Zwach, your time has expired.

Mr. Melcher.

Mr. MELCHER. Thank you, Mr. Chairman.

Mr. Palmby, I join in the remarks of my distinguished colleague from Washington in welcoming you to this committee and again in assuring you that we want to arrive at the true facts in this case and we are in no way trying to browbeat you.

Mr. PALMBY. Thank you.

Mr. MELCHER. I have here what purports to be a travel justification for a trip by Mr. Donald Novotny to travel to Russia with your party. It came to me in an unmarked envelope, and I supply you with a copy right now.

You will note that it is signed by you, Clarence, as Assistant Secretary. Does it appear to be genuine?

Mr. PALMER. I have before me a travel authorization which appears to be genuine, for Donald Novotny.

Mr. MELCHER. Yes, Donald J. Novotny. Novotny. I repeat it came to me in an unmarked envelope.

Mr. PALMBY. It appears to be, and it appears to be my signature.

Mr. MELCHER. Mr. Novotny on the attached page is identified as Deputy Director for Grain and Feed Division of the Department.

Mr. PALMBY. Yes.

Mr. MELCHER. Now in the attached trip report, it outlined the meeting that you described as the head of a small negotiating team—I am using your words, Clarence. And it states that meetings were held on August 10 and 11, as you described in your testimony here. It then reads in the first paragraph

... but Mr. Palmby decided to have his team remain in Moscow for two additional days in the event further developments on either the U.S. or Soviet side would warrant additional discussions.

This seems to indicate that after the opening discussion by you of the CCC credit terms, there was additional reason to stay over. You do mention in your testimony that you did have a subsequent meeting with the Soviets, but was it just the terms, the credit terms, the CCC requirements that kept you over for an additional 2 days? Or were there other points discussed with the Soviets?

Mr. PALMBY. Dr. Melcher, I am delighted to respond to this question. I think I have had some experience, not only in the private area but as a Government official, in dealing with representatives of other countries, and this was an official trip. And of course, we had requested a visa through channels and told them the period of time which we wished to stay in Russia.

When it was clear to us after the second day of discussions that it appeared there was no interest in talking further about the credit-line, I remember well having the five people in my own room and saying, well, we have two choices: We can continue to stay on in Moscow and give an implication that we are here in case they wish to talk further, or we can return. We made the decision to stay on.

I would hasten to say that we did then finally leave one day earlier than was earlier planned.

Mr. MELCHER. Attached along with the trip report—I will make this a part of the record, Mr. Chairman.

Mr. PURCELL. Without objection, so ordered.  
(The item referred to follows:)

APR 20 11 50 (6-PART)

UNITED STATES DEPARTMENT OF AGRICULTURE  
Foreign Agricultural Service  
(AGENCY)  
TRAVEL AUTHORIZATION

1. Authorization No. 644-72  
2. Date April 3, 1972

The person named below is authorized to travel and to incur necessary expenses of travel in accordance with provisions of applicable laws and regulations.

3. Name Donald J. Novotny	4. Official Station Washington, D. C.
5. Title Deputy Director Grain and Feed Division	6. Travel to begin on or about April 6, 1972
	7. Travel to end on or about April 20, 1972

8. Itinerary  
From Washington, D. C. to points within the U.S.S.R. as often as necessary and return to Washington, D. C.

9. Purpose of travel To participate in a team, headed by Asst. Sec'y Palmby, which is to meet with representatives of the Soviet Foreign Trade Ministry to discuss a possible arrangement for the sale of U.S. feedstuffs to the USSR. This trip is to be paid for with USDA funds.

10. Per diem allowance  
Maximum allowable in accordance with 6 FASR 406.

11. Travel by privately-owned automobile is authorized; mileage at rates indicated below will be allowed; (allowance for change of station are shown in section 12.)

a. _____ Cents per mile, plus ferry fares and bridge and tunnel tolls	b. _____ Cents per mile personal preference rate
12. In connection with change of station, the following will be allowed:	
c. <input type="checkbox"/> Transportation of immediate family	d. <input type="checkbox"/> Transportation of household goods and personal effects
Mileage for use of privately-owned automobile for transportation of employee and members of his immediate family, as follows:	
e. _____ Cents per mile when two or more persons travel together	d. _____ Cents per mile when one person travels alone

13. Use of taxicabs authorized pursuant to paragraph 3.4, as amended, such travel being advantageous to the Government.

14. First class transportation is authorized due to traveling with the Secretary.

Appropriation: 1222900  
Activity - 4  
Estimated Cost: \$1,025

Clarence D. Palmby  
Approval, Assistant Secretary

The travel and change of station authorized above are in the interest, and to the advantage, of the Government, and the change of station, if any, is not made primarily for the convenience or benefit of the employee or at his request.

Activity: Administrator	Signature: <u>Clarence D. Palmby</u>
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## TRIP REPORT U.S.S.R.—April 7-14, 1972

The purpose of this travel was to accompany Assistant Secretary Palmby on discussions of possible sales of U.S. feed grains to the U.S.S.R. Discussions were held in Moscow with representatives of the Soviet Ministry of Foreign Trade. Formal meetings were held on April 10 and 11, but Mr. Palmby decided to have his team remain in Moscow for two additional days in the event further developments on either the U.S. or Soviet side would warrant additional discussions.

During the meeting, Mr. Palmby outlined the system and programs of the Commodity Credit Corporation. He explained our interest in the sale of both grains and soybeans to the U.S.S.R. and outlined the steps which might be taken to help facilitate such sales. Mr. Palmby explained that any sizable sale of grains would represent an important step toward the improvement of trade relations between the two countries.

The Soviet side gave general indications of interest in obtaining a rather large volume of grains from the U.S., and indicated that they would be interested in an arrangement providing for supplies to be shipped over an extended period such as 5 years. They expressed a hope that credit would be available at low interest rates, such as 2 percent, which could be repaid over a fairly long period of time, such as 10 years. They were keenly aware of provisions of PL-480, our past programs with Poland and Yugoslavia and the credit facility of the Export-Import Bank. They urged that special steps be taken to provide them with sufficiently attractive terms that would be commensurate with such an extraordinary long-term purchase commitment.

Further details of both U.S. and Soviet positions are contained in classified telegrams 3332 and 3389 from Moscow.

Names of Soviet officials who participated in the talks or who met with our group at other times during our stay in Moscow are as follows:

## FOREIGN TRADE MINISTRY

M. R. Kuzmin, First Deputy Minister.  
 V. S. Alkhimov, Deputy Minister, Western Hemisphere.  
 Mr. Gorgaev, Deputy Minister, Raw Materials.  
 B. M. Zatsepin, Deputy Chief, America and Western Hemisphere.  
 Mr. Zinoviev, America/W. Hemisphere.  
 V. A. Rakhmanin, Deputy Chief of Protocol.  
 N. A. Beloŭsev, Chairman Exportkholeb.

## AGRICULTURE MINISTRY

V. V. Matskevitch, Minister.  
 B. A. Runov, Deputy Minister.  
 I. I. Khoroshilov, Grains Chief.  
 V. F. Lishehenko, Interpreter (Embassy Washington).  
 A. F. Karchenko, Deputy Chief, Foreign Relations Section.  
 V. M. Brusov, Foreign Relations Section.

## OTHERS

Mr. Trusevitch, Deputy Board Chairman, USSR (GOSPLAN for Foreign Trade).  
 Mr. Spanderian, USSR State Planning Agency (GOSPLAN).

DONALD J. NOVOTNY,  
*Deputy Director, Grain and Feed Division.*

Mr. MELCHER. Attached to the trip report is a list of the Foreign Trade Ministry officials of Soviet Russia that were meeting with you. As you review those names, Clarence, are any of those listed that you met with at these meetings from April 10 to 12 inclusive? Are any of those mentioned in the Foreign Trade Ministry men that you met with in Russia in Moscow at that time that were part of the negotiating team that came to Washington and to New York to deal with Continental Grain Co. from June 30 through July 5?

Mr. PALMBY. I think I can make this answer quite simply. You recall the first of two gentlemen that I have mentioned here was the one who was head of the delegation I visited with in Moscow. The second man whose name appeared here was the one who did come to my office on May 9. And the last name that appeared on this list, while it does appear on this list, never did participate in the discussions we had in Moscow. He did attend a luncheon, as I recall, I think one cocktail party.

Mr. MELCHER. The last name on which page?

Mr. PALMBY. On the first page.

Mr. MELCHER. Then the other members on page 2 listed there, the other eight names?

Mr. PALMBY. None of the names that appear there—yes, the Agricultural Minister, of course, is the first one. He was not part of the negotiating group and of course, did not come back to Washington. And none of other names that I see there were—no; they were not a part of the negotiating group in New York City.

Mr. PURCELL. Your time has expired, Mr. Melcher.

Mr. MELCHER. I have further questions to develop this line of questioning.

Mr. PURCELL. Mr. Price.

Mr. PRICE. Mr. Palmby, I appreciate your bringing this very fine statement and open statement for clarification of the charges and inuendoes that have been brought against you since you have left the Department.

I note that a former Secretary of Agriculture, after leaving the Department, took an industry job with foreign connections, after leaving his Federal post, with no moves made by the Government to investigate possible conflict of interest as you have been charged with. It did cause some raised eyebrows among some officials. He announced on October 3, 1968, 3 months before leaving the Agricultural Department, that he would become president of the Management Service Technology International Corp. Since that time—he later quit and now heads Business International Corporation of New York.

Mr. Secretary, your statement, I think, is one of the most concise, open statements that have been made. Your willingness to come before this committee is commendable. And as the article which you passed out says, the pro is a man or woman who knows what the issues are, has untangled the crossed threads of logic and reaction, understands the facts cold, is already certain of the detail, and can, because he or she has completed the necessary homework, bring forth the suggestions that make the most sense. The professional may not always be right, but his experience and instincts are more to be relied on than those of one who does it all in blind faith.

I want to say to you, Mr. Palmby, you are one of those men whom I have always admired and considered as one of those who has done his homework, that you are a professional in this field. We all make mistakes, but I want to commend you on your statement and for your openness in coming before this committee and testifying.

Mr. PALMBY. Mr. Price, I thank you kindly for those comments.

Mr. PRICE. That is all, Mr. Chairman.

Mr. PURCELL. Mr. Bergland.

Mr. BERGLAND. Thank you very much, Mr. Chairman.

Mr. Secretary. I want to commend you for your many contributions over the years to expanding world trade. You are on the right track. I have some questions dealing with your testimony.

On page 3, you detail a trip that you and Secretary Butz took to the Soviet Union in April of 1972. You stated that you for one were in no position to judge the extent to which the winter wheat crop in that country had been damaged by the bad weather and the spring plantings apparently suffering from the lack of spring rains. But the Secretary, you stated, did in a press conference apparently outline at least his judgment on this matter.

Are these reports prepared and filed as a part of some sort of official USDA document and distributed generally to trade sources and farm groups and others?

Mr. PALMBY. Congressman Bergland, I know the Secretary made several speeches following his return from Russia and I would specifically request, if you would not mind, that you request from him or the Office of Information all the speeches and comments he made, because I know he made a good many.

Mr. BERGLAND. I have documents or photocopies of news accounts of the weather conditions in Moscow—

Mr. PALMBY. Yes.

Mr. BERGLAND (continuing). During the course of May and June, in which reports of heat and drought were common. I am surprised by the fact that this kind of news did not have a reaction in the American grain markets. The Soviet Union is an enormous wheat producer, normally growing and selling three billion bushels a year. By comparison, we are relatively small. Everybody knew the Canadian ports were running at full capacity, there was no other wheat supply. Why do you think these reports of bad weather in the Soviet Union did not have an effect on the American market?

Mr. PALMBY. I think I covered it the best I know how to analyze that in the three options I described. I have to say that again, because, keep in mind that we have been fairly isolated from that area of the world and certainly from the People's Republic for a long time. And it is why I hesitate to sit before this committee or any group and say, just because there is a bad crop, there is  $\alpha$  amount of grain going to be imported. I do not know. I know that decisions have to be made. I do not know whether there will be a real pressure to keep on the 5-year plan and increase livestock production an extra 5 percent a year or if, because of demand for foreign exchange to buy machinery that they need so badly in so many areas, that maybe that will be looked upon as more important than buying grain.

Mr. MAYNE. Mr. Chairman, I wonder if the reporter can read back the last thing she has in the record, so the witness may pick up the thread of his testimony.

Mr. PURCELL. If the witness desires it, I am sure she can.

Mr. PALMBY. She says she is with me.

Mr. PURCELL. We are not worried about her; we're worried about you.

Mr. PALMBY. I was saying simply this, that we are still inexperienced in dealing with centrally controlled countries. In our country, literally thousands of livestock feeders, egg producers, broiler producers, cattle feeders, make decisions. That is not true there. And

frankly, it is one of the intriguing things in time, to learn more as you do business with them, more about their decisionmaking process. But to jump at conclusions that because this area had a crop failure, this area had a very bad crop, we will all add this up and they are going to buy this much grain—I would think that would be a very dangerous type of conclusion to reach.

Mr. BERGLAND. On page 12, you state that during the week of August 28, Continental purchased about 70 million bushels of wheat in the cash and futures market at varying prices, and you register for 71 million bushels subsidy at 47 cents. Why and how do you account for the 1 million bushel discrepancy?

Mr. PALMBY. Oh, it is a rounding of numbers. You will always find in registering subsidy and trying to keep current with subsidy, with fixation of subsidy and buying in the cash and futures, you never get an exact figure. This is a rounding of the situation which we were in. It is just a lag, really.

Mr. BERGLAND. Is it Continental's policy to register for subsidy on the date of sale—or the date you purchased at, I am sorry?

Mr. PALMBY. Approximately, and that is why I went through this routine the way I did. Because as you know, Congressman Bergland, there have been many formulas developed on how much of a windfall could be developed if this and this and this happened.

I smile when I read those, because I wish that the people who would compile those facts would take that case to the banks, say let's put this little deal together, because I know many people who have tried it. They may be selling apples today or maybe apples do not sell too well.

Mr. PURCELL. Your time has expired.

Mr. BERGLAND. Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Sebelius?

Mr. SEBELIUS. Thank you, Mr. Chairman.

I want to commend you on your statement. It is good to see you again. I have only one question in my mind. That is to clarify for sure the fact that I thought I heard you say that Continental entered into the options on a total of 5 million tons of wheat under the original June contract. Is that correct?

Mr. PALMBY. The July contract.

Mr. SEBELIUS. July contract, I mean.

When the Russians came back, Continental did not sell any more Hard Red Winter wheat.

Mr. PALMBY. Continental did not sell any more wheat to them.

Mr. SEBELIUS. Thank you.

You state the fact that dealing with the Russians, you deal with just one group as against all of our dealers and peddlers and producers over here. I was wondering if you want to comment any further on the fact that there is something different than the traditional trading that you do with other countries.

Mr. PALMBY. I guess—yes, I would. I have a couple of observations.

I am told that there is something over 30 ministries in the Russian Government—don't hold me specifically, but I believe it is in the area of 32 to 34 ministers. And what has been revealing to me is that each of these ministers in many ways are not unlike our own Cabinet officers, except there are more of them, each one of them competing for resources that are available in the Soviet Union. I participated a

few days ago in a little seminar in Seattle on the matter of the Soviet system. The reason I mention this is again it comes back to the question over here. When this many ministers sit down together, each wanting more resources to build highways, to build railroads, to build bridges, to build housing, to build any number of things, this funnels from the top down. And to finally get to the man to get a decision is not always so easy.

That I have a second observation, which I did make in my statement, that I am quite convinced that once a contract is signed, the manner in which that contract is carried out—I mean really fulfilled—is perhaps somewhat more meaningful to those people because they have been less exposed to the western world than some others. I think this is very meaningful.

Mr. SEBELIUS. I appreciate that part, because I am a smalltown lawyer and I feel that a contract is a contract and your word is your word and you really work at it.

I want to join you in your desire to promote trade and provide food for a hungry and undernourished world. I just get frustrated at trying to find ways to take the abundance that we have and put it to good use and still see that the farmer gets a fair and adequate price for his product.

Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Mayne.

Mr. MAYNE. Mr. Palmby, I just want to be sure that I clearly understand how much grain has been sold to Russia by Continental. You testified in your written statement on page 10 that 4 million tons of wheat were sold July 5, followed by an additional 1 million tons on July 1, and 4½ million tons of feed grains as a part of the same negotiation. Could you give us the exact date that that feed grain sale was made?

Mr. PALMBY. The same date as the—the 5th—and the formal contract signed on the 11th.

Mr. MAYNE. Now, has there been any grain sold to Russia by Continental since those sales?

Mr. PALMBY. We have had some add-on on the feed grain since this July sale.

Mr. MAYNE. Well, I think it would be well for you to tell the subcommittee how much that is so there can be no contention that you have not given us all of the facts about the grain sales to Russia.

Mr. PALMBY. I cannot give you the exact figure of that add-on, and the reason I will explain why I cannot give you the exact figure of it. The reason I cannot is, that in the August negotiation, when we again discussed feed grains, we had many options of grain from several origins. I mentioned a few, for instance—barley from Iraq, corn from Mexico, corn from Argentina, corn from Thailand. And keep in mind that we are a worldwide company. And I am not evading this question, but what I do not want to do is to mislead anybody on this committee as to that this is a great big huge sale and you should expect higher prices or that I am withholding any information. But as this contract will develop and the termination date is June 30, we simply have a very complicated feed grain contract with them.

Incidentally, as of this moment, I am told that we have lifted about a million tons of corn on this contract. That much has already been shipped from the United States.

I would also want you to know that that should not be looked upon as the pattern from here on or that it will move that fast through June 30, because, Congressman, we have other options in this contract. We have a real logistical problem that worries us in this country—I mean a domestic freight problem, a domestic rail transportation problem, a barge problem, and as to how we will finally carry out all the terms of this feed grain contract is yet a bit uncertain.

Mr. MAYNE. Well, is the million tons that have already been lifted a part of the 4½ million tons?

Mr. PALMBY. Yes, sir.

Mr. MAYNE. Well, can you give us some idea of when this add-on was sold?

Mr. PALMBY. When they came back in August.

Mr. MAYNE. Now, just to be doubly sure, were there any sales to Russia before the ones of July 5 and July 11 during 1972?

Mr. PALMBY. There were no sales made by Continental prior to those dates in 1972. The last sales were the ones last fall which I earlier described to this committee.

Mr. PURCELL. Your time has expired.

Did you have any questions, Mr. Foley?

Mr. FOLEY. Mr. Palmby, just to continue briefly where we left off. In your discussions with the Continental Grain Co. in the period of March through May, did you at any time advise them that your future responsibilities in working for them might have to be limited because of certain conflict-of-interest statutes?

Mr. PALMBY. Indeed I did. And Mr. Fribourg and I talked about it and, as I have said publicly, my first—I reported at noon on June 9. I had an afternoon meeting that required most of the afternoon with Mr. Fribourg and counsel of the company and others as to what I could and could not do so as not to be in conflict of any laws or regulations or even suggest that I would be, because I feel very keen about this.

After all, I do have some pride in my career to date and I certainly have no reason why I should for any brief whatsoever want to be in conflict or want even to appear to be.

Mr. FOLEY. Both you and the company were fully familiar with those pertinent laws?

Mr. PALMBY. Indeed so, and I have been supplied a written statement on them.

Mr. FOLEY. As a matter of fact, departmental regulations on this subject in some areas prohibit not only a conflict of interest, but any financial interest that might give the appearance of a conflict of interest. Isn't that true?

Well, I will quote one for you:

No government employee may have a direct or indirect financial interest that conflicts substantially or appears to conflict substantially with his responsibilities and duties as a Federal employee.

That deals, of course, with people actively employed by the Government.

Mr. PALMBY. Do you mind if counsel comments on that?

Mr. BERENS. This of course applies widely in the U.S. Government.

Mr. FOLEY. Yes.

Mr. BERENS. Of course, Mr. Palmby is fully aware of that.

Mr. FOLEY. For the record I might cite 18 United States Code 201 (a) and 18 United States Code 207 (a) and (b) state that he may not, after his Government employment has ended, represent anyone other than the United States in connection with a matter to which the United States is a party or has a direct or substantial interest where he has participated personally and substantially in that matter for the Government.

Section (b) says he may not, for 1 year after his Government employment has ended, represent anyone other than the United States in connection with a matter in which the United States is a party or has a direct or substantial interest and which was within the boundaries of his official responsibility during the last year of his Government service.

I take it that in your discussions, you had in mind, and the company did, these sections of the Federal statutes?

Mr. PALMBY. Yes, and we have spent hours on it.

Mr. FOLEY. I also assume that you personally feel that those statutes reflect a wise concern on the part of the Government about any possible conflicts of interest that might arise from private employment following Federal employment?

Mr. PALMBY. Yes, of course I do, and after listening—no discredit meant to any attorneys, but I find that you get many explanations, really, and I am sure Congressman Foley, you recognize that. Conflict-of-interest laws are hazy on many points. I can say to you that I have followed the practice and shall continue to follow it. Even if any of my superiors should ask me to do something that in my opinion, even though it may not be in conflict at all, I would say to them, I think that is in poor taste, I shall refuse to do it. And I have no reason to believe that they would ever ask me to do it.

Mr. FOLEY. Mr. Palmby, I appreciate that. One of the only reasons I raise this is so that we may have a more complete record on this point. I think all of us who have been in public life, as I mentioned to Secretary Butz the other day, sometimes rankle a little bit at suggestions or implications of some impropriety. But while stating that I have full confidence, as I have said, in your integrity and your performance both in and out of public service, I would assume that in fairness you would concede that the rather coincidental movement from public to private employment on your part during the time of the negotiation of one of the major wheat sales in history between the United States and the Soviet Union might raise some speculation about possible conflicts of interest.

Mr. PALMBY. Yes, I agree, but I would hasten to say that really, these are two distinct transactions. In some ways, I am flattered about this, because if I now do not know, my wife knows that I at least am recognized in some circles as having some knowledge about the world grain business.

On the other hand, however, I must come back to the former statement I did make that I have learned to have great respect for the professionals who take the time to understand when a person may or may not be guilty.

I get quite discouraged—but you are in public life, as we all have been at times—I get quite discouraged with just plain character assassins. And there are a few of those. I would rather not prolong that.

Mr. FOLEY. The chairman has advised me that my time is up.

Mr. PURCELL. Mr. Mayne?

Mr. MAYNE. I will reserve any other questions.

Mr. PURCELL. Mr. Melcher?

Mr. MELCHER. Mr. Palmby, recalling the discussion we were on prior to my time being elapsed on that go-around, we were talking about the foreign trade ministry officials in Russia, the agricultural ministry, and others that you met with on August 10 and August 12. Excuse me. April 10 through April 12.

The point is, how many of those that you were meeting with at that time actually came to the United States and started negotiations with the Continental Grain Co. that you have described, commencing June 29 and extending through July 5.

Mr. PALMBY. None.

Mr. MELCHER. None of those.

Mr. PALMBY. None.

Mr. MELCHER. My impression was that your answer had been before we were cut off that some of these had been in the party.

Mr. PALMBY. One gentleman whose name appears as the last name on what is the second page here, I guess, I did state to you, attended a luncheon and, I believe, a cocktail party.

Mr. MELCHER. And he was part of the negotiating team?

Mr. PALMBY. Correct.

Mr. MELCHER. And will you supply for the committee a list of names of the negotiating, Soviet negotiating team that met with Continental, either here in Washington or in New York, during this transaction?

Mr. PURCELL. Mr. Melcher, I want to step in here, please.

Mr. Palmby, you can return after awhile. We shall probably meet in the afternoon. We have a quorum call on. I had hoped to conclude all of your testimony. I think we are about through, but we can still make a quorum call if we go now. Can you return at 2:30 for a few more questions?

Mr. PALMBY. Yes.

Mr. MAYNE. Mr. Chairman, would it be possible for us to make the quorum call and immediately continue with Mr. Palmby since we do have other witnesses here this afternoon? Rather than wait until 2:30, I would like to continue with him.

Mr. PURCELL. We have one more witness this afternoon.

How many more questions do you have?

Mr. MELCHER. I have very few.

Mr. PALMBY. I would hasten to say, Mr. Chairman, I would prefer to conclude, but you are the chairman.

Mr. PURCELL. All right, we will continue at this time.

Mr. MELCHER. Did I hear your answer, you will provide the committee with the names of these people?

Mr. PALMBY. Yes, I see no problem with that. Yes, we will supply that.

Mr. MELCHER. Now, at that time, can you tell the committee what the price of wheat was that you negotiated? What price did Continental decide to sell 4 million tons of wheat for?

Mr. PALMBY. I have described it in my statement. I said very close to the going rate.

Now, you understand—on the bottom paragraph of page 10, let me say that our contract prices for the week were very close to the then prevailing export prices for U.S. wheat. And as I did make mention, we sold Hard Winters, we sold some soft White, we sold some Durum. Some of the Hard Winter was 12 percent protein and so when I say very close, that is the closest I can come to answering your question. Of course, as you have been told, as I understand at least by Government witnesses, the so-called box or the so-called export price that had been the net selling price in this country on ordinary Hard Red Winter had been in the \$1.63 to \$1.65 level.

Mr. MELCHER. Is that your answer, \$1.63 to \$1.65?

Mr. PALMBY. Yes; and that is approximately, because some of this wheat is protein.

Mr. MELCHER. Well, \$1.63 and \$1.65, I think, have been defined by the Department as Hard Red 12-percent protein, is that right?

Mr. PALMBY. And there is also, of course, discount, too, you understand.

Mr. MELCHER. Pardon?

Mr. PALMBY. There are also some discounts, too. In other words, while there are premiums, there is also some provision for discounts.

Mr. MELCHER. Your answer is \$1.63 to \$1.65 paid on Hard Red Winter wheat, 12-percent protein?

Mr. PALMBY. Approximately that figure; yes. That is as close as I can come to it.

Mr. MELCHER. Do I follow you correctly? You are saying that on Hard Red Winter wheat, 12-percent protein, your price is something different than between the range of \$1.63 to \$1.65.

Mr. PALMBY. No; I am not saying that. I say it is in that general price level and the specific price for the several classes, including the level of price or the premium that we received for protein, I think is privileged information between the seller and the buyer in this case.

Mr. MELCHER. But your answer for just this one class, Hard Red, 12 percent, would be \$1.63 to \$1.65?

Mr. PALMBY. And that is the predominant class that we sold.

Mr. MELCHER. Would your answer be for that particular class and that protein that it would be within the range of \$1.63 and \$1.65?

Mr. PALMBY. It is approximately within that range.

Mr. MELCHER. Well, I don't understand the term "approximately." For a definite class and \$1.63 to \$1.65 is a range. Is it more or greater than that range?

Mr. PALMBY. Dr. Melcher, in putting together a contract of this nature there are adjustments and trade-offs for different levels of protein. This is a multiclass contract. I am giving you the approximate figure and it is all I can give you, because I think from there on, it must be privileged information between the Soviet buying mission and Continental, because this is a multiclass. While the price specifically might be a fraction of a cent higher here, offset by a fraction of a cent lower here, it is because of the several classes involved.

Mr. MELCHER. If you consider it privileged information, then I assume it would be futile for me to ask for you to supply this committee with a list of the prices, with the trade-offs for the various classes, the full terms of the sale?

Mr. PALMBY. I think it is grossly improper. I think it would not be beneficial to our continued relations with Exportkhele.

Mr. MELCHER. You have stated you acquired the 70 to 71 million bushels of wheat, either in cash wheat or the futures market, during 1 week.

Mr. PALMBY. Yes.

Mr. MELCHER. That left about 113 million bushels that had to be purchased for Continental for this sale to Russia. Was a great deal of that purchased, the so-called cheap wheat in the southern part of the Wheat Belt?

Mr. PALMBY. It is very difficult, Mr. Melcher, to describe the difference between cheap because, you understand, the market was going up. But during the month of July—I believe it is in my statement, but also I have it on the table here—during the month of July, we purchased 50 million bushels of wheat for cash against commitments. During the month of August, which I suspect would fall into your high priced category, we purchased 83 million bushels of wheat.

Mr. MELCHER. Fifty million bushels could have been purchased at the price complained about by the people in the southern part of the Wheat Belt?

Mr. PALMBY. Yes, we bought early in the month, and as I described, we fixed a very low rate of subsidy against those earlier purchases.

Mr. MELCHER. Purchasing grain, did Continental purchase any wheat on August 24?

Mr. PALMBY. We did not sell any wheat on August 24.

Mr. MELCHER. I noticed that in your testimony. Did Continental purchase any on August 24?

Mr. PALMBY. I frankly do not know. I would imagine we would and if it is important to the committee, I suspect we can supply that information.

Mr. MELCHER. I wish you would.

How about on August 25?

Mr. PALMBY. The question being?

Mr. MELCHER. Did Continental purchase wheat on August 25?

Mr. PALMBY. I do not know, but I would assume we did, because we have to be in the market whenever we can be.

Mr. MELCHER. I would like to know, while you mention that you did not have any sales on August 24, and I think you have testified that since July 5 and July 11, there was not any sale of wheat to Russia, is that correct? Or if there was, it was very small.

Mr. PALMBY. That was during the period or that was the period in which we developed the contract and we immediately began to accumulate wheat.

Mr. MELCHER. Yes, but the Russian sale was virtually completed by July 11?

Mr. PALMBY. The terms of the sale were completed by that time.

Mr. MELCHER. Correct.

Mr. PALMBY. Right.

Mr. MELCHER. Now, actually, the arrangements for the 4 million tons of wheat were made completely on July 5, which was prior to the July 8 announcement; the joint announcement from the White House and the Secretary?

Mr. PALMBY. That is absolutely correct.

Mr. MELCHER. And was this public information at that time?

Mr. PALMBY. That we had made the sale?

Mr. MELCHER. Yes.

Mr. PALMBY. Definitely not. I don't know of a time when Continental has put out a press release that they have made a sale.

Mr. MELCHER. So the actual announcement on July 8 that there would be a sale could have been very misleading not only to grain companies, to grain cooperatives, to producers—it very likely was misleading to them, was it not?

Mr. PALMBY. I guess you can read anything you want into that and maybe at this point, I am going to be criticized for being a bit critical of my old administration which I served. Keep in mind that this is the first time in my memory that a credit line was offered to a country against a commitment that they would buy and prior—the normal way a credit line is established is simply a request from a country and if they are eligible—there are a lot of reasons and the Government can supply you about all the factors that are considered—a credit line is simply established against which exporters are then free to sell the grain and it is none of our concern if that country wants to pull down the credit line; we don't care; that is their business, between their country and their government.

What I am saying to you is the buying mission had nothing to do with credit. They were here to buy grain. So Continental officials negotiated with the buying mission. And as I stated in my statement, the terms were cash, with a provision that the proper language be included in the event credit would be arranged with a third party, meaning with somebody other than Continental Grain.

Mr. MELCHER. The fact is that when the announcement was made on July 8 that there might be a certain quantity of wheat bought by Russia, which obviously would have some effect on the market, there had already been sold by Continental a much vaster amount of wheat than was described in the July 8 statement. It was already an accomplished fact. The July 8 statement only referred to perhaps, 50 million bushels of wheat. There had already been sold well over 4 million tons, probably 150 million bushels had already been sold. And July 11, 3 days later, you had consummated a sale of another million tons. But by the time the announcement had been made by the White House and by the Secretary of Agriculture that we would look forward to some wheat sales to Russia, there had already been a sale made far surpassing anything they described. The impact on the market of this sale, which was not revealed can hardly be ignored, nor can the fact that the July 8 statement would lead people to believe that there might be some sale, but it would be a relatively small amount.

I don't know that you need to respond to that, but I think it is on the record.

Mr. PALMBY. No; I do want to respond to it.

Mr. MELCHER. I will be glad to have you respond to it.

Mr. PALMBY. Because I think—in fact I am positive—that in both cases, both of these happenings were conducted in good faith. The credit line was established, it was announced to the world. And as I recall that credit line announcement, a minimum amount, I believe, had to be purchased in the first 12 months. I would hasten to say that week after week, there are announcements made that a credit line has been established for *x* country and *x* country.

But I would then say that certainly Continental can't be accused of not acting in good faith in negotiating a contract to sell grain with the Russians. Because we, as a matter of company policy, do not put out a press release when we sign a contract to a country or to a private buyer that we have sold a amount of grain.

I think both parties acted in good faith.

Mr. MELCHER. I understand that, Mr. Palmby, and I do not criticize Continental for not doing it. But it must have been a rather amusing affair for Continental, having known the facts, to read the papers on July 8 and subsequently about the announcement of sale of grain to Russia when you had already consummated this sale.

Mr. PALMBY. No; I do not see the amusing factor of it.

Mr. MELCHER. Well, at least it would be satisfying to Continental.

Mr. PALMBY. Continental was glad to have made a sale.

Mr. MELCHER. Certainly.

One further question, and I think this will be my last, Mr. Palmby.

In arriving at making this sale, surely Continental wanted to be assured of a protected price. Did you talk to USDA employees on subsidy policy—that is, the amount of export subsidy that could be expected—during the latter part of June, prior to the negotiating time?

Mr. PALMBY. I did not.

Mr. MELCHER. You did not talk to them. But have you made clear, do I understand your testimony clearly indicates that somebody had talked to Continental to assure them of a target price?

Mr. PALMBY. Of course.

Mr. MELCHER. Yes, but you are not the link between assurance on that.

Mr. PALMBY. Not at all.

Mr. MELCHER. Thank you very much, Mr. Palmby.

Thank you, Mr. Chairman.

Mr. PURCELL. Any questions, Mr. Mayne?

Mr. MAYNE. Thank you, Mr. Chairman. I just want to thank Mr. Palmby for appearing here, for his fine cooperation and readiness to come when invited by the chairman.

I want you to know, Mr. Palmby, that I was deeply impressed by your distinguished record when you were with the Department of Agriculture. I do appreciate the many courtesies which you rendered to members of this committee during your tenure in office, and I feel that without any question, you rendered a tremendous service to this country and most particularly to the farmers of this country during the 3½ years that you were Assistant Secretary of Agriculture.

Now, in my opinion, as one member of this committee, you appear to have made a very complete and forthright statement; you have answered our questions fully and frankly, and I want you to know that I personally believe your testimony. As far as I have been able to determine after sitting through 3 days of these hearings, there has been absolutely nothing introduced here to show any illegal, unethical, or improper conduct of any kind on your part, either before or since leaving the Department.

Thank you, Mr. Chairman.

Mr. PALMBY. Congressman Mayne, I greatly appreciate those statements.

Mr. PURCELL. Do you have any other questions, Mr. Foley?

Mr. FOLEY. Mr. Palmby, in answer to another member's question, you indicated that you thought it might be a good time for, as I understood it, the trade itself to consider the policies and practices that are typified by this recent series of sales to the Soviet Union and to the People's Republic. Among other things you indicated that there should be some consideration given to the danger of running out of one or another class of wheat in the United States that could result from the uncoordinated activities of these companies in their normal trading practices. Do you personally feel it is appropriate for this committee to consider some of the policy questions that have been raised in these hearings and in the discussion of these sales?

Mr. PALMBY. Well, Congressman, I appreciate your asking me the question and I must say to you that personally, I do not quite know what to recommend. One way—I only suggest that it would seem to me that in your deliberations, one way might be to share with the Department the concerns you have expressed here and ask again for more consultations or more meetings on them. Because if I ever found out anything in the years in which I worked with this subcommittee, if we ever sat down together on program changing or regulation change, we did an awful lot better than when either one went one way or the other.

Mr. FOLEY. I don't think you completely understood my question, but I am glad to have that answer in any case.

My question was you don't have any personal objection to the consideration by the subcommittee of these issues?

Mr. PALMBY. Of course not.

Mr. FOLEY. It would be certainly appropriate in your judgment for this subcommittee to analyze, discuss, and consider the questions that are before us in these hearings as far as you are aware of them?

Mr. PALMBY. I think that is, frankly, if I may say so, I think it is the duty of the subcommittee.

Mr. FOLEY. One final question. One of the concerns that I and some members have had is whether the Department of Agriculture is sufficiently apprised of the activities of private trading companies in the United States and in the world as they relate to international trade, particularly where U.S. authority to protect against such things as the exhaustion of particular classes of wheat and to be knowledgeable about particular levels of trade with foreign countries is involved. Were you present personally as a representative of Continental at the meeting held in Secretary Brunthaver's office on August 25?

Mr. PALMBY. No; Jim Good, vice president of Continental, was.

Mr. FOLEY. Do you happen to know whether Continental had received a request on that day from Secretary Brunthaver, along with other major trading companies, to supply the amounts of sales contracted with the Soviet Union in certain classes of wheat by class and amount to the Secretary?

Mr. PALMBY. Yes. I am not sure that he was expected to bring it that day. But he was requested to supply it. I am not sure, Congressman, whether he was requested to supply it that day or not.

Mr. FOLEY. Has Continental subsequently supplied that information?

Mr. PALMBY. Yes.

Mr. FOLEY. Thank you.

Mr. MELCHER. Mr. Chairman, I have one more question.

Mr. PURCELL. All right, one more question.

Mr. MELCHER. Mr. Palmby, in the August 24 call by Mr. Pence to Continental, when he referred to no longer protecting a target price, what date did he mention as being—what date did he apply?

Mr. PALMBY. I believe that Jim Good at the moment—and he talked with Mr. Good, who did subsequently attend the meeting—I believe that he said that any sale consummated after August 23—August 23 was the cut-off date. Then as I recall correctly, and this is only my own recollection, this was extended 24 hours for fear that there may have been some exporters not aware of that, of the change, who had entered into a contract in that interim period. That is as I understand it.

Mr. MELCHER. Mr. Pence talked to Mr. Good?

Mr. PALMBY. Yes.

Mr. MELCHER. Thank you.

Mr. PURCELL. Mr. Palmby, just to conclude this completely, Continental's sale of this grain to Russia was the result of the Russian people coming to Continental and offering to buy the amount of grain that was finally agreed to be sold.

Mr. PALMBY. They requested quotes, yes.

Mr. PURCELL. And upon that getting the quotes and you finalizing your contract, the credit agreements were done entirely separate and apart from Continental?

Mr. PALMBY. Yes, sir.

Mr. PURCELL. And at that time, you nor anyone else, as far as you know, at Continental, had any knowledge of the trade arrangements?

Mr. PALMBY. None whatsoever.

Mr. PURCELL. And it would be a matter of relying on guesswork, but either the need of further development of their nutritional need for their people or development of the livestock feeding industry or the drought would be the reason for their buying.

Mr. PALMBY. That is what I would—I think that is a good explanation.

Mr. PURCELL. All right, sir. Now, as far as you know, is Continental under investigation by the Commodity Exchange authority for this transaction at this time?

Mr. PALMBY. May I have counsel reply to this question?

Mr. PURCELL. Surely.

Mr. BERENS. We, of course, file routine reports required by law with the Commodity Exchange Authority as commodity futures traders and cash grain merchants. We have had some inquiries about some data in those reports. We understand, but we do only from the news accounts that we have read in Reuters and Associated Press, that the CEA is looking into market transactions in the trade of a number of companies. We have not been singled out particularly and we do not think we have anything to fear from such an investigation.

Mr. PURCELL. That is the only information you have about any investigation going on as far as Continental is concerned.

Mr. BERENS. I saw a news item that said somebody had written a letter to the Department about Mr. Palmby and that had been referred to the Department of Justice. I have had no contact from the Department of Justice.

Mr. PURCELL. Thank you very much. Mr. Palmby, we do appreciate your being here. You have given us a forthright statement and your meeting with us, as always, has been a pleasure and I think a very helpful meeting.

Mr. PALMBY. Thank you.

Mr. MAYNE. Mr. Palmby, I want you to know that what I said to you a few minutes ago still goes.

Mr. PURCELL. The subcommittee will recess until 2:30 this afternoon. (Whereupon, at 1:30 p.m. the subcommittee was recessed until 2:30 p.m. of the same day.)

#### AFTERNOON SESSION

Mr. PURCELL. The subcommittee will please come to order.

Our next witness is Mr. W. B. Saunders, vice president, commodity marketing division, Cargill, Inc.

We will be glad to hear from you at this time.

#### STATEMENT OF W. B. SAUNDERS, VICE PRESIDENT, COMMODITY MARKETING DIVISION, CARGILL, INC., ACCOMPANIED BY JOHN McGRORY, ASSISTANT GENERAL COUNSEL

Mr. SAUNDERS. Thank you very much. I am vice president of commodity marketing division of Cargill, Inc. This division, among other things, handles all our grain transactions.

In addition to that, I was chief negotiator with the Russians during the last several months.

On my right is John McGrory, who is our assistant general counsel.

The statement of September 7, 1972, announcing these hearings by the Subcommittee on Livestock and Grains under the leadership of U.S. Representative Graham Purcell, noted that the sales of wheat and other grains to Russia have "generated a great deal of interest from farmers and the consuming public." We share the subcommittee's view that transactions of this magnitude and historical significance are legitimate matters of public concern. We intend to be as forthright and complete in our responses to your questions as commercial and competitive circumstances allow. We will present our conclusions on Russian requirements, the timing of how those conclusions were altered by new analyses based upon public information and the manner in which our discussions and negotiations with the Russians took place. We will define for the subcommittee our use of the wheat futures market for the periods requested, uses which are on record with the Commodity Exchange authority. We will outline our levels of export differentials or so-called "export subsidies," both past and prospective. And we will present to the subcommittee our overall profit expectations from our Russian sales.

Competitive commercial considerations, however, make us unwilling to produce sales figures, prices, profits or losses in dollars and cents and a few other commercial details. In view of frequently made charges of "secrecy," "inside information," or "advance information," this unwillingness deserves some explanation.

The merchandising of grains is a highly competitive business. It is also a highly risky business. Private companies must, for example, buy, handle, store, transport and sell large quantities of wheat (and, of

course other grains). Even small price movements—multiplied by such large quantities—can be devastating to an exporter. Consequently, Cargill and other exporters carefully guard information about the quantities involved in their dealings, the prices at which they buy or sell, the amounts which they have already bought and sold or may have left to buy, the techniques they adopt in negotiations with the Russians or any other buyer and a host of other commercial details.

The main reason this is necessary is that more is involved than simply reaching and signing a sales agreement with a buyer. In the case of recent sales made to the Russians, it is perhaps most accurate to say that exporters are currently in the midst of a continuing process which begins with negotiating and ends with final performance on a contract. Contracts already negotiated with the Russians will not, in fact, have been completed until mid-1973, when final deliveries are made. A great many uncertainties remain in completing this business. There are tremendous logistical problems involved in buying wheat on U.S. domestic markets, moving the grain to sea ports, warehousing the grain, arranging and securing ocean transportation, loading vessels and the like. We might note at this point that the maritime agreement to be negotiated between the U.S. Government and the Soviet Union—which would conceivably be applicable to these sales—has not yet been announced. Because an exporter like Cargill is still in the midst of this tremendous effort and is still faced with large uncertainties, there are certain facets of this business which we could not disclose without putting ourselves at a serious competitive disadvantage. We ask that you understand that no grain exporter in a highly competitive industry which operates on extremely small margins can afford to disclose to its competitors (1) a long position in the commodity; (2) a short position in a commodity; (3) his precise method or technique of negotiation; and (4) the sales or purchase prices at which he was willing to make contracts.

It is important for the subcommittee to understand that this reluctance to disclose certain aspects of these transactions is not an attempt to conceal facts from the public. In fact, when such transactions are fully completed, the full details are made available to public entities—like the General Accounting Office—for full auditing and investigation. Consequently, the necessity for a certain degree of “secrecy” arises from the competitive nature of the export business. It is from competing export companies that we must conceal information about our commercial dealings, not the public. Similarly, our competitors are secretive about their transactions because they could not afford—in a competitive marketing situation—for us to know their exposures and commercial risks.

There is another—and important—reason for such “secrecy.” It is a normal commercial practice for any seller anxious to preserve the good will of his buyer not to disclose a sales price. This is true in all of our commercial dealings, but it is especially important in the present dealings with the Russians. The United States has been trying for 8 years to conclude successfully agricultural export agreements with the Russians. These recent sales are not only massive but historically unique, with both the United States and Russia seeking to define new commercial and broader foreign policy relationships. Disclosure of sales prices would jeopardize not only future Cargill exports to Russia but also

future agricultural exports from the United States to Russia. With the tremendous present and prospective benefits continued agricultural exports hold out to the American agricultural community, American taxpayers, American society and the mutual relations among nations, it would be highly irresponsible to jeopardize such developments with unfortunate disclosures on an untimely basis. Again it is worth noting that, at the time that these sales are fully completed, Cargill as a matter of longstanding policy will make available all relevant commercial information to responsible public bodies.

With this as an introduction, we will proceed to answer the three questions put to Cargill in Chairman Purcell's letter inviting us to appear before this subcommittee. The first question was: When did your firm first determine that Russia would suffer a crop failure and what is your estimate as to the magnitude of anticipated Russian requirements of U.S. grains?

This question touches upon a central issue in all dealings between exporters and the Russians—whether exporters had the privilege of certain advance information, not generally shared by the public, which provided them with an opportunity to make undue profits at the expense of farmers and consumers. Cargill can assert publicly and without reservation that we were privy to no such advance information. The sources for our information are generally available to the interested public. Our information on crop and market conditions in Russia and Eastern Europe come from such sources as: Reuters; Commodity News Service; Dow-Jones News Service; the Southwestern Miller; the New York Times; U.S. Department of Agriculture (Foreign Agricultural Service) publications; Great Plains Wheat Newsletter, and newsletters from a variety of other trade and producer associations. We at Cargill sift this voluminous information and make judgments about and among them—qualified by our own marketing knowledge, experience and expertise—just as members of the public can and frequently do.

Consequently, we are not in the position of dealing on the basis of advanced or privileged information. The basic facts with which we deal are present in a variety of ways to the public. What is not shared by Cargill—either with the public or our competitors—is our private analysis and conclusions concerning what this mass of often conflicting information portends for the future. Sometimes our judgments prove correct; sometimes they prove woefully incorrect. The point is that we do not have—and we do not seek to have—privileged or inside information. The factual material available to all of those who influence market developments—producers, elevator operators, the Government, millers, bakers, exporters and members of the public—is public. It is only the conclusions—and their supporting analysis—which are private.

One of the first pieces of public information which must be examined in responding to your first question is a simple contrast between U.S. and U.S.S.R. wheat production patterns. This year, harvested wheat acreage in the United States will be about 48 million acres. This compares with about 150 to 175 million acres in the Soviet Union. U.S. wheat production this year will be about 1.560 billion bushels. In recent years, Russian wheat production has been about 2.9 to 3 billion bushels. In other words, wheat acreage in the Soviet Union is spread over a

land area three to three-and-one-half times that of the United States, with Soviet wheat production nearly double that of the United States. The sheer land mass and magnitude involved in Russian wheat production—coupled with their much less complete crop reporting services—greatly increases the uncertainties and margins of error involved in estimating Soviet requirements.

Moreover, as the following table indicates, even in a bad Russian crop year, the U.S.S.R. produces more wheat than all of North America—Canada, the United States and Mexico—combined:

Wheat production in billions of bushels: 1971, North America 2.23, U.S.S.R. 2.9; 1970, North America 1.8; U.S.S.R. 2.9; 1965-69 (average), North America 2.1; U.S.S.R. 2.5.

Consequently, while a variety of estimates of Russian requirements can be—and frequently are—made, those estimates must be subject to, and are only as good as, their many qualifications. There can frequently be very good reasons for discounting completely some reports as too narrowly grounded to support comprehensive judgments.

Hopefully, this cursory background indicates how and why, within a growing interest over the past 18 months in both longer-term Russian feed grain requirements and possible shorter-term wheat needs, a large element of uncertainty was always involved. This is important in order to make credible what in our judgment seems perfectly reasonable and probable—that everyone, including the Russians, may well have been surprised by the actual magnitude of their requirements as they emerged in the latter part of this summer.

We would prefer to read this history into the record. Because our statement is quite long, however, we will omit the narrative from here to page 17 in our oral presentation. We ask that the full text be included in official record, however.

Mr. PURCELL. This will be allowed.

Mr. SAUNDERS. Thank you, sir.

When the subcommittee reads this history, we believe the members will conclude: (1) that Russian wheat winterkill this crop year was thought to be less severe than in 1969; (2) that spring plantings by the Russians seemed to compensate for this winterkill; (3) that the uncertainties involved made it very difficult to anticipate the unexpected; (4) that short-falls in Russian wheat appear to be the product of events which are only now unfolding during their harvest; and (5) that even by late June and early July—when our first contacts with the Russians occurred—Cargill did not anticipate large Russian wheat demand.

(The unread portion of Mr. Saunders' statement follows:)

"Per capita consumption of meat in both Eastern and Western Europe has been increasing at approximately 2½% per year. Recent developments indicate however, that these rates of consumption may increase materially in the Seventies. Russia's latest 5-year plan projects a 25% increase for both meat and eggs. If this projection materializes, as we believe it may, we could be on the threshold of a very dramatic development in agriculture—namely a substantial increase in the consumption of meat which in turn means a substantial increase in the consumption of feed grains—including wheat for feed—that must be fed to these animals. Hopefully, the United States with our vast and varied productive resources and export distribution facilities will prove to be the source of a large part of these requirements."

Similarly, Dan Amstutz—speaking for Cargill before the Upper Midwest World Trade Conference in Minneapolis on May 24, 1972—said:

"Basis this estimate of meat consumption and projected population growth of about 1.8% per year, we calculate that these countries (the U.S.S.R. and East Europe) will, collectively, need grain supplies 75 million tons greater than they currently utilize by 1980. This amount of increased demand is equal to 40% of total estimated 1972 production of *all* feed grains in the U.S. It equals about half of *total* Soviet average annual grain production during the decade of the 1960's.

"Logic would suggest that even given a great amount of success they will have difficulty in producing over 50% of their expanded needs. In 'round numbers' this would then leave these countries with a net import need—over and above current requirements—of about 40 million tons per year by 1980. This, then, is the enlarged grain demand potential for which the U.S.A. will be vying with other commercial grain exporting nations—countries such as Canada, Australia, Argentina, Brazil, France."

In other words, Cargill has been and remains optimistic about the potential grain export markets represented by the Soviet Union and the Eastern European countries—provided we continue to pursue policies which make the U.S. competitive in supplying those prospective requirements. This is information which we have shared publicly and will continue to share, in order to generate the understanding which is needed for American producers to capitalize on these opportunities.

The first part of your first question goes to another—and vital—issue: the timing of new information coming to Cargill with respect to Russian needs. The background to this question, of course, is the recurring charge that some grain exporters were privy to inside information which allowed them to earn windfall profits on the Russian grain sales. The Subcommittee's other two questions will present an opportunity to discuss the charge of windfall profits. In response to the question of advance knowledge, the record is perfectly clear: Cargill did not have any advance information on the magnitude of Russian demand.

That record includes the following elements:

1. In *Foreign Agriculture* of March 20, 1972, the following comments were made concerning winterkill in Soviet winter wheat production areas:

"Uncertain crop conditions exist this year not only in the USSR but also in the Eastern European countries themselves. Virtually all countries in the area have been affected by similar freeze and snow-cover problems. Again, little basis exists for estimating the ultimate effect on next season's total grain output, and—as in the USSR—much will depend on the extent of heavier spring grain sowings and on subsequent growing conditions . . .

"Weather damage to crops in the Soviet Union will be less severe than in 1969, the most recent year of abnormally heavy winterkill . . . An estimated high of 10 million hectares (24.7 million acres) of winter grains may be damaged this season, as compared with 14 million hectares in 1969, 7 million in 1970, and 5 million in 1971."<sup>1</sup>

Several things are worthy of note. First, these figures are estimates, not confirmed information. Secondly, some kind and degree of winterkill was experienced in all four years of Russia's winter wheat crop covered here. Thirdly, while there is a general sense that 1971-72 winterkill may generate Russian needs for grain imports, there was "little basis" for estimating the "ultimate effect" on total Russian grain output and, therefore, on her import needs. Finally, the estimates for 1971-72 winterkill are below those for winterkill damage to winter grains in Russia in 1969.

2. In *Foreign Agriculture* of May 8, 1972, Secretary of Agriculture Earl Butz reported on his mission to the Soviet Union in the following terms:

"Our mission had two main purposes: To improve U.S. relations with Russia; and to explore the possibilities of U.S. grain trade with Russia . . .

"I discussed the possibilities of grain trade in great detail with Minister Matskevich and with General Secretary Brezhnev. The greatest issue appears to be terms of credit . . .

"We have certain limitations imposed by the Congress on the rate of credit we can extend, and the length of credit terms. Our maximum term as set by the Congress is 3 years, and the allowable interest rate is the going rate, now 6½ percent.

<sup>1</sup>"Winterkill in the USSR and Eastern Europe May Cause Grain Imports to Continue in 1972-73," James Willis, *Foreign Agriculture*, vol. X, No. 12 (Mar. 20, 1972), 2-3.

"The volume of any grain sale is still a major item in the negotiations. It might well be that we will be negotiating for annual sales of something in excess of \$200 million worth of coarse grains and soybeans."<sup>2</sup>

It is worth noting that the parameters of this discussion were: Interest rates and terms for credit; and the potential annual volume of anticipated sales of coarse grains and soybeans. There is no mention of prospective wheat sales.

3. This omission is understandable, in view of the following report on Russian wheat crop conditions in the May 22, 1972, edition of *Foreign Agriculture*:

"Travel by the U.S. Agricultural Attache during April 25-29 through parts of the Northern Caucasus, the most important area of winter wheat in the Russian Federation, revealed that the condition of both spring and winter crops and soil moisture was better than reported earlier, and that winterkill was minimal in that area. No new reports have been received on crop conditions in the Ukraine, the second most important producer of winter wheat, and other major grain producing regions, but total grain acreage is being expanded to offset winter losses in these areas.

"As of May 1, 148.3 million acres had been seeded to spring crops in the whole country, 24.7 million acres more than last year. The total of corn for grain is expected to reach approximately 12.4 million acres this year compared to a harvested area of 8.1 million acres in 1971 and 8.4 million acres in 1970."<sup>3</sup>

Note that the increase in spring plantings of all crops, including wheat—estimated at 24.7 million acres—matches estimates of winterkill damage to Russian winter wheat. Consequently, there would be good reason to expect at this time that Russia is not headed for serious crop failure.

4. As reported in *Foreign Agriculture* of June 12, 1972, "During the week of May 8 the Soviet Minister of Foreign Trade visited Washington to continue trade discussions."<sup>4</sup> Presumably, those discussions would have been directed at all trade issues between the two countries, including but not limited to agriculture trade.

5. In the Annual Report presented to Cargill's Management Meeting (prepared during the week of June 15-20, 1972), our Commodity Marketing Division made the following statement about prospective wheat trading in 1972-73:

"Unfortunately, with total anticipated world wheat supplies to be about 1½ million tons greater than last year and demand to be as much as 1 million tons less we are not optimistic about the outlook for U.S. wheat exports unless we see substantial demand from the Soviet bloc and/or other Eastern European countries. Therefore, unless these countries do buy wheat from the U.S., our total wheat exports may only equal or approach last year's level and our total U.S. wheat carryover July 1, 1973 may exceed 1 billion bushels."

In other words, by late June Cargill expectations concerning Russian wheat import requirements included the possibility of such imports but no anticipation of the massive imports of wheat by the USSR that have apparently occurred.

6. The following evidence presented by Secretary Butz in his statement of September 9, 1972 (and again before this Subcommittee September 14) gives further indication that exporters did not anticipate—even in July—the quantities involved:

"On July 6, two days before the signing of the Russian grain agreement on July 8, nine exporters offered to sell 7 million bushels of wheat to the CCC at 44 to 48 cents under present market prices . . .

"On the day before the signing of the Russian trade agreement on July 8, exporters booked 2½ million bushels of wheat for export at an equalization payment of 7 cents per bushel . . .

"On July 12 exporters booked 13 million bushels of wheat at a 13-cent export equalization payment; and by the end of July they had booked 153 million bushels at export equalization payments of 15 cents or less."

As Secretary Butz concluded in his statement before this Subcommittee on September 14, "Does that sound like the action of people who had advance information as to a wheat buying boom?"

<sup>2</sup> "Agriculture Secretary Earl Butz Reports on His Mission to the U.S.S.R.," *Foreign Agriculture*, vol. X, No. 19 (May 8, 1972), 4, 5, 12.

<sup>3</sup> "Little Wheat Crop Kill Reported in Caucasus," *Foreign Agriculture*, vol. X, No. 21 (May 22, 1972), 10.

<sup>4</sup> "U.S. Agriculture's Stake in Improving Trade with the USSR," Mary Wilson, *Foreign Agriculture*, vol. X, No. 24 (June 12, 1972), 3.

7. The *Foreign Agriculture* of July 17, 1972, reported the three-year, \$750 million U.S.-USSR grain agreement in the following terms:

"The signing of a 3-year agreement between the United States and the Soviet Union for the sale of \$750 million of U.S. grains, announced by the President on July 8, was hailed by Secretary of Agriculture Earl L. Butz as a major achievement in international relations and agricultural trade . . .

"The Soviet Union will make its grain purchases through private U.S. commercial exporters and will have the option of meeting its purchase commitment with wheat, corn, barley, grain sorghum, rye, or oats. It has agreed to purchase at least \$200 million of these grains for delivery during the first year (Aug. 1, 1972-July 31, 1973) and to take delivery on the remainder by July 31, 1975.

"The United States, on its side, has agreed to make credit available through the Commodity Credit Corporation (CCC) at going interest rates 6½ percent per annum on letters of credit issued by U.S. banks and 7½ percent on those issued by foreign banks. Under the CCC program, principal is to be repaid in three equal installments after delivery, and accrued interest is to be paid with each installment. The total amount of credit (principal only) outstanding at any time is not to exceed \$500 million."<sup>5</sup>

Under this agreement, the Soviet Union undertook to buy certain minimum amounts of grains, with wheat one of the grains eligible for extensions of credit. Maximums were established for lines of credit to the USSR, but no maximum was established for cash sales. The agreement also granted Russia the same credit terms normally extended by CCC.

8. In fact, the apparent causes of the tremendous increase in Russian wheat import requirements were a series of problems—drought damage to spring wheat and adverse harvesting conditions—which only appeared as Russian harvesting—which still continues—unfolded. As an example of how difficult it is to anticipate such problems, who could have determined the effects the widely reported, unprecedented August heatwave in Moscow might have had on Russian crops?

Mr. SAUNDERS. It was against this general background that our contacts with the Russian buyers unfolded. Our first contact with the Russian buyers came in the form of a call from Leonid Kalitenko of Exportkhrab to the chairman of Cargill, Erwin Kelm, in the late afternoon of June 29, 1972. A general agreement to meet on Saturday, July 1, was made. On Friday, June 30, I called Leonid in Washington to make firm arrangements to meet at 11 a.m., Saturday morning. The Russians did not disclose what they wanted to discuss.

On July 1, Mr. Kelm, myself and Cargill merchants for corn, barley and wheat were in Washington to meet with the Russian party—Paul Kakun, Nicolai Belousov and Leonid Kalitenko, Mr. Kelm and I met with the Russians in the Russians' suite in the Madison Hotel. The Russians expressed interest in buying corn but voiced concern about toxicity problems arising from corn mold. Barley was the only grain—other than corn—mentioned. After a short meeting, everyone went to lunch. After lunch, the Cargill delegation asked if they ought to remain in town to be available to meet with the Russians, and the Russians said that the Cargill party might as well return to Minneapolis.

Cargill then had no contact with the Russians for 9 days. We looked for, but could not locate, the Russian party. It was during this period—on July 8—that President Nixon announced the 3 year, \$750 million credit arrangement-buying commitment with the U.S.S.R.

On Monday morning, July 10, the Russians called me to arrange a meeting with the Russian buying delegation in New York. I met with Messrs. Sakum, Belousov and Kalitenko in New York about 4:30 that

<sup>5</sup> "United States Signs 'Mutually Beneficial' 3-year, \$750 Million Grain Agreement with Soviet Union," *Foreign Agriculture*, vol. X, No. 29 (July 17, 1972), 2, 3.

afternoon. It was at this time that the Russians mentioned their interest in purchasing wheat for the first time to Cargill. The first time that Cargill knew that they were interested in wheat. Negotiations proceeded until a verbal agreement for a sale of a certain quantity of Hard Red Winter wheat was reached on the evening of July 10. A written contract was drawn up on July 11, and on July 12 the contract was signed. No further discussions were held on any commodities or offers, although we tried and the Cargill delegation departed July 13.

On July 20, I visited the Russian buying party alone in New York. No buying or selling was discussed. I have known the Russians involved in the negotiations for approximately 9 years, and the nature of my visit was as much personal as customer relations. On July 21, we believe the Russians left New York for Moscow. The impression I got from our meeting was that the Russians had completed their buying.

Much to our surprise, on July 31, 11 days after my meeting about 9 a.m., the Russians—having returned to the United States—called me and communicated an interest in buying more wheat and one feed grain. By this time, rumors of the size of Russian wheat demand were growing. On the basis of published USDA figures on wheat production, carryover, domestic consumption and exports, Cargill had prepared a study of an apparent maximum of Hard Red Winter wheat available for "extraordinary demand" such as Russian exports. Our analysis had been completed by about July 27 or 28. Mr. Whitney MacMillan, Mr. Mel Middents and I took this analysis with us to meet with the Russians in New York.

That meeting took place in the late afternoon and evening of July 31, at which time—on the basis of this analysis—we asked the Russians for a commitment on the maximum amount of Hard Red Winter wheat they would buy from the United States. The Russians refused to give any such guarantee. We then put together what we considered a reasonable further offer of winter wheat to the Russians. On August 1, Cargill made its second sale of winter wheat to the Russians, which also was for one million metric tons.

After lunch, we discussed possible Russian interest in spring wheat with them. The Russians were concerned about the ergot problem associated with spring wheat. I might also add parenthetically that they were concerned about the higher price of spring wheat, which at that time was about \$5 a tone higher than Hard Red Winter. At this time, we made the Russians an offer, which was not accepted, on a certain quantity of spring wheat.

On August 8, Messrs. Sakun, Belousov and Kalitenko were flown to Duluth to inspect the port facilities there and then to Minneapolis—their first visit to our headquarters office—to sign the second contract. That contract was signed August 9 in Minneapolis, and the Russians were then flown back to New York that afternoon.

Concerned about rumors of a possible sale by Cargill of spring wheat to the Russians, we issued a public statement on August 17, 1972, which said:

Cargill has made sales of U.S. Hard Red Winter wheat to the Soviet Union.

Despite extensive "trade reports" that Cargill more recently sold one million tons of U.S. Hard Red Spring wheat to the Soviet Union, the company wishes to state that such rumor has no substance in fact; Cargill's sales of U.S. wheat to the Soviet Union to date have been limited to Hard Red Winter wheat.

This statement was made because of a responsibility we felt to quash any speculation based on rumors which we knew were both false and misleading. The statement was widely reported in the public media.

We believe the Russians left the United States about August 18. During and subsequent to this period, Cargill has been purchasing wheat in the domestic market to cover its contract obligations. We placed confidence in the Department of Agriculture maintaining its 2-year-old world target price for Hard Red Winter wheat, FOB Gulf, of \$1.63, but we did not have and do not now have any "guarantees" from the Department on this or any other matter. Nor did we have any advance information from the U.S.D.A. or any other governmental entity. Admittedly, the return of the Russians for a second round of buying was a signal that their requirements were larger than had been thought earlier. But our own private analysis based on information generally and publicly available in the marketplace—the analysis of July 27 or 28—had been developed before that second contract.

In response to the second part of the subcommittee's first question—Cargill's estimate of total Russian requirements from the United States—we can only point to the same market evidence relied upon by the Foreign Agricultural Service (FAS) of the USDA. For example, speaking to the U.S. Feed Grains Council's annual meeting in Asheville, N.C., on September 7, 1972, Mr. Richard E. Bell, director of the grain and feed division of F.A.S., made the following estimates of past and prospective Russian purchases from the United States and other sources and what this suggests of their overall requirements:

- 10-11 million tons of wheat from the U.S.;
- 5 million tons of wheat from Canada;
- 1 million tons of wheat from Australia;
- 500,000 tons of wheat from France;
- Probably 800,000 tons of wheat from West Germany; and
- 17.3 to 18.3 million tons of wheat.

Incidentally, since this was written, they have also bought some wheat from West Germany:

- Perhaps 5 million tons of feed grains from the U.S. (mostly corn);
- 500,000 tons of barley from France;
- 500,000 tons of mixed grain from Sweden;
- 500,000 tons from Canada; and
- 6.5 million tons of feed grains.

This implies somewhere in the neighborhood of an overall shortfall of 20-25 million tons in Russian grain production.

In Chairman Purcell's letter addressed to me, the following information was requested:

2. What was the extent of your firm's transactions of wheat futures during the period May 1, 1972 to date? We would also appreciate obtaining the same information for the same period of time in 1970 and 1971.

This request perhaps emanates from certain charges or insinuations that grain exporters were able to purchase wheat on the futures market in anticipation of their Russian sales and thereby obtain a large profit margin when the marketplace later reflected the Russian sales.

We would like to point out that grain exporters (unlike processors of wheat) are prohibited by section 150.1 of part 150, Orders of the Commodity Exchange Authority, issued pursuant to section 4A of the Commodity Exchange Act, as amended, from having a speculative position in excess of 2 million bushels in any one contract market, in any one wheat future or in all wheat futures combined. The processors on the other hand are permitted under the rules of the Commodity Exchange Act to hedge their anticipated demand for wheat prior to the time such wheat is bought under section 1.48 of the Regulations issued by the Commodity Exchange Authority. Thus, the position of the grain exporters was different than that of the processors because ability to purchase futures in anticipation of prospective sales was limited by law. Such purchases by Cargill would be classified as speculative.

Cargill, in the period to which the above inquiry by the subcommittee refers, did not have either a long or short speculative position in wheat futures. Its position was constantly hedged, i.e., any purchase on the futures market was offset by an existing sale, not an anticipated sale, and Cargill did not utilize even the 2 million bushels limit in anticipation of Russian sales. We submit to the CEA a daily report—Form 203A—and our futures activity is on file with that regulatory body. We are prepared, if the committee desires, to furnish copies of our reports to the Commodity Exchange Authority for the period in question for the Friday of each week in the three periods requested. We would ask that we not be required to submit this information unless the committee deems it absolutely essential. If the committee feels it is necessary to have this information despite the fact that Cargill did not have a speculative long position in the futures market in anticipation of the Russian sales, we would hope that the committee would refrain from publishing the contents of the Commodity Exchange Forms 203 that would be submitted, since those reports would include detailed information of substantial commercial advantage to our competitors.

The subcommittee's third inquiry—and the final one to which we address ourselves—was:

The subcommittee would like to know the amount of Federal export subsidies received, claimed, or to be claimed for grain exports for the past 3 years by your firm.

The question of the so-called "export subsidy" is perhaps one of the most complicated, least understood and most publicly disconcerting elements of all the issues raised by these and other export sales. In fact, a number of comments have been made in the press and elsewhere which imply that the so-called "export subsidy" is a direct transfer from taxpayers into the pockets and profits of grain exporters. This is not the case.

In the first place, it would make for greater clarity and precision if one substituted the phrase "export differential" for the phrase "export subsidy." Export differentials are paid in order to move U.S. domestic wheats into export channels at a prevailing world price. When the U.S. domestic price is above the world price, the exporter must purchase wheat at the higher domestic price and sell it at the lower world price. The exporter, of course, could not do this without

a differential payment to compensate him for the difference between the lower sales price and the higher purchase price. Put another way, if export differentials were eliminated under current relationships between U.S. domestic and world prices, the domestic price would be pressured down toward the lower world price, depressing U.S. farm income. At the same time, the world price would be pressured up toward the higher U.S. domestic price, stimulating competitive wheat production abroad in such countries as Canada, Australia, Argentina, and the European Community.

The basic nature of this payment—as a differential—is perhaps best illustrated by the situation where the U.S. domestic price is below a prevailing world price. During a certain period under the International Grains Arrangement, this was the case. In that situation, the exporter paid to the U.S. Government the difference between the lower domestic price at which he purchased his wheat for export and the higher world price at which he sold that wheat. The subcommittee might note that in the attachment entitled “Cargill Wheat Exports: September 9, 1969–September 9, 1972: Recap,” Cargill made such payments to the U.S. Government of approximately \$80,000 (the payment is noted by the parentheses). In previous years, this amount would have been higher. The exporter did not view this payment as a penalty; it was simply a differential to reflect the difference between the lower domestic and the higher world price prevailing in the market. Similarly, the current export differential paid by the U.S. Government to exporters to make up the difference between the lower sales price in the world market and the higher purchase price in the domestic market is not a windfall to exporters; it is, again, merely a differential.

This point becomes even clearer if one goes on to the next step and asks: Who ultimately receives the subsidy? The general answer is: The owner of the wheat, when the export differential is instituted, applied, or increased, receives the benefit of the differential. This owner could be the farmer, the country elevator operator, a cooperative, a terminal elevator operator, the exporter or—through the futures markets—the public at large. If the export differential goes from 7 cents to 12 cents in order to permit the exporter to purchase wheat on the U.S. domestic market at 5 cents per bushel more and still sell at an unchanged world price, it is the owner of that wheat who sells it to the exporter—whomever that owner is—who receives the nickel-per-bushel increment. In a public statement issued by the Grange September 13, 1972, John Scott, master of the National Grange, made this point quite cogently:

Scott also said in answer to questions about subsidies being paid exporters for grain shipped overseas:

The export subsidy is actually being paid to American producers, for it allows the exporter to pay the higher domestic prices and sell at the lower world prices.

Scott concluded:

As long as the domestic price is higher than the world price, export subsidies must be paid if we are to supply our share of the world markets' demand for grains. We must export grains as American grain farmers cannot survive producing just for the domestic market.

Now, it has been charged that, on the basis of inside information, exporters were able to buy domestic wheat before U.S. domestic prices increased and then benefit from the larger subsidies which came later to reflect the subsequent domestic price rises. Hopefully, we have been responsive to the subcommittee's satisfaction on the charge of "inside information" in responses we gave to the subcommittee's two previous inquiries. The question of who, in fact, benefits from the export differential/domestic wheat price increase can be answered in several ways:

First, Cargill is willing to assert publicly in these hearings that our estimated profits after taxes on our Russian grain sales will be less than 1 percent of dollar sales. We made this statement in a public release on September 8, 1972, and we reaffirm that statement here today. Again, we hope the subcommittee understands fully the commercial reasons why we cannot disclose our positions or our potential profits or losses in dollars and cents on these sales. We simply cannot do that without serious commercial disadvantage in our highly competitive business, but we stand firmly behind that estimate of after-tax profits less than 1 percent of sales on our Russian business. And that estimate includes all export differentials we will be entitled to on the Russian sales when shipments are actually made.

Secondly, we realize that some farmers in early harvest areas in the South and Southwest may have sold some or all of their wheat before the major domestic wheat price increases. This is unfortunate, but their sales-price levels this year are not at all indicative of the general experience for wheat farmers in this country this year.

As Secretary Butz pointed out in testimony before this subcommittee September 14, 1972, the "Statistical Reporting Service of the Department of Agriculture estimates that by July 15 farmers had sold only 330 million bushels of new wheat out of a potential supply of 1,975 million bushels under farmers' control at the beginning of the season \* \* \* Our figures show that of the total 1972 crop plus farmer-owned carryover into 1972, 83 percent was still owned by farmers on July 15." This means that the vast proportion of the U.S. domestic wheat controlled by farmers at the beginning of the season benefited directly from the price increases stimulated by the Russian purchases and facilitated by export differentials. Consequently, farmers received by far the greatest preponderance of the economic benefits made possible by export differentials.

Moreover, most wheat that was sold most likely moved into country elevators. The vast majority of these country elevators are owned by farmer cooperatives or individuals. Exporters own less than 5 percent of this Nation's country elevators, and Cargill owns less than 1 percent of them. This means that, over and above what benefits went directly to farmers, there were substantial economic benefits facilitated by export differentials that remained in rural hands and rural communities.

Thirdly, taxpayers also benefit directly and substantially by the economic benefits supported through export differentials. As Secretary Butz stated in his testimony before this subcommittee, a "total outlay of \$300 million export payments on all shipments to all destinations will bring back Government farm program savings on a half-billion dollars for a new savings to taxpayers of \$200 million."

Fourthly, Cargill did not register for all of its export differential payments at the 47-cent level. In fact, Cargill registered only 19 percent of its Hard Red Winter wheat export differential payments at the 47-cent level, while we registered 22 percent at a 13-cent level. The average export differential registered by Cargill was 33.1 cents per bushel. Moreover, in the 52-business-day period between July 3 and September 14, 1972, and using the higher 47-cent export differential for the period in which it applied, the difference between the U.S. domestic price (f.o.b. gulf) and the Government target price of \$1.63 was greater than the export differential on 46 of those 52 days. In fact, except for a 6-business-day period falling between July 10 and July 17, the export differential failed to bring the net cost of U.S. domestic wheat, on a theoretical replacement basis for export, back to the target price. These facts are illustrated by the accompanying chart and table. I suggest you look at each chart as I talk.

Finally, the attached chart shows the times when and the margins by which the U.S. domestic wheat price, minus the export differential, exceeded the Government target price of \$1.63 which the Government had maintained for about 2 years. The shaded area indicates this excess; you will note that the shaded area is in black. In my opinion, it ought to be in red. It denotes the periods when, even with the export differential, the exporter cannot get his net price for wheat purchased back to the target level. It is worth calling the attention of the subcommittee to the period of the two-tier subsidy. The small box chart at the bottom of the page indicates that—even with the 47-cent export differential which many have claimed was a special benefit to the exporter—the exporter could not get his net purchase price back to the target price at then prevailing U.S. domestic market prices.

A close examination of the charts reveals an interesting history which deserves study and explanation. For the month of July, the U.S. Government was generally able—through the export differential—to bring the exporter's net costs of wheat purchased in U.S. domestic markets back to the Government target price of \$1.63 which prevailed at the time of Russian entry into the market and which had prevailed for about 2 years before then. Once the apparent magnitude of Russian requirements began to be reflected dramatically in U.S. domestic prices, however, the export differential fails to get the exporter's net cost of purchased wheat back to the Government target price and for most of the period leaves that net cost well above the target. In other words, once the unanticipated magnitude of the Russian demand appears, it is the exporter who is left to bear the market risks and confront the potential losses. As outlined earlier, the taxpayer and the farmer receive the economic benefits of this rising domestic wheat price. Similarly, as outlined in our response to your second inquiry, processors—such as millers and bakers—can hedge against these price increases, reducing the cost-impact on consumers, but the exporter bears the full brunt of the risk that unanticipated market developments may force the U.S. Government away from maintaining a long-established target price, and the exporter must face up to the potential losses that may follow from such a policy change.

Now, there have been many public comments stating or implying—especially with respect to the two-tier subsidy system introduced August 25 for 5 business days ending September 1—that exporters

had advance information about Russian buying intentions and/or the details of this two-tier subsidy program which allowed the exporter to earn windfall profits from the export differential program. As an exporter of wheat, Cargill did have many occasions to advise the Department of Agriculture of what we knew concerning current marketing conditions around the world. These circumstances naturally produced discussions with the Department. We would like to state publicly that in none of these discussions did we receive: (1) advance information concerning the intentions of the Russians to buy wheat or the quantities they might be buying; or (2) the details of the two-tier "subsidy" program announced August 25.

As the above chart indicates, the Department of Agriculture abandoned its long-established policy of attempting to preserve the Government target price of \$1.63 f.o.b. Gulf prior to August 24. We are not faulting the Department of Agriculture in this regard. We do not believe that the Department—any more than we—knew the full dimensions of the Russian purchases until some time in August nor what the exact reaction of the domestic marketplace would be. In the period prior to August 24, we believe the Department attempted to react to the new, unanticipated situation by refusing to raise the export differential at the same rate that increases were occurring in the U.S. domestic price and in addition by selling wheat owned by the Commodity Credit Corp.

Finally, unable to manage the situation through these tools, the Department developed a two-tier "subsidy" system. We were invited by telephone on August 24 to a meeting in Washington; we were advised by telephone and by information in several of the public media watched by interested parties that there would be a two-tier "subsidy" or differential system—one for sales before August 23 (system 1) and another for sales consummated thereafter (system 2). But we were never advised in advance that there would be a cutoff date to register for the "system 1" export differential, nor did we know in advance—or anticipate—that there would be an absolute penny ceiling on what the differential would be, even if domestic prices were to continue to rise. Announcements in the commercial media prior to August 25 had led us to believe that, while "system 1" would apply only to sales made prior to a cutoff, the exporter would have a substantial length of time to arrange for the export differential, and that this differential would move with the domestic price rather than be fixed.

When the above paragraph was written, we did not appreciate the degree of complexity and misunderstanding which surrounds this time period. I would like to make it clear for the record that the telephone conversation from USDA didn't use the words "two-tier" or "system 1" or "system 2." These terms originated in the media such as Reuters and the Southwestern Miller on August 24 and in the August 25 press release by USDA. We were merely informed by phone that in sales after August 23 the target price was no longer assured. This led us to the conclusion that some type of a two-subsidy system would be instituted but, as I am about to point out, we did not anticipate in our analysis the system announced by USDA the afternoon of August 25.

At this time, Cargill's concern—and we believe the concern of other exporters—was not to attempt to make further export sales that would be eligible for the “system 1” differential but to purchase domestic wheat to cover contract obligations. That Cargill—and other exporters—not only did not know details of this two-tier system but were actually surprised by what those specific details actually came to be is reflected in the fact that Kansas City Hard Red Winter wheat futures declined on August 24 and 25 by  $3\frac{1}{2}$  cents from their August 23 level. This suggests quite strongly that exporters abandoned, during these 2 days (August 24 and 25), an aggressive buying campaign to cover their contract commitments, when knowledge of the details of the two-tier system would have dictated just exactly the opposite course of action.

In any event, (1) Cargill did not have knowledge of the details of the “system 1” export differential policy announced on August 25 until late in the afternoon of August 25 when such announcement was made to the public, and (2) the program announced on August 25 did not give exporters who were short wheat (for example, who had not bought enough U.S. domestic wheat to cover their contract obligations) a sufficient opportunity to reach a target cost of \$1.63 per bushel f.o.b. Gulf. Indeed, as the previous chart indicates, the 47-cent export differential, when subtracted from U.S. domestic wheat prices prevailing the week of August 25-September 1, still left the exporter above the \$1.63 target. Since then, that shortfall has grown rapidly and substantially. On Thursday, September 14, for example, it reached  $20\frac{1}{4}$  cents—over and above the 47-cent export differential.

Thus, in our conversations with the Department of Agriculture and others, we have asked for no favors, and we have received none. We do not believe in special preferences for Cargill or for any other exporter, whether a corporation or a cooperative. We wish to compete under the same terms as all others, be the competition foreign or American. We accept the risks that exporters bear when unanticipated demand surfaces in the marketplace because we believe this system produces the greatest efficiency and provides the farmer with the most profitable marketing opportunities for his crops in domestic surplus. We doubt that, without this system of fierce but equal competition which spurs innovations in efficiency and a constant search for new marketing opportunities, the United States would have the present highly efficient export facilities which enable this Nation to respond to increased demand, such as from the U.S.S.R. And we believe that this system returns substantial benefits to the farmer, the U.S. balance of trade and payments, the U.S. taxpayer and, hopefully, for the exporter who measures and meets his risks judiciously, a slim margin of profit.

With this as background, we have attached—in response to the chairman's request—a record of all “Federal export subsidies received, claimed, or to be claimed for grain exports for the past 3 years” by Cargill. This record is contained in the document entitled: “Cargill Wheat Exports: September 9, 1969-September 9, 1972,” since those subsidies have all been connected with wheat exports.

We believe, however, that this document will not provide all of the information which the subcommittee seeks. We assume that the subcommittee was primarily interested in export differentials involved

in sales to the Russians and others from about July 1, 1972 to the present. These export differentials are not likely to appear in the aforementioned document. They are not likely to appear for a simple reason. When Cargill or any other exporter registers for a subsidy or differential with the U.S. Government on a specific quantity of a specific class of wheat from specific coastal areas, what results is a mutual commitment between the Government and the exporter. The exporter commits himself to export that quantity of that class of wheat from such coastal area within a specified and limited time period; in return, the Government commits itself to pay the exporter—after the wheat is actually exported—the differential specified—Consequently, the exporter does not receive the differential payment at the time he registers for it (i.e., at the time when the above mutual commitment is made); he receives the differential only when he actually makes the export shipment. As a result, the export differentials involved in the sales to the Russians and others over the past few months would only be reflected in the figures in the aforementioned document to a minimal extent, if at all. The payments will only be made and appear on Cargill official “subsidy” records when Cargill makes the actual shipment. And, should the exporter fail to perform an export commitment, he is subject to substantial penalties payable to the U.S. Government in addition to any claims made by his buyer.

Let me call to the subcommittee’s attention several facts in this connection. The grain export business is actually run on a replacement basis. By this I mean that the exporter looks at what it costs him to replace the wheat from the U.S. domestic market that he has committed himself to sell into export. On September 14, 1972, the last date I have available, the replacement cost for Hard Red Winter wheat, f.o.b. Gulf, was \$2.30 $\frac{1}{4}$  per bushel, 67 $\frac{1}{4}$  cents above the Government target price of \$1.63 which prevailed at the time of the Russian sales. That target price is no longer being maintained by the Government. It was the two-tier subsidy system which officially announced the end of the target. Since that time, the exporter’s world price exposure on sales made prior to August 24 has been converted into a domestic price commitment. This means that the difference between current domestic prices and export sales prices made prior to August 24 is far from covered by the 47-cent export differential. This is clear evidence of how the risks and potential losses associated with unanticipated demand increases—such as the Russian demand—are borne by the grain exporter, not producers or taxpayers.

Finally, as mentioned before, taking into consideration all aspects of our contract commitments to the Russians and including the export differentials Cargill will receive upon shipment of U.S. wheat to the Soviet Union, we estimate that our after-tax profits on our Russian sales will be less than 1 percent of sales value.

Conclusion. I realize this has been a very lengthy statement, and I appreciate the subcommittee’s patience in listening to our explanation of a very complicated subject. Let me say, in summary, that on the basis of our statement, one must conclude that:

1. Cargill was not privy to advance or inside information nor did it act on any such information to secure windfall profits for itself at the expense of producers or taxpayers;

2. Cargill had no prior knowledge of the details of the two-tier subsidy system nor did it engage in market transactions which brought to it windfall profits;

3. Cargill did not speculate in wheat futures markets in anticipation of Russian business at all, let alone to the 2 million bushel limit imposed on exporters by the Commodity Exchange Authority;

4. Contrary to impressions that appear to be held in certain segments of the public, what commercial secrecy prevails in the export business is not an attempt to conceal facts from the public in which they have a legitimate interest but rather to protect individual exporters from commercial disadvantage in a highly competitive, narrow-margin business;

5. The so-called export subsidy is merely a differential between U.S. domestic and world wheat prices, with the economic benefits of the differential passing through the exporter to the owner of the wheat, whomever he might be, while permitting the United States to export wheat at competitive levels;

6. Contrary to views expressed in some circles, the grain exporter is not a coddled figure in American agriculture; rather, he performs important functions—such as seeking out new markets, acquiring, storing, handling, and transporting grains from surplus to deficit areas—and, in the event of unanticipated market developments like the large entry of Russia into world wheat markets, it is the exporter who bears the brunt of the commercial risks and the potential for large commercial losses;

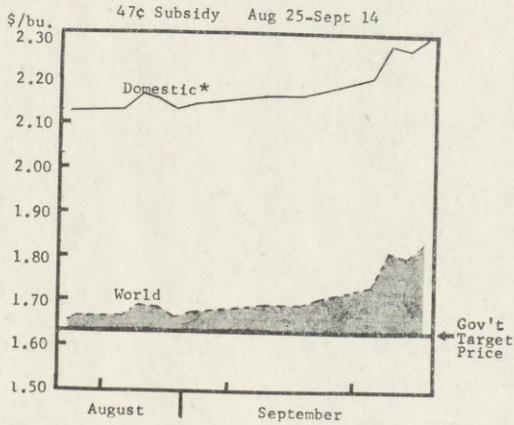
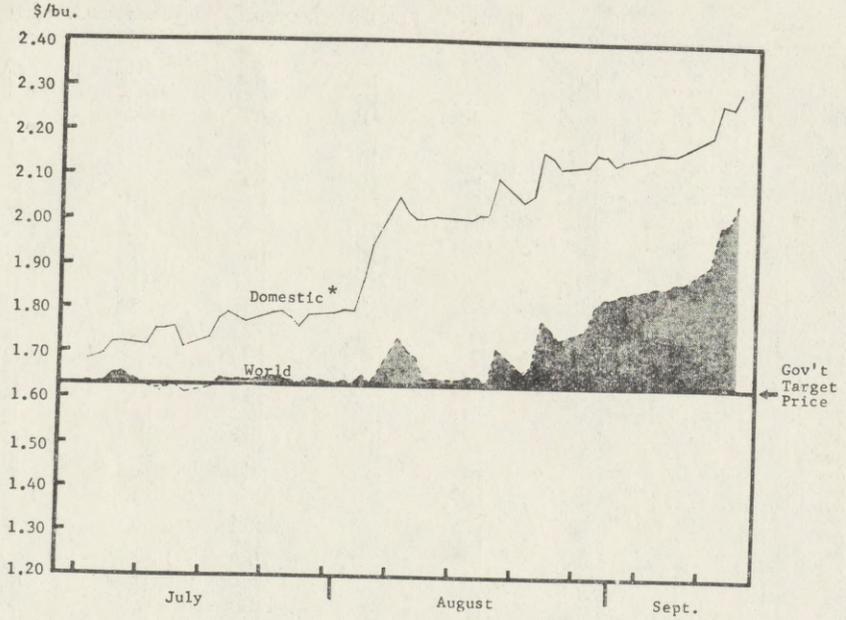
7. The so-called two-tier subsidy system in effect from August 24 to September 1 was a departure from a longstanding Government policy. Far from conferring special benefits on exporters, it may well have severely penalized them; and

8. Including export differentials, wheat purchase prices, logistical services, and sales prices, applicable to the Russian sales, Cargill estimates its after-tax profits on its Russian sales at less than 1 percent of sales.

Thank you.

(The attachments in Mr. Saunders' statement follow:)

HARD WHEAT PRICES - Domestic, World, and Subsidy (July 1 - Sept 14)



\* FOB Vessel Gulf. World Price = Domestic less Subsidy

Date	Kansas City wheat futures	Premium	F.o.b. gulf	Government target price	Difference	U.S. subsidy
	July					
July 3, 1972	144 $\frac{1}{4}$	24	168 $\frac{1}{4}$	1.63	5 $\frac{1}{4}$	5
July 5, 1972	145 $\frac{1}{2}$	24	169 $\frac{1}{2}$	1.63	6 $\frac{1}{2}$	6
July 6, 1972	147 $\frac{3}{8}$	24 $\frac{1}{2}$	172 $\frac{3}{8}$	1.63	9 $\frac{3}{8}$	7
	September					
July 7, 1972	148 $\frac{3}{4}$	24	172 $\frac{3}{8}$	1.63	9 $\frac{3}{8}$	7
July 10, 1972	149 $\frac{3}{4}$	22 $\frac{1}{2}$	171 $\frac{3}{8}$	1.63	8 $\frac{3}{8}$	9
July 11, 1972	154 $\frac{3}{4}$	20 $\frac{1}{2}$	175 $\frac{1}{4}$	1.63	12 $\frac{1}{4}$	13
July 12, 1972	155 $\frac{1}{2}$	20	175 $\frac{1}{2}$	1.63	12 $\frac{1}{2}$	13
July 13, 1972	156	20	176	1.63	13	13
July 14, 1972	152 $\frac{3}{4}$	18 $\frac{1}{4}$	171 $\frac{1}{4}$	1.63	8 $\frac{1}{4}$	10
July 17, 1972	153 $\frac{3}{4}$	20	173 $\frac{3}{4}$	1.63	10 $\frac{3}{4}$	11
July 18, 1972	155 $\frac{3}{8}$	22	177 $\frac{3}{8}$	1.63	14 $\frac{3}{8}$	13
July 19, 1972	157 $\frac{1}{4}$	22	179 $\frac{1}{4}$	1.63	16 $\frac{1}{4}$	13
July 20, 1972	155 $\frac{3}{4}$	23	178 $\frac{3}{8}$	1.63	15 $\frac{3}{8}$	14
July 21, 1972	154 $\frac{1}{4}$	23	177 $\frac{1}{4}$	1.63	14 $\frac{1}{4}$	14
July 24, 1972	156 $\frac{1}{4}$	23	179 $\frac{1}{4}$	1.63	16 $\frac{1}{4}$	14
July 25, 1972	156 $\frac{3}{8}$	23	179 $\frac{3}{8}$	1.63	16 $\frac{3}{8}$	15
July 26, 1972	155 $\frac{3}{8}$	23	178 $\frac{3}{8}$	1.63	15 $\frac{3}{8}$	15
July 27, 1972	154 $\frac{3}{8}$	22 $\frac{1}{2}$	176 $\frac{3}{8}$	1.63	13 $\frac{3}{8}$	13
July 28, 1972	155 $\frac{1}{2}$	23 $\frac{1}{2}$	179	1.63	16	14
July 31, 1972	157 $\frac{1}{4}$	22 $\frac{1}{2}$	179 $\frac{3}{4}$	1.63	16 $\frac{3}{4}$	16
Aug. 1, 1972	158	22 $\frac{1}{2}$	180 $\frac{1}{2}$	1.63	17 $\frac{1}{2}$	16
Aug. 2, 1972	158	22 $\frac{1}{2}$	180 $\frac{1}{2}$	1.63	17 $\frac{1}{2}$	17
Aug. 3, 1972	166	21	187	1.63	24	21
Aug. 4, 1972	174	21	195	1.63	32	31
Aug. 7, 1972	184	21 $\frac{1}{2}$	205 $\frac{1}{2}$	1.63	42 $\frac{1}{2}$	31
Aug. 8, 1972	184 $\frac{1}{2}$	18	202 $\frac{1}{2}$	1.63	39 $\frac{1}{2}$	31
	December					
Aug. 9, 1972	181 $\frac{1}{2}$	18	199 $\frac{1}{2}$	1.63	36 $\frac{1}{2}$	31
Aug. 10, 1972	186	17 $\frac{1}{2}$	203 $\frac{1}{2}$	1.63	40 $\frac{1}{2}$	36
Aug. 11, 1972	188 $\frac{1}{4}$	18 $\frac{1}{2}$	206 $\frac{1}{4}$	1.63	43 $\frac{1}{4}$	36
Aug. 14, 1972	187 $\frac{1}{2}$	17 $\frac{1}{2}$	205	1.63	42	36
Aug. 15, 1972	185	17 $\frac{1}{2}$	202 $\frac{1}{2}$	1.63	39 $\frac{1}{2}$	35
Aug. 16, 1972	187	18	205	1.63	42	36
Aug. 17, 1972	189 $\frac{1}{2}$	17 $\frac{1}{2}$	207	1.63	44	38
Aug. 18, 1972	191 $\frac{1}{2}$	17 $\frac{1}{2}$	208 $\frac{1}{4}$	1.63	45 $\frac{1}{4}$	38
Aug. 21, 1972	191 $\frac{1}{2}$	16 $\frac{1}{2}$	208	1.63	45	38
Aug. 22, 1972	196 $\frac{1}{4}$	18 $\frac{1}{2}$	214 $\frac{3}{4}$	1.63	51 $\frac{3}{4}$	38
Aug. 23, 1972	196 $\frac{1}{4}$	18 $\frac{1}{2}$	214 $\frac{3}{4}$	1.63	51 $\frac{3}{4}$	38
Aug. 24, 1972	195	18 $\frac{1}{2}$	213 $\frac{1}{2}$	1.63	50 $\frac{1}{2}$	38
Aug. 25, 1972	192 $\frac{3}{4}$	18 $\frac{1}{2}$	211 $\frac{3}{4}$	1.63	48 $\frac{3}{4}$	38-47
Aug. 28, 1972	193 $\frac{1}{4}$	18 $\frac{1}{2}$	211 $\frac{1}{4}$	1.63	48 $\frac{1}{4}$	37-47
Aug. 29, 1972	198 $\frac{1}{4}$	18 $\frac{1}{2}$	214 $\frac{1}{4}$	1.63	51 $\frac{1}{4}$	35-47
Aug. 30, 1972	197 $\frac{1}{4}$	18 $\frac{1}{2}$	215 $\frac{1}{4}$	1.63	52 $\frac{1}{4}$	32-47
Aug. 31, 1972	195	18 $\frac{1}{2}$	213 $\frac{1}{2}$	1.63	50 $\frac{1}{2}$	30-47
Sept. 1, 1972	200 $\frac{1}{4}$	14 $\frac{1}{2}$	214 $\frac{1}{4}$	1.63	51 $\frac{1}{4}$	30-47
Sept. 5, 1972	200 $\frac{3}{4}$	15 $\frac{1}{2}$	216 $\frac{1}{4}$	1.63	53 $\frac{1}{4}$	30
Sept. 6, 1972	200 $\frac{1}{4}$	16	216 $\frac{1}{4}$	1.63	53 $\frac{1}{4}$	30
Sept. 7, 1972	200 $\frac{1}{4}$	16	216 $\frac{1}{4}$	1.63	53 $\frac{1}{4}$	29
Sept. 8, 1972	201 $\frac{1}{4}$	16	217 $\frac{1}{4}$	1.63	54 $\frac{1}{4}$	30
Sept. 11, 1972	204	16 $\frac{1}{2}$	220 $\frac{1}{2}$	1.63	57 $\frac{1}{2}$	29
Sept. 12, 1972	209	19	228	1.63	65	28
Sept. 13, 1972	207	20	227	1.63	64	26
Sept. 14, 1972	211 $\frac{1}{4}$	19	230 $\frac{1}{4}$	1.63	76 $\frac{1}{4}$	25

## CARGILL WHEAT EXPORTS, SEPT. 9, 1969, TO SEPT. 9, 1972 (RECAPITULATION)

	Bushels	Export differential
Wheat exports, excluding certificate cost exports	398,297,773	\$69,452,073
Wheat exports (certificate cost exports)	2,521,908	(80,303)
Total wheat exports	400,819,681	69,371,770

Mr. PURCELL. Thank you, Mr. Saunders.

Mr. Mayne, do you have questions at this time?

Mr. MAYNE. Well, Mr. Saunders, I want to compliment you on this very thorough discussion of this problem, which I am sure members of the subcommittee will want to study when we have more time than we do now, upon hearing it given by you for the first time.

There is a point which I believe you are the first to make in these hearings that I would like you to discuss a little further. On pages 29 and 30 of your testimony, you point out that while 17 percent of the 1972 crop was estimated by Secretary Butz to be no longer in the hands of farmer producers directly on July 15, that your study of the situation would lead you to believe that a very substantial proportion of the 17 percent was still in rural areas, owned by farmer cooperatives or individuals in rural areas. Could you expand on that a little further? On what do you base that information and how soon would you estimate that it was after July 15 before this grain purchased by rural elevators would have moved from their hands?

Mr. SAUNDERS. Well, obviously, I do not know, would have no way of knowing the exact quantity, nor would I have any way of knowing how long it would remain in the country elevators. But as you know, grain moves from the farmer to the country elevator and thence into marketing channels. It is quite customary for country elevators to hold some of their wheat after they have received it from the farmer. But the quantities and the length of time, I would have no knowledge of that.

Mr. MAYNE. Well, is the point of your including this in your testimony to point out that even after July 15, increases in the price of wheat, which developed as further knowledge of the extent and magnitude of the Russian sales become apparent, that this benefit which resulted then was not accruing to exporters but to local interests in rural areas?

Mr. SAUNDERS. That is correct.

Mr. MAYNE. I think you can at least give us the period in which Cargill was beginning to acquire this wheat from such local sources. Can you not give us some estimate of how soon it was after July 15 that this 17 percent began to move out of these local hands, such as farmer cooperatives?

Mr. SAUNDERS. Yes, sir, we made our sale, first sale, to the Russians on July 10 and having made the sale, we were short a considerable amount of wheat. So we had to go into the market and start buying then and there. And we did.

Mr. MAYNE. Well, had you concluded a substantial part of your necessary purchases by July 15?

Mr. SAUNDERS. No, no, we had not.

Mr. MAYNE. So at least as far as you are concerned, you were not, by sales before July 15, depriving the country elevators and the farmers of a chance for higher profits out of increased prices?

Mr. SAUNDERS. That is correct.

Mr. MAYNE. Thank you.

Mr. PURCELL. Mr. Rarick?

Mr. RARICK. Thank you, Mr. Chairman.

Mr. SAUNDERS, has Cargill now fulfilled their contractual obligations under these sales to the Soviet Union?

Mr. SAUNDERS. Our shipping period runs from—well, we started shipping in August and it runs through June of next spring. So we have just started to ship wheat to Russia.

Mr. RARICK. I have never seen your contract with the Soviet people. Is it predicated or based upon the U.S. target price, or is it based upon the world market?

Mr. SAUNDERS. It is based upon the world market.

Mr. RARICK. In other words, it is not flexible—

Mr. SAUNDERS. No, no, it is a firm commitment, a firm price commitment.

Mr. RARICK. That is of the world market price as of the date that you deliver—

Mr. SAUNDERS. No, no, it is the date we made the sale.

Mr. RARICK. The date you make the sale to the Soviets or on the date you make the purchase from the Americans?

Mr. SAUNDERS. No, no, the date we made the sale to the Soviets. July 10 in one case and I guess the other date was July 31.

Mr. RARICK. The reason I ask is because you indicate at one point that the subsidy, or as you say, the differential, was some 20 $\frac{1}{4}$  cents a bushel under the acquisition price, the domestic price.

Mr. SAUNDERS. Correct. So if an exporter had not bought wheat in the domestic market and had to pay that premium that day and he only had a 47-cent subsidy, he would have lost 20 $\frac{1}{4}$  cents per bushel.

Mr. RARICK. But again, you are basing that loss on the U.S. target price and not on the world price.

Mr. SAUNDERS. Well, the U.S. target price and the sales price to the Soviet were approximately the same.

Mr. RARICK. But you provide us with a chart where you show the world price is now upward, in the neighborhood, I believe, of \$2 a bushel.

Mr. SAUNDERS. That is correct. But the sales were made at the then target price of \$1.63, firm price sales.

Mr. RARICK. You confuse me when you indicate that the export subsidy or the export differential, the export encouragement subsidy is going to the U.S. farmers and benefits the taxpayers. By that do you mean it benefits the farmers inasmuch as it allows the exporter to purchase at the domestic price? Is that what you have reference to?

Mr. SAUNDERS. Yes.

Mr. RARICK. The U.S. farmer is not getting any additional sum later.

Mr. SAUNDERS. No, no, it just allows us to pay the higher domestic price.

Mr. RARICK. Would it be safe to say that the export subsidy also helps the Soviet people or the Communist Party leaders?

Mr. SAUNDERS. Well, to the extent that they buy wheat at world market prices, I guess it does.

Mr. RARICK. And in some instances, if the world market price is above the U.S. target price, they are buying lower.

Mr. SAUNDERS. Well, but it has not been for several years.

Mr. RARICK. Well, could you give me any reason why the Soviets would buy U.S. wheat if they had to pay a price in excess of what they could buy it at on the world market?

Mr. SAUNDERS. They want it.

Mr. RARICK. But in grain trading, what you are interested in is not to be cheaper, you want only to be able to sell at an even break with anybody else.

Mr. SAUNDERS. We want to be able to sell at the same price.

Mr. RARICK. Now, if the U.S. taxpayer is benefited by this export subsidy he is taking the money out of one pocket and putting it in the

other, is he not? Mr. U.S. taxpayer is paying for the subsidy. If he's helping himself, he's only paying himself.

Mr. SAUNDERS. Well, I would think that—you know, the Russians have several alternatives. They do not have to buy wheat, I do not think. My experience, and I have had 9 years of working with these people, and I have seen them many times have short fall of crops and all they do is tighten their belts. The way they acted when we talked to them about spring wheat, which was a higher priced article, was that the price was out of line. It is very conceivable—I do not know this for a fact, but it is very conceivable that they might not have bought wheat from the United States if our price had been substantially higher, or any higher, as far as I know. But I do not know that.

Mr. RARICK. It is also possible, of course, that they have many friends that they have to help feed or bargain with.

We are not now exporting wheat to Chile, are we?

Mr. SAUNDERS. No, and as far as I know, nothing like that has gone on. We have only gotten returns on one ship and that unloaded in the Black Sea. It went to Russia as far as cargo was concerned.

Mr. RARICK. I thank you for your fine presentation, Mr. Saunders.

Mr. SAUNDERS. Thank you.

Mr. RARICK. Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Zwach.

Mr. ZWACH. Thank you, Mr. Chairman.

We welcome you folks here. I believe you headquarter in our great State.

Mr. SAUNDERS. Yes, we do, Mr. Zwach.

Mr. ZWACH. Although you are worldwide in much of your application.

I have been troubled by the way the Russian demand crept up on all of us. Now, in America, and I know that you yourself put out a monthly bulletin on crop estimates. I get that monthly and as a producer, I am very interested in that. The USDA puts out their bulletins. They are put out constantly. In our country, except maybe for the corn blight, we generally do not get caught this way.

Now, does Russia put out a monthly bulletin with regard to their crop situation that might be available to the rest of the world?

Mr. SAUNDERS. Unfortunately, not to my knowledge.

Mr. ZWACH. You do not receive—

Mr. SAUNDERS. No, and they are very secretive about their crop information.

Mr. ZWACH. And to your knowledge, even you folks in the business do not have available to you up-to-date crop reports?

Mr. SAUNDERS. We have absolutely nothing.

Mr. ZWACH. You have nothing. So you were caught just like everybody when that big demand came.

Mr. SAUNDERS. That is correct.

Mr. ZWACH. This is a sort of interesting sidelight, but in other words, there just is not available even to the trade, to the exporters—

Mr. SAUNDERS. Nothing.

Mr. ZWACH. Information from behind the Iron Curtain on the crop situation.

Mr. SAUNDERS. I wonder if it is available even to many of the officials in the Soviet Union. I do not know. Because I had the feeling when

these Russian buyers came back for the second visit, or when they left after their first visit that everything was all right, they had bought enough and that was the end of it. And here they come back 11 days later and want to buy more. So they must have been surprised when they got back to Russia and somebody told them to come back and buy some more wheat.

Mr. ZWACH. Now, it seems to me that a great deal of the questioning relates to the subsidy. Now, you have also sold some corn—not enough for the Midwest. We would like to see you sell a great deal more feed grain.

Mr. SAUNDERS. We would like to sell feed grain.

Mr. ZWACH. But how does it work? Now, unfortunately—and I want to say this for my wheat friends again—unfortunately, we do not have a subsidy in corn. How do you actually deal with a product that does not have a subsidy, like corn?

You make no sale of corn?

Mr. SAUNDERS. We made no sale of corn.

Mr. ZWACH. If you made a sale of corn, and you have, how would you deal with the relationship of American price to world price?

Mr. SAUNDERS. Well, the American price and the world price on corn are the same; hence there is no need for a subsidy.

Mr. ZWACH. Always the same?

Mr. SAUNDERS. It has been. We did have a corn subsidy—oh, golly, I can't remember. It was 7 or 8 years ago.

Mr. ZWACH. Has the Government paid a subsidy in corn?

Mr. SAUNDERS. Yes.

Mr. ZWACH. Is the Department authorized under law to do it without legislation?

Mr. SAUNDERS. Yes, sir.

Mr. ZWACH. They are?

Mr. SAUNDERS. M-h'm.

Mr. ZWACH. They are authorized to do it. It just has not been done?

Mr. SAUNDERS. It has not been necessary. We would not export—

Mr. ZWACH. But when you sell feed grains, you have to run the risk when you make a sale of getting the purchase made at the American market price, without the Government-equalized subsidy.

Mr. SAUNDERS. That is correct.

Mr. ZWACH. Does that handicap trading in feed grains?

Mr. SAUNDERS. It would not for the normal course of business. And it obviously did not handicap Continental. In their testimony this morning, they said they sold 4½ million tons of corn, which is a lot of corn.

Mr. ZWACH. How many bushels of corn is that?

Mr. SAUNDERS. It is 180 million bushels.

Mr. ZWACH. 180 million bushels?

Mr. SAUNDERS. Yes.

Mr. ZWACH. Just a little dent in our tremendous supplies.

Mr. SAUNDERS. Well, I think the exports of corn are going to be pretty good this year, Mr. Zwach.

Mr. ZWACH. You anticipate further exports in corn?

Mr. SAUNDERS. Well, I do, not necessarily to the Soviet Union, but the general demand for corn is very good.

Mr. ZWACH. But you could deal in exporting wheat without a subsidy if there were no subsidy paid?

Mr. SAUNDERS. If there were no subsidy.

Mr. ZWACH. You would just have added problems involved.

Mr. SAUNDERS. If there were no subsidy necessary. By that I mean if the world price of wheat and the domestic price of wheat is the same and there is no need for a subsidy, yes, indeed, we can deal in wheat.

Mr. ZWACH. If there were no subsidy, would the world and American price be inclined to be the same as you say it is in corn? Is it the subsidy that might—

Mr. SAUNDERS. No, no; the subsidy is the result, not the cause. The cause is that because of our support prices and other factors in the domestic wheat, wheat trades in the domestic market higher than historically, the world market—the Canadians, the Argentinians, the European Common Market, the Middle East, and so on—that produce wheat, the U.S. domestic prices are higher. So if we did not have a subsidy in a normal year, we would not sell a bushel of wheat into export. This is what the man from Continental Grain is saying in his statement.

But corn is different. The world market for corn and the U.S. domestic price for corn is exactly the same, so we do not need a subsidy to sell grain into export markets.

Mr. ZWACH. You are not handicapped in selling corn because there is no subsidy?

Mr. SAUNDERS. No, no.

Mr. ZWACH. That is all, Mr. Chairman.

Mr. PURCELL. Mr. Melcher?

Mr. MELCHER. Thank you, Mr. Chairman.

Mr. SAUNDERS. Cargill was found guilty of manipulating the commodity market in wheat futures on the Chicago Board of Trade in May, the May contract, 1963, is that not true?

Mr. SAUNDERS. That is correct.

Mr. MELCHER. Briefly, the sequence of events are that, first of all, Cargill did hold 1.99 million bushels in the long position and was found to have manipulated it to their advantage. Is that not true?

Mr. SAUNDERS. I would prefer if Mr. McGrory, my counsel, would answer that question.

Mr. McGRORY. Well, Congressman Melcher, I think that is right. I was not the attorney who handled the case, but I think after 4 to 5 years of litigation in a matter in an administrative proceeding, not a criminal proceeding, by the Department of Justice that finding was made. No penalties were assessed against Cargill concerning that because the decision noted that Cargill was apparently trying to operate it within the so-called *Volkart* case and was operating, I believe, in good faith and no penalties were assessed against Cargill.

Mr. MELCHER. Running through the procedure, then, Hearing Examiner or Referee Ben Holstein on June 1968 did find Cargill guilty and recommended a suspension of 90 days from trading on commodity markets for both Cargill and, personally, four top officials. That is correct, is it not?

Mr. McGRORY. The hearing examiner, an employee of CEA, the same agency bringing the charges, made that recommendation, which was not sustained upon review.

Mr. MELCHER. The point when the penalty was suspended, was before Commodity Exchange Authority Judicial Officer Thomas J. Flaven. Is that correct?

Mr. McGRORY. I do not remember the gentleman's name, sir.

Mr. MELCHER. Cargill first moved to have Flaven disqualified for a prejudicial remark or an alleged prejudicial remark. In August of 1969, Secretary Lyng denied the motion to disqualify. Flaven subsequently suggested that the 90-day suspension imposed by Holstein in 1968 be suspended.

On August 13, 1970, Flaven suspended the suspension for Cargill but put the four top officials of Cargill on 2 year probation. Is that correct?

Mr. McGRORY. I am not certain of that, sir.

Mr. MELCHER. Mr. Saunders, can you answer that?

Mr. SAUNDERS. That is correct.

Mr. MELCHER. That is correct?

Mr. SAUNDERS. Yes.

Mr. MELCHER. Can you identify who those four officials were?

Mr. SAUNDERS. Yes, sir; they were Mr. Kelm, who is our chairman; Mr. H. Diercks who is vice chairman; myself, and Benjamin Jaffray, who at that time was manager of our Chicago office.

Mr. MELCHER. Mr. Saunders, did Cargill appeal to the 8th Circuit Court?

Mr. McGRORY. There were a number of appeals which I was not connected with. Cargill did appeal, not on the basis of any penalties asserted, because of the conflict in that CEA decision and the *Volkart* case, and it was felt that Cargill and the other members of the trade needed that legal question as a definition of manipulation defined.

Mr. MELCHER. Having been turned down by the 8th Circuit Court, was there an appeal to the U.S. Supreme Court?

Mr. McGRORY. I believe so, yes, sir.

Mr. MELCHER. Which was finally decided on May 15, 1972, when the court declined to take jurisdiction of the appeal?

Mr. McGRORY. Yes.

Mr. MELCHER. On the basis of no grounds therefor.

Mr. McGRORY. Yes.

Mr. MELCHER. Now, during this 2-year period of probation, which ended a little over a month ago—is that correct, Mr. Saunders?

Mr. SAUNDERS. I do not know the dates, so I cannot answer that.

Mr. MELCHER. If my information is correct, the Flaven probation order was August 13, 1970. You are not familiar with how long the probation ran?

Mr. SAUNDERS. No.

Mr. MELCHER. I questioned Secretary Brunthaver yesterday on whom he communicated with personally, which companies he took it upon himself to assure that a target price or sheltered price would be maintained for some period of time. He mentioned four companies that he personally talked to. One of them was Cargill.

I have also taken note that Mr. Pearce, William R. Pearce, is the Deputy Special Representative for Trade Negotiations in the White House. What capacity did he have with Cargill?

Mr. SAUNDERS. He was a corporate vice president of Cargill in charge of public affairs.

Mr. MELCHER. And in February of this year is approximately the right time that he transferred or resigned from Cargill and took up his position?

Mr. SAUNDERS. I cannot remember.

Do you know, John?

Mr. MCGRORY. I think he left Cargill sometime in the early winter of the previous year. You may be referring to a confirmation date, I am not certain.

Mr. MELCHER. Well, I do not think he would have to be confirmed to go on the White House staff. I assume he took up his duties sometime in February of this year.

Mr. MCGRORY. I said I thought it was February of this year.

Mr. PURCELL. Mr. Melcher, let me interject here, we will have to recess the committee for a few minutes. That is a vote that just sounded. We all have to go. We will just have to recess until we can all return. It will take 15 or so minutes.

(Recess.)

The subcommittee will come to order. Some of our members will be coming in, I hope, in a few minutes.

Mr. Melcher, as I told you in the recess, your first period of questioning has expired and we will recognize Mr. Foley at this time.

Mr. FOLEY. Mr. Saunders, in reading your statement, I notice that you have emphasized the need for confidentiality on important elements in relation to private conditions of sale, and so on, among exporting grain firms. Would you concede that in a situation such as we have had in the last year, there is some danger that independent privately owned grain companies might, by their private arrangements with foreign purchases, exhaust certain classes of wheat beyond a point that would be desirable?

Mr. SAUNDERS. Would I concede that?

Mr. FOLEY. That possibility.

Mr. SAUNDERS. It is a possibility. I would think, however, that a responsible grain firm would take the supply-demand carryover statistics into account before it made any trade.

Mr. FOLEY. But these companies are apparently acting, at least all the testimony we have had has been that they are acting very independently, without any communication with one another; in fact, with great effort to keep their competitors from knowing their position in the market, and their sales, and so on.

Mr. SAUNDERS. You are absolutely right.

Mr. FOLEY. So is there not a possibility that there would not be any central point for information on the varied arrangements and contracts that the individual companies had transacted?

Mr. SAUNDERS. I am sorry, would you repeat the last part?

Mr. FOLEY. Is it not a possibility, with this existing exclusiveness of information and this desire to avoid any discussion with competitors, that there would be a lack of any central clearinghouse, so to speak, for information on the extent of sales or contracts in the totality of trading arrangements?

Mr. SAUNDERS. Yes, that is a possibility. I would like to say to you that we stood ready and in fact did tell the Department of Agriculture what we had sold after we had sold it. So they knew our figures.

Mr. FOLEY. Was that request made on August 25 at the meeting in Secretary Brunthaver's office?

Mr. SAUNDERS. No, that was not made then. I was not at that meeting, but it was not made—the request was never made. We simply volunteered the information.

Mr. FOLEY. Volunteered it.

One of the things I think the subcommittee may have to consider is whether there should be, in our judgment, a greater effort on the part of the Department to gather relevant information in terms of the sale and disappearance of certain classes of wheat.

I assume you would also concede that we have some national interest in the availability of our markets and the continued good relations with our traditional trading partners in addition to our more recent trading partners.

Mr. SAUNDERS. Yes, indeed.

I would like to emphasize that we do not really feel that this Russia business is a one-shot deal. It is going to be a continuing thing. Whether it will be on wheat or not remains to be seen, but surely on feed grains and soybeans, it will be, and it should extend for many years to come.

Mr. FOLEY. Well, I am sure that is an opinion we all are glad to hear and hope it turns out to be the reality. But, there are unusual conditions in the world wheat market at the present time, are there not?

Mr. SAUNDERS. There certainly seem to be; yes, indeed.

Mr. FOLEY. There is some shortness of crops in major consuming countries and some weather problems in exporting countries that make this an unusually attractive year for American exports?

Mr. SAUNDERS. That is correct.

Mr. FOLEY. Not necessarily conditions that we can rely on in future years.

Mr. SAUNDERS. That is correct.

Mr. FOLEY. Thank you.

Mr. PURCELL. Mr. Bergland?

Mr. BERGLAND. Thank you very much, Mr. Chairman.

First of all, I would like to commend Mr. Saunders and Cargill for responding to our committee letter asking for certain information and for your very detailed and exhaustive analysis of a very complicated subject.

Mr. SAUNDERS. Thank you.

Mr. BERGLAND. Mr. Saunders, on page 23 of your testimony, you touch briefly upon the limits imposed on you by the Commodity Exchange Act and that you were not able to engage in futures trading except under certain circumstances. Would you discuss briefly the authority you do have under this act for engaging in futures transactions?

Mr. SAUNDERS. Yes, we, of course, can speculate to the 2 million bushel limit which any speculator, whether he is a corporation or an individual, can. We also are allowed to hedge in the futures market any sales or any purchases that we might make.

Mr. BERGLAND. Do you have to have the sales and purchases in hand before you are engaged to buy?

Mr. SAUNDERS. Yes. We cannot buy a futures or sell futures in anticipation of a sale or a purchase. We have to have the sale in hand.

Mr. BERGLAND. Under the subsidy arrangement, given the limits that are placed upon you by this act, is it possible that a grain trader could

make a so-called bad sale—in other words, make a contract commitment to sell and find himself unable to really cover himself in the markets and get bailed out of this dilemma by a subsidy device?

Mr. SAUNDERS. I really do not understand your question, I guess, Mr. BERGLAND. Can you give me an example of what you are talking about?

Mr. BERGLAND. Let's say, for example, that you made a sale or a company made a sale to a buyer at \$1.63 and that you didn't have grain to cover that sale. You therefore had to go into the markets and buy to cover.

Mr. SAUNDERS. Yes.

Mr. BERGLAND. And say during that period, the market rose sharply and you were not prepared for this. Could the subsidy program itself guarantee to you that you would not lose money? Is it an absolute guarantee?

Mr. SAUNDERS. It is not an absolute guarantee. I will give you a good example of that.

For example, let's say that you have made the sale at \$1.63 and the domestic market was \$1.70 at the time you made the sale, so you had a 7 cent subsidy. The market the next day went up and you bought to start covering your sale and you kept buying and the market went up, let us say, to \$1.78 during the session and you kept buying all that time. And all of a sudden, at the end of the session, the market went back down to \$1.70 again. So you had paid well over \$1.70 during the session to cover that sale, but at the end of the session, the market went down to \$1.70, so the subsidy was still in effect, 7 cents and you had lost whatever you had paid during the session. And believe me, that happens all the time.

Mr. BERGLAND. What kind of trading precautions do you take to prevent that from occurring?

Mr. SAUNDERS. There is nothing you can do. It is just one of the risks that we have to take.

Mr. BERGLAND. One of the witnesses cited the hypothetical instance and used August 1 as the date. On that particular date, the subsidy was 16 cents a bushel. The market price f.o.b. Gulf was \$1.64 and the domestic market was \$1.80, which therefore, subtracted, meant a 16 cent subsidy. Could it have been possible on August 1 to make a sale to the Soviets or anybody else and also to buy to cover that sale without booking the subsidy, and then cashing in on the 47 cent subsidy that was allowed during the period around the 24th of August?

Mr. SAUNDERS. Well, in the magnitude of the Soviet sales, it would be impossible to buy that kind of quantity at that time.

And in addition, you know, we all sit here and hindsight, but having gone through this whole business myself and watching the market, we never dreamed that it was going to go up as far as it did. We kept thinking, there is a possibility it might go down. There is always that possibility. And we are a prudent firm. We do not speculate very much at all.

What you are suggesting is just pure out and out speculation, even if you were able to buy all that grain at one fell swoop, which you could not do.

Mr. BERGLAND. Thank you very much, Mr. Chairman.

Mr. PURCELL. Mr. Denholm?

Mr. DENHOLM. Thank you, Mr. Chairman.

I regret that I have not heard all of your testimony and that I have not had a chance to read the full text thereof. I would like to ask a few questions of you, Mr. Saunders, that may not be related to your testimony.

For instance, what is a target price?

Mr. SAUNDERS. Well, the target price was the price that the Government has maintained as the world price for a period of some 2 years and they have adjusted their subsidy to reflect that world price.

Mr. DENHOLM. What government?

Mr. SAUNDERS. Our Government.

Mr. DENHOLM. The United States has made an export subsidy then, equal to the difference between the domestic market price and the world price?

Mr. SAUNDERS. No; the export subsidy is the difference between the domestic price and the world price. The target price is the price that the Government has used as their analysis of the world price for several years and has adjusted their subsidy to reflect the changes in the domestic price, whether it be up or down, so that the world price still comes out at the target price.

Mr. DENHOLM. What was the target price when you executed a contract for delivery of wheat to the Russians?

Mr. SAUNDERS. Approximately \$1.63.

Mr. DENHOLM. What was the world market price?

Mr. SAUNDERS. Approximately \$1.63.

Mr. DENHOLM. What was the domestic market price on the 10th of July?

Mr. SAUNDERS. Well, let me see. If you will refer to our chart here, on the 10th of July, free on board the Gulf, it was \$1.71 and seven eighths.

Mr. DENHOLM. I think you testified that your contract with the Russians was executed on the 10th of July?

Mr. SAUNDERS. That is correct. One of them. We had two.

Mr. DENHOLM. That was the first one, was it not?

Mr. SAUNDERS. Yes.

Mr. DENHOLM. At that time, you were aware that the U.S. Government had entered into an agreement with the Union of Soviet Socialist Republics?

Mr. SAUNDERS. Yes; that was announced on Saturday, the 8th.

Mr. DENHOLM. Did you have prior knowledge of the agreement between the U.S. Government and Russia?

Mr. SAUNDERS. No.

Mr. DENHOLM. Do you know what the terms are of that agreement?

Mr. SAUNDERS. Just what has been announced in the news media, that is all.

Mr. DENHOLM. Do you know that it provides for the sale of the grain by and through private exporters?

Mr. SAUNDERS. Yes, I know that.

Mr. DENHOLM. Have you had prior experience with such forms of agreements?

Mr. SAUNDERS. Never this type of agreement, no. I have had a good deal of experience with GSM-4 credit, which is the 3-year credit that was given to the Soviet Union.

Mr. DENHOLM. You did not have any privity of contract in the agreement between the two countries, did you?

Mr. SAUNDERS. I am sorry, I did not get your question.

Mr. DENHOLM. Did your firm have privity of contract in the agreement between the U.S.S.R. and the United States? The agreement dated July 8, 1972?

Mr. SAUNDERS. You mean have I seen it? Is that the word?

Mr. DENHOLM. Well, are you a party to that agreement?

Mr. SAUNDERS. No, we are not.

Mr. DENHOLM. Do you know that it provides that the grain will be handled by private exporters?

Mr. SAUNDERS. Yes, it was announced in the press that it would.

Mr. DENHOLM. Well, how could that be accomplished without the knowledge of the private exporters?

Mr. SAUNDERS. Because I would—the grain trade has always been handled by private exporters. We stand ready to handle export grain trade from the United States. And I might say I think we have done a darn good job of it over the years.

Mr. DENHOLM. In a hypothetical situation, do you think you and I can agree to sell Bob Bergland's house without his consent?

Mr. BERGLAND. Talk to my banker.

Mr. SAUNDERS. I guess it would depend on the price.

Mr. DENHOLM. Do you think it would be possible without the consent and knowledge of Mr. Bergland?

Mr. SAUNDERS. I do not see what you are driving at.

Mr. DENHOLM. It is clear that two countries entered into an agreement without your consent.

Mr. SAUNDERS. Well, they didn't specify quantity, they didn't specify types of grain, they didn't specify price. All those we negotiate and if we didn't want to sell, we didn't have to negotiate price with them.

Mr. DENHOLM. Do you believe that they had reasonable grounds to conclude that you would cooperate if they made that type of agreement?

Mr. SAUNDERS. Do I? I think that I would answer that by saying that I think the U.S. Government felt that the grain trade could handle any trade with Russia, No. 1. No. 2, I think that if the Russians could agree with the exporters on quantity and price, they had every reason to expect delivery on their contract.

Mr. DENHOLM. I suspect that you are a domestic based exporter, are you not?

Mr. SAUNDERS. Yes, sir, from Minneapolis, Minn.

Mr. DENHOLM. Do you have any foreign based interests?

Mr. SAUNDERS. Yes, we do.

Mr. DENHOLM. Where are they?

Mr. SAUNDERS. Well, in most every agricultural country in the world.

Mr. DENHOLM. Do you anticipate participation in the China "deal" or via Russia and China?

Mr. SAUNDERS. We would like to. So far, we have not been approached, however.

Mr. DENHOLM. Can you?

Mr. SAUNDERS. Oh, yes, legally we can. And physically, we certainly can.

Mr. DENHOLM. Is that through a foreign based operation?

Mr. SAUNDERS. No, I am sure it would be through our—just as we sold the Russians.

Mr. DENHOLM. Well, I do not want to raise the constitutional question again about diplomatic recognition with Red China. Do you do business with Red China now?

Mr. SAUNDERS. We have done some business through our Canadian subsidiary.

Mr. DENHOLM. Then you do operate through a foreign based export arrangement?

Mr. SAUNDERS. Well, in this case, it was Canadian grain.

Mr. McGRORY. I think the legal question you are raising is, Is it legally possible to deal with Red China if we do not recognize it.

Mr. DENHOLM. Yes, do you have an answer to that question?

Mr. McGRORY. Yes. I don't believe we recognize East Germany, but we deal with them, also.

Mr. DENHOLM. Do you do that as a domestic or foreign based operation?

Mr. McGRORY. We can do both. All we have to be assured of is that the buyer, or somebody who can guarantee his performance that we trust, will make good on whatever promises he makes in the contract.

Mr. PURCELL. Your time has expired, Mr. Denholm.

Mr. Mayne, do you have any other questions?

Mr. MAYNE. Yes; thank you, Mr. Chairman.

Mr. Saunders, you have testified that you have seen the Russians many times have shortfall crops of grain and just tighten their belts rather than increase purchases abroad. Did you mean by that to indicate that the mere fact that there was a bad shortfall in Russia this year did not necessarily mean that they would greatly expand their purchases abroad?

Mr. SAUNDERS. That is my opinion, Mr. Mayne.

Mr. MAYNE I would like your comment on the following testimony that has been given to the subcommittee, and I quote:

The increased value of the 1972 crop is not a result of sales the Department subsidized but rather a result of a drought reducing the world supply of grain. There is every reason to believe that the same sales could have been made during the marketing year at full value and without any subsidy.

Do you have any comment on that?

Mr. SAUNDERS. Well, that is not my opinion, no. But I do not know. Who knows? I think that is in the realm of speculation.

Mr. MAYNE. Well, what indications are there to lead you to a different opinion? I am just asking you to state your opinion on the accuracy of that statement.

Mr. SAUNDERS. Well, the Russians produce about 180 million tons of all grains per year. According to the figures that we have compiled, they are buying somewhere in the neighborhood of 20 million tons this year, which is about a little over 10 percent. And having seen them tighten their belts in the past, it would seem to me that it would be possible—I do not say necessarily probable; I do not know—but it

would seem possible that if that is their only shortfall and that is all they need, a 10-percent tightening of the belt by people in the U.S.S.R. would not be beyond the realm of possibility. That is how I base my opinion.

Mr. MAYNE. I would also like your opinion on the following testimony to the committee, and I again quote:

By July a situation existed where the world supply-demand situation warranted a price on wheat in excess of \$2 per bushel but the USDA was holding the price down to \$1.65. Given that situation and before more than a few people in the United States knew the true situation, the Russians figured out a way to buy their entire needs before the market reflected the rise in price which was sure to come. They secured a contract from private companies and those companies eliminated their own risk of a price rise by two methods: (1) Buying before the change in supply became known; and (2) Having an understanding of some kind with the USDA that they would be protected by increasing the subsidy if the price rose before they completed their purchases.

Do you have a comment on that?

Mr. SAUNDERS. Well, I think it deserves several comments. It is quite a long, lengthy statement.

Would you mind reading the first part of it again, Mr. Mayne?

Mr. MAYNE.

By July a situation existed where the world supply-demand situation warranted a price on wheat in excess of \$2 per bushel but the USDA was holding the price down to \$1.65. Given that situation and before more than a few people in the United States knew the true situation, the Russians figured out a way to buy their entire needs before the market reflected the rise in price which was sure to come.

Mr. SAUNDERS. Well, I feel that the rise in prices which occurred—and it did occur later on in July and August—was occasioned not only by the Russian buying but by the entry of other countries into the market. Certainly, that person—whoever it was who wrote that—had an awful lot of knowledge that we in our business did not have if they thought that it warranted a price of \$2.

Now, if the Russians had, if the price to the Russians had been high enough so that they would tighten their belts, there would not have been any Russian business and the price may not have been \$2 a bushel any more.

Mr. MAYNE. Referring to the agreement between the Department of Agriculture and the Russian Government, there has also been testimony as follows:

The agreement itself helps point up the extent to which our officials were being misled. While it required the Russians to take a minimum of \$200 million worth of all grains by August of next year, there was no assurance that they would not do just what they did and take 400 million bushels of wheat in a few weeks. With an assurance of a stable price on a rising market, the more they bought, the more it pushed the market up for everyone but them and they could even buy more than they needed and resell at a profit or deliver to their allies. They were given a tool for cornering the market \* \* \*.

Now, do you have any comment on that?

Mr. SAUNDERS. Well, I think that the sales agreement or the agreement between the two countries specified that the grain would go only to the Soviet Union, with a few exceptions. So they could not go around the world and resell their grain.

Mr. MAYNE. Is there any indication that they in fact did that, that they bought more than they needed and resold at a profit or delivered to their allies?

Mr. SAUNDERS. There is none at all, none at all. The shipments that we have made so far are going to the Soviet Union.

Mr. PURCELL. Your time has expired.

Mr. MAYNE. Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Foley?

Mr. FOLEY. It is correct, though, is it not, Mr. Saunders, that the agreement authorizes the Soviet Union to transship a portion of this to the six eastern European countries?

Mr. SAUNDERS. That is correct.

Mr. FOLEY. And you would not disagree that there had been a general assurance given the trade by the USDA that this export, net export price, was going to be maintained? Is that not true?

Mr. SAUNDERS. I would say there was an assurance. It was not a guarantee. And as you see from my chart, they did not really do it.

Mr. FOLEY. But you were under that impression?

Mr. SAUNDERS. Yes, surely.

Mr. FOLEY. I will reserve the balance of my time.

Mr. PURCELL. Mr. Zwach.

Mr. ZWACH. Thank you, Mr. Chairman.

I have just one comment. It seems to me that you have defined better than we have had defined previously the term of "subsidy" when you name it a differential. It is basically just the difference between the American price and the world price, and the payment is that differential, that additional payment so that you can move it into the world market.

Mr. SAUNDERS. That is correct.

Mr. ZWACH. Yes.

Mr. SAUNDERS. Thank you.

Mr. ZWACH. That is all, Mr. Chairman.

Mr. PURCELL. Mr. Melcher?

Mr. MELCHER. Mr. Saunders, you understand that under the 5-minute rule, sometimes we do not reach the conclusion of a series of questions. I did not reach the conclusion of the series I started with you. I would like to resume that.

I have gone through the charge and the finding that Cargill manipulated the futures market in their May contract of 1963 and that subsequently, while Mr. Holstein of the Department recommended a suspension of 90 days from all trading for Cargill, this was appealed and subsequently, Mr. Flavin changed the penalty and said, just put four top officers on probation. You identified those, including yourself.

Mr. SAUNDERS. Yes.

Mr. MELCHER. I was amazed, though, that you did not seem to know when the probationary period ended. Did I understand your answer correctly that you were not aware when it ended?

Mr. SAUNDERS. That is correct, I did not.

Mr. MELCHER. But you are unaware that perhaps you are still under probation?

Mr. SAUNDERS. I would not behave myself any differently whether I was on probation or not is the answer to that.

Mr. MELCHER. My information is that Mr. Flavin made his finding or ruling on August 13, 1970, so I would assume from that that it is ended. It was for a 2-year period and it may have ended this past August.

There does not seem to me to be much of a feeling that stigma is attached to this ruling on the part of Mr. Flavin. Indeed, there is very little feeling of any penalty being involved, since you are not aware when the probationary period ended, and we witnessed in Mr. Brunt-haver's testimony that, of the four companies he communicated with personally to assure the sheltered price or the target price, Cargill was one. And indeed, during that period of time, even before the appeal process had been exhausted through the Supreme Court, Mr. Pearce of Cargill went into the White House. So I feel that there is little feeling that a stigma is attached to being found guilty of a violation by those involved. You do engage yet, and have been all during this period of time from 1963, in future transactions. I am assuing that.

With regard to an answer that you gave earlier to Mr. Bergland, about a speculative position—that you were not prohibited from a speculative position—you are permitted a speculative position up to—

Mr. SAUNDERS. Two million bushels.

Mr. MELCHER. Just to 2 million bushels?

Mr. SAUNDERS. That is correct.

Mr. MELCHER. Was your activity in the futures market heavy, during early July, just prior to this July 10 sale to Russia?

Mr. SAUNDERS. What is your definition of "heavy"?

Mr. MELCHER. Let me ask this: Were you speculating in any degree, up to close to the 2 million bushels?

Mr. SAUNDERS. In early July before we made the sale?

Mr. MELCHER. That is right.

Mr. SAUNDERS. No.

Mr. MELCHER. After July 10, was there any change?

Mr. SAUNDERS. Yes, we began to hedge the sale just as rapidly as we could.

Mr. MELCHER. That would not be a speculative position.

Mr. SAUNDERS. No, sir; we had already made the sale.

Mr. MELCHER. That is right. But my question is, did you hold any speculative positions after July 10?

Mr. SAUNDERS. No, we were hedging.

Mr. MELCHER. You were hedging all your sales?

Mr. SAUNDERS. Yes.

Mr. MELCHER. Now, I assume from your testimony and others that you would feel that it is private information that you would not care to submit to the committee as to just how much you actually owned, how much you were hedging or what your position was on the board of trade in the commodity markets?

Mr. SAUNDERS. We give our position in futures to the board of trade on Friday afternoons. They have it. As I mentioned in my testimony, if the committee feels that it is necessary to have it, we will give it to you, but we would prefer not to.

Mr. MELCHER. I think that will be up to the chairman and to the committee itself. I will make that request if they so desire.

As I understand your testimony, on July 10, Cargill made a sale of 1 million tons to Russia.

Mr. SAUNDERS. Correct.

Mr. MELCHER. How much of what was sold at that time did you own? How much actual wheat did you own at July 10?

Mr. SAUNDERS. Well, I would prefer not to answer that question, except to tell you this, that it was very, very small.

Mr. MELCHER. It was a negligible amount?

Mr. SAUNDERS. Very negligible.

Mr. MELCHER. When was the 1 million bushels purchased and for how much—1 million tons, excuse me.

Mr. SAUNDERS. One million tons?

Mr. MELCHER. Yes.

Mr. SAUNDERS. It was purchased a little every day over a long period of time, and I just can't tell you the answer to that.

Mr. MELCHER. After July 10?

Mr. SAUNDERS. Oh, yes.

Mr. MELCHER. And the price varied from day to day, depending on how much you bought?

Mr. SAUNDERS. Yes.

Mr. MELCHER. And you consider this, like your futures position, privileged information which you prefer not to disclose?

Mr. SAUNDERS. Yes, I do.

Mr. MELCHER. One further question, and it follows up my original line somewhat. Did Cargill employ or use the law firm of Nixon, Mudge, Rose, Guthrie, Alexander, and Mitchell?

Mr. SAUNDERS. I will ask my counsel. I don't know.

Mr. McGRORY. I believe Cargill retained that firm both prior to and after Mr. Nixon entered it. There have been three mergers of it and when exactly Cargill first retained them, I don't know. It was long before I came to Cargill, which precedes 1955.

Mr. MELCHER. The answer is yes, they have, and they still do?

Mr. McGRORY. I think there is one item of litigation in Canada—I could not say for sure—in which that firm is involved.

Mr. MELCHER. Thank you.

Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Bergland?

Mr. BERGLAND. Thank you, Mr. Chairman. I just have one point I would like to pursue.

I would like to pursue the matter we discussed earlier and that is the possibility of windfall profits to a trading company. I cited the example on August 1, at which time the subsidy was 16 cents, and a trading company could have bought on that day and cashed in on the subsidy that was subsequently fixed, 47 cents, later in that month. Your response was that given the magnitude of the Russian sale, this could not have happened. Could you please elaborate on that point? Why could it not have happened?

Mr. SAUNDERS. The way you phrased the question, Mr. Bergland, you asked me if we could have done it on that day and having sold one million tons, or something like 37 or 38 million bushels, it would be absolutely impossible to buy all that grain in 1 day.

Mr. BERGLAND. Could it have happened on a smaller sale, say, 50 million bushels?

Mr. SAUNDERS. Certainly, if you wanted to speculate in the subsidy. But that would be a speculation and the subsidy could have gone down.

Mr. BERGLAND. So the risk is you are just entering a commodity market; the subsidy rate is governed by the cash market and you have no way of knowing what that will be?

Mr. SAUNDERS. That is correct. That is why we took subsidy all during the period of time and as we pointed out in our testimony, quite a small percentage of the subsidy we took against the Russian trade and other trades made during that period of time was actually the 47 cent subsidy. Some was 13 cent subsidy. The reason was that as we sat there worrying about this position, we always felt that the market could go down. Subsequent events have obviously proved us woefully incorrect. But that is nonetheless the way we felt.

Mr. FOLEY. Would the gentleman yield?

Mr. BERGLAND. I yield to the gentleman.

Mr. FOLEY. I wanted to clear up a point.

I think you have already said it. But it is conceivable that the export differential or export subsidy could be used for speculation purposes? I am not saying it has been done, but that is a theoretical possibility?

Mr. SAUNDERS. Yes.

Mr. BERGLAND. Thank you very much, Mr. Saunders.

That is all I have, Mr. Chairman.

Mr. PURCELL. Mr. Denholm.

Mr. DENHOLM. I will continue my line of questioning on prices. What is the world price of wheat today?

Mr. SAUNDERS. Oh, let me see. I have been out of contact with the market and it is fluctuating up and down quite widely at the time, but it is in the neighborhood of \$2.30 a bushel.

Mr. DENHOLM. And you are still delivering on contract at \$1.63?

Mr. SAUNDERS. Yes, sir.

Mr. DENHOLM. Where are you buying the wheat to fulfill that contract today?

Mr. SAUNDERS. Well, I would say that if I answer that question, it indicates whether I am short or long and I would prefer not to.

Do I have to answer it?

Mr. DENHOLM. Is it unfair to conclude from your testimony that both you and the U.S. Government made a very serious mistake in this U.S.S.R. transaction, that if you had not had any agreements at all, the price would have increased on wheat anyway and followed the world market price?

Mr. SAUNDERS. No, I think that the U.S. Government and ourselves did a very good job on this whole operation. Why has the market gone up? The market has gone up because the Russians bought substantial amounts of grain from the United States. Had they not bought that, the market would not have gone up.

Do not forget that we had a billion bushels, a prospective carryover of a billion bushels of wheat.

Mr. DENHOLM. Who?

Mr. SAUNDERS. We had, this country.

Mr. DENHOLM. You mean the United States, the growers and producers?

Mr. SAUNDERS. Yes.

Mr. DENHOLM. I do not want to argue with you. However, the Russian demand would have been the same if they had not entered into an agreement in July? They need wheat, don't they?

Mr. SAUNDERS. At a price.

Mr. DENHOLM. Absolutely, and they are obtaining all they need at \$1.63 on contract. But if the Russians did not have the contract, they would have to buy it at the world price, would they not?

Mr. SAUNDERS. I think we have covered this pretty well. It is my opinion that perhaps at a higher price, they would not have bought the wheat; I do not know.

Mr. DENHOLM. Is it true that the U.S. Government is actually paying somebody, I do not know whether it is the exporters or the Russians, \$300 million to take wheat on credit?

Mr. SAUNDERS. We are giving them? I do not understand that.

Mr. DENHOLM. Well, the U.S. Government, according to the testimony of the Secretary, has paid in excess of \$300 million in export subsidies, to pay the difference between the target price and the world price, apparently to exporters, domestic and foreign, to warrant delivery on contract held by your firm and others with Russia. I do not really understand who has received the payments. Apparently, the private grain traders have registered with the U.S. Department of Agriculture for timely payment.

Mr. SAUNDERS. I am sorry you were not here to hear my statement, because I think I covered that pretty well. I suggest that you read it.

Mr. DENHOLM. Do you have a contract with the Russian Government?

Mr. SAUNDERS. Yes, a contract with the Russian Government.

Mr. DENHOLM. You have two existing contracts—the first one was executed on or about the 10th of July 1972?

Mr. SAUNDERS. Yes.

Mr. DENHOLM. And the U.S. Government had a contract with the U.S.S.R. dated July 8.

Mr. SAUNDERS. They had an agreement. I do not think—there was no quantity specified, there were no prices specified, there were no shipment terms specified. They had a master agreement specifying some credit arrangement and an agreement on the part of Russia to take the wheat. But no price or quantity or shipment period or class or quality—none of those things.

Mr. DENHOLM. I am suggesting that in retrospect it does appear that your contract and the agreement by the U.S. Government was detrimental to the international wheat marketing business, and particularly to many of the domestic growers of the United States. I suspect that you do not agree with me.

Mr. SAUNDERS. I cannot agree with that. I think this is the best thing that has ever happened to the growers of the United States.

Mr. DENHOLM. Will you tell me how it helped those in Texas and elsewhere that have not shared in the abnormal and unusual price increase on the crop of 1972?

Mr. SAUNDERS. Well, it is going to help them in 1973. Unfortunately, we all sell things too cheap and I am sure if you are in the stock market, you have sold stocks too cheap. But right now, the wheat which they will harvest next June is like 50 cents a bushel higher than it was before the Russian sale and they can sell it right now. If they want to sell their wheat for shipment in June, we and other companies will be very happy to make a forward contract with them and they can earn 50 cents a bushel more a crop.

Mr. DENHOLM. The difficulty with that economic analysis is that it cannot be ascertained with certainty whether or not it is the world market demand that has caused the U.S. domestic price to increase or whether it is the agreement of the U.S. Government and the contracts of the private international grain exporters that has created an artificial and temporary price increase in the world market. My question now is what was there about this agreement that was so highly confidential and secret? Why can't we get this information without having hearings?

Mr. SAUNDERS. From what I have read, the agreement with the Russians was made one day and the United States announced it the next day. So I do not think they are keeping any secret about it.

Mr. DENHOLM. Did you see their announcement?

Mr. SAUNDERS. Did I see it?

Mr. DENHOLM. There was nothing in the announcement about your contracts or what you were doing as a private grain trader in the international export market although the Government obviously relied upon your participation because the language of the agreement between the U.S.A. and the U.S.S.R. specifically indicated private firms would perform the terms thereof. Yet, you claim no knowledge of the conditions expressed therein.

Mr. SAUNDERS. No, of course not.

Mr. DENHOLM. The officials acting for the U.S. agreed with the Russians that you were to do business with Russia and you now claim that you had no knowledge of that at all.

Mr. SAUNDERS. That is correct.

Mr. DENHOLM. How, where, when and what did you know to do?

Mr. SAUNDERS. It told us the Russians were going to take grains—

Mr. DENHOLM. The agreement was announced as a grain "deal." You obviously had something more than a "deal." You had a contract to do business and to deliver a specified amount of wheat at a price certain, did you not?

Mr. SAUNDERS. Yes, sir; I had a contract the day I met with them and that is the first time I ever knew they even wanted any wheat.

Mr. DENHOLM. I do not desire to aggravate you—but why was this all such a hush-hush and highly secret transaction?

Mr. SAUNDERS. The only reason that we are not telling everybody, making a public announcement of what we have done the minute we do it, it is because we have a great job to do in arranging the exportation of this grain and our competitors would dearly love to know exactly what we have done. We are not trying to keep it from the public, we are just trying to keep it from our competitors. I am sure that Continental Grain and other competitors feel the same way about us.

Mr. DENHOLM. Do you think the officials of the U.S. Government had the same obligation while acting in the public interest?

Mr. SAUNDERS. As far as—I think the U.S. Government had an obligation not to tell people of the private trades made with Russia.

Mr. PURCELL. Your time has expired, Mr. Denholm.

Mr. DENHOLM. Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Saunders, I have one or two questions that I have now. Do you know whether or not the Commodity Exchange Authority is now having any kind of investigation going?

Mr. SAUNDERS. I have read it, but we have not had anybody approach us yet.

Mr. PURCELL. I know you have gone over this some, but Cargill did own wheat—you said a small amount of wheat—at the time that either you knew there was going to be a Russian sale or at the time you made your contract. But this you say was a negligible amount of wheat?

Mr. SAUNDERS. Yes.

Mr. PURCELL. I have not been able to keep up with your whole statement and/or all the questions, but were you asked at this hearing anything that you are willing to tell about the purchasing—I am not asking about the price of it but when you purchased the wheat that you are fulfilling this contract with?

Mr. SAUNDERS. Well, it would be almost impossible to tell you in the first place, because we buy a little bit every day and so on and so forth. So that would be very difficult to give you that information and I would prefer not to, also.

Mr. PURCELL. Have you now purchased all the wheat that you need to fulfill the contract?

Mr. SAUNDERS. I do not want to answer that, because that will indicate our position and I think that is privileged information.

I am not trying to withhold information, but I——

Mr. PURCELL. You are not trying to withhold it; you just do not want to tell anybody.

Mr. SAUNDERS. That is it.

Mr. PURCELL. All right, sir.

Mr. Mayne?

Mr. MAYNE. I would like to address this question to counsel.

The gentleman from Montana has introduced the matter of the Mudge law firm having done some work for Cargill, both before and after one of its partners, now the President, was with that firm.

I think perhaps the impression would be given that they handled a substantial part of Cargill's business. I would like you to state if you can if Cargill does employ local counsel in few or many cities throughout the world, how significant this representation has been and is at the present time with relation to the totality of Cargill's operations, and specifically, its involvement in situations where it requires the employment of local counsel.

Mr. McGRORY. Ninety percent of Cargill's legal work is done by house legal staff that has ranged over the past few years from eight to 11 lawyers. The Mudge firm is just one of many which is utilized at various points in the United States, in particular in time of litigation that requires counsel who are qualified to appear in local courts or who have experience in preparing matters of litigation.

It is only one of many firms that have been used over the years by Cargill. Its geographic location is the reason for its use.

Mr. MAYNE. Is it the only firm that has represented Cargill in New York City?

Mr. McGRORY. No; it is not.

Mr. MAYNE. Would you give us some idea of how many have during the past 15 years?

Mr. McGRORY. We have had very little litigation in New York. We have used, I believe, Lord, Day & Lord on an admiralty matter. We may have used that firm on a tax matter.

Mr. MAYNE. Which firm?

Mr. McGRORY. Lord, Day & Lord.

There is one other firm I also believe we used on a tax matter whose name does not come to mind.

I am sorry I cannot give you all these names, but as I say, the eight to 11 lawyers pick which firm they need to help them out in the various localities and I am not familiar with all of them.

Mr. MAYNE. And you think that there may be one litigated case which has not been finally terminated in which the Mudge firm is still involved?

Mr. McGRORY. That is right. I think there is one litigation arising in Canada in which the counsel in chief is Canadian and Nixon's firm at that time was utilized to help prepare some of the document work. I might say Mr. Nixon has never represented our firm in any matter.

Mr. MAYNE. Now, is this in keeping with the regular policy of your legal department at Cargill, that whenever you are involved in litigation, the services of local counsel are employed?

Mr. McGRORY. Yes, and that would be true in San Francisco, Chicago, Portland, any place—

Mr. MAYNE. What about in foreign countries?

Mr. McGRORY. Oh, and certainly in foreign countries, you could not operate without local counsel.

Mr. MAYNE. And is this policy generally followed by many companies in connection with litigation?

Mr. McGRORY. To my knowledge, I do not know how they could do otherwise.

Mr. MAYNE. Thank you.

Thank you, Mr. Chairman.

Mr. PURCELL. Thank you very much. Are there any other questions?

Mr. ZWACH. One, Mr. Chairman.

In summary, could we say that the subsidy, about 83 percent of it, because 83 percent was still in producer hands, that about 83 percent of the subsidy, the increase in the domestic price, went to American producers of wheat? Would that be a correct statement?

Mr. SAUNDERS. It is difficult to put a handle on any specific figure like that, but certainly a substantial—

Mr. ZWACH. 83 percent was in the hands of the American producers?

Mr. SAUNDERS. Yes.

Mr. ZWACH. Could we not conclude that that percentage of the actual subsidy payments, the differentials, went to American producers?

Mr. SAUNDERS. Yes, I would think that would be pretty fair.

Mr. PURCELL. I am sorry, I do not mean to just get it going back and forth here, but the testimony before, I think, has been that 83 percent of the grain had not been put in either Government storage or bought by traders. For example, in my area, over 80 percent of the wheat was not held by farmers.

Of course, it could be held by terminal elevators or traders or a lot of other people besides farmers.

Mr. SAUNDERS. Does that include resale?

Mr. PURCELL. I don't know what it includes. All I know is they keep saying 80 percent of the wheat was in farmers' hands and I know that is not true in my area. So I just do not want you to leave here thinking what a good deal the farmers got, because I represent several thousand who did not get good deals at all. They sold their wheat for about 50

cents less than they could get. That is their fault. But the Government's certificate payment now goes down to the tune of about 25 cents, which I feel the Government might tend to offset. Just so you have that very valuable information as you leave here.

Mr. SAUNDERS. Thank you very much.

Mr. PURCELL. We thank you very much for appearing. You have given us a very detailed statement. We appreciate it. The subcommittee will be in recess subject to the call of the Chair.

(Whereupon, at 4:50 p.m., the subcommittee was adjourned subject to the call of the Chair.)

#### APPENDIX

This appendix contains the agreement between the United States and the Union of Soviet Socialist Republics with respect to purchases of grain by the Russians in the United States; correspondence between the chairman of the subcommittee, Hon. Graham Purcell, and the U.S. Department of Agriculture and some of the grain companies; letters from two grain company officials, Clarence Palmby, of Continental Grain Co., and Clifford G. Pulvermacher, of the Bunge Corp.; and miscellaneous other correspondence submitted to the subcommittee.

#### AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS WITH RESPECT TO PURCHASES OF GRAINS BY THE SOVIET UNION IN THE UNITED STATES AND CREDIT TO BE MADE AVAILABLE BY THE UNITED STATES

The Government of the United States of America (USA) and the Government of the Union of Soviet Socialist Republics (USSR) have agreed as follows:

#### ARTICLE 1

1. The Government of the USA through its Commodity Credit Corporation's Export Credit Sales Program hereby makes available a total amount of US \$750 million credit for financing the payment for USA grown grains (at buyer's option—wheat, corn, barley, sorghum, rye, oats) purchased by the USSR in the USA under this Agreement. Such total amount may be increased by the USA.

2. The USSR through its foreign trade organizations shall purchase from private United States exporters not less than US \$750 million port value of such grains (at buyer's option—wheat, corn, barley, sorghum, rye, oats) for delivery during the three-year period August 1, 1972, through July 31, 1975, and of such amount not less than US \$200 million shall be purchased for delivery prior to August 1, 1973. In case of purchases of such grains for cash for delivery during the period of August 1, 1972, through July 31, 1975, the U.S. dollar amount of such purchases shall be counted as if they were made on credit terms under this Agreement.

3. The following provisions shall apply with respect to the credit referred to in Section 1 of this Article 1.

3.1 It shall continue to be available, if not previously exhausted, for deliveries made not later than July 31, 1975.

3.2 The total amount of credit outstanding at one time shall not exceed US \$500 million.

3.3 Delivery for purchases shall be F.A.S., or F.O.B. port of export and interest shall run from date of delivery. The date of delivery shall be the on-board date of the ocean bill of lading.

3.4 The principal and interest for credit arising under each delivery shall be payable by the USSR as follows: one-third of the principal annually, plus accrued interest on the outstanding principal balance to the date of each principal payment.

3.5 The amount of credit for each delivery will be limited to the United States port value of the commodity, without ocean freight, insurance, or other charges or costs.

3.6 The interest rate for purchases under this Agreement for which delivery is made not later than March 31, 1973, shall be 6½% per annum on that portion of the obligation confirmed by a USA bank. This rate of interest for that portion of the obligation confirmed by a USA bank shall be applicable during the whole three-year period for repayment of the credit which arises under each delivery made not later than March 31, 1973.

## ARTICLE 2

This Agreement shall enter into force from the day of its signing and shall remain valid until all the obligations arising from it for both sides are fulfilled.

IN WITNESS WHEREOF, the undersigned, duly authorized thereto, have signed this Agreement.

DONE at Washington this 8th day of July 1972 in duplicate, in the English and Russian languages, each text equally authentic.

For the Government of the United States of America :

PETER G. PETERSON,  
EARL L. BUTZ.

For the Government of the Union of Soviet Socialist Republics : \_\_\_\_\_

U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON LIVESTOCK AND GRAINS OF THE  
COMMITTEE ON AGRICULTURE,  
August 30, 1972.

Hon. EARL BUTZ,  
Secretary, Department of Agriculture,  
Washington, D.C.

DEAR MR. SECRETARY: As you are undoubtedly aware, there is controversy over the merits of handling the transactions involving the currently announced sales of domestic grain to the Soviet Union.

As Chairman of the Subcommittee on Livestock and Grains of the House Agriculture Committee, I have three concerns :

First, the entire system of using private grain companies is currently under attack from some quarters, particularly because of the interchange between Department of Agriculture officials and the grain companies who are normally expected to turn a profit off these transactions. With regard to the current grain sale, highly placed Department of Agriculture personnel negotiated the agreement for the government, then subsequently moved to other employment with the grain companies actually handling the transaction, presumably at great personal benefit to themselves and the companies involved. As you know, this interchange is the subject of severe criticism in some quarters.

Second, I am also concerned at statements and press reports criticizing the use of the export subsidy to maintain low trading prices for the grain being traded under the agreement. Specific criticism is being voiced that the use of the export subsidy represents a windfall to the same large trading companies, as well as the personnel now associated with them who were previously with the Department of Agriculture.

Third, farmers in my area of Northwest Texas feel that the transactions whereby CCC offers were made specifically for private companies at far below domestic market prices were tinged with favoritism, and also were timed so that farmers themselves were not able to take maximum advantage of the higher prices than the increased market would normally have yielded.

Earlier, when the Subcommittee on Livestock and Grains held hearings regarding the announced sale of corn to the Soviet Republic, it was mutually agreed between the Department and the Committee members that it would be in the best interests of the public to have greater free exchange of information regarding these large transactions.

Regrettably, your Department has not followed the policy of completely informing the Congress of what has been accomplished regarding the present transactions, and any dealings with other Communist countries that are now under speculation. Accordingly, I am requesting the views of the Department regarding the subjects covered in this letter, together with any additional material, including a copy of the agreement or agreements under discussion. I would appreciate it if this information can be made available as expeditiously as possible.

Sincerely,

GRAHAM PURCELL.

DEPARTMENT OF AGRICULTURE,  
OFFICE OF THE SECRETARY,  
Washington, D.C., September 12, 1972.

HON. GRAHAM PURCELL,  
House of Representatives,  
Washington, D.C.

DEAR MR. PURCELL: This is in reply to your letter of August 30 concerning the sales of grain currently being made by United States grain firms to the Soviet Union. We will deal with your questions in order.

First, as to the system of using private grain companies to carry out sales under Government programs, this is long established policy which is fully in keeping with the American free enterprise system. It is required by numerous Congressional directives and policy statements. The Commodity Credit Corporation Charter Act, for instance, directs CCC "to the maximum extent practicable . . . (to) utilize the usual and customary channels, facilities, and arrangement of trade and commerce." Section 402 of the Food and Agriculture Act of 1962 and Public Law 480 contain similar provisions.

As to the allegation that certain Department of Agriculture officials negotiated the agreement with the USSR and then moved to participating grain companies, I am not aware of any facts that would warrant the conclusion that there was any impropriety in the actions of any Department of Agriculture officials. However, complaints to this effect have been made against two former employees, Clarence D. Palmby and Clifford Pulvermacher, and these have been referred to the Attorney General pursuant to Section 535 of Title 28, United States Code. Accordingly, it would not be appropriate for this Department to make any further comment about this matter at this time. We will, of course, cooperate with the Department of Justice in developing any facts it may need.

Your second point concerns the use of our export payment program to maintain low export prices for grain being traded under the Soviet agreement and the allegation that this represents a "windfall" for the grain companies concerned. Needless to say, we do not agree with either contention.

When the grain agreement was first made, it was anticipated that the USSR would buy principally feed grains and that its purchases of wheat would be relatively modest. With 20 million acres of U.S. wheat land held out of production at a Treasury cost of over \$1 billion, we felt a responsibility to avoid escalation of world wheat prices that would penalize established U.S. wheat customers and provide an incentive for foreign competitors to increase their production. The U.S. export price for Hard Red Winter wheat had been approximately \$1.63 a bushel for nearly a year, and our objective was to keep it at or near that level, since export sales to Russia and other customers were being made in anticipation of stable prices.

When the magnitude of the Soviet wheat purchases became apparent, domestic market prices responded and rose accordingly. In view of the prospect that our wheat supply would be substantially reduced and the cost of the wheat program reduced, we felt justified in permitting the export price of wheat to rise. We so informed the exporters and on August 25 announced a dual export system to provide a transition to the new pricing basis. Under this system, exporters were allowed one week in which to book export payments on sales made prior to August 24 at export payment rates based on world prices that had prevailed until early July. Export payments covering approximately 282 million bushels were booked at this higher rate. These represent sales to numerous destinations, not merely to the USSR. This was not in any sense a "windfall" for the grain companies but was intended to enable them to accumulate wheat at a net export price consistent with their sales commitments to the USSR and other foreign customers.

On sales made since August 24, we are offering export payments at lower rates. Since the domestic market has continued to rise, it is apparent that our export prices are higher. It is too early to tell what effect this will have on export sales for the remainder of the marketing year. Payments on somewhat over 20 million bushels were booked at the lower rates during the period August 28-September 1, indicating that sales are continuing, although perhaps at a reduced volume.

Your third point deals with alleged sales of CCC-owned wheat at below domestic prices and at times that deprived farmers of the opportunity to take maximum advantage of the rising market.

CCC stocks of wheat and other CCC-owned commodities have historically been offered for sale for unrestricted use at the market price but not less than the statutory minimum price. Beginning late in July the market price of wheat rose to the statutory minimum price and CCC commenced receiving offers for its stocks. Substantial quantities of wheat were sold at the domestic market price as the market progressively rose above the statutory minimum price. Perhaps the market price rose further between the time CCC made the sale and the time farmers in your area learned of it, but CCC stocks of wheat were not sold at less than the domestic market price at time of sale.

We regret to note your view that the Department has not followed the policy of informing the Congress fully concerning this matter.

In general, every fact of which the Department was aware was made public and was provided to the Congress. This Department issued a press release July 8 concerning the 3-year agreement with the Soviets, and the White House issued a fact sheet the same day. The Chairmen and ranking minority members of both the Senate and House Agriculture Committees were delivered a copy of the agreement by Assistant Secretary Brunthaver who reviewed the transactions in detail at that time. We have continued to issue other factual material about the transaction since that time, and are enclosing for your information copies of all these materials. We are also enclosing the text of the agreement.

You must bear in mind that the Department itself has not been privy to detailed information about many of the wheat purchases made by the Soviets. Except in the cases where CCC Export Credit is involved, these are straight commercial sales, and we have had no information about what was transpiring except that obtained by observing market trends and the booking of wheat export payments by suppliers.

Sincerely,

EARL L. BUTZ, *Secretary.*

[From the U.S. Department of Agriculture News]

#### USDA ISSUES CLARIFICATION STATEMENT ON GRAIN NEGOTIATIONS

WASHINGTON, September 15.—In view of incomplete and misleading information which appeared in news stories this morning, the Department of Agriculture feels that it is necessary to make the following facts clear immediately:

The Department of Agriculture notified exporters by phone on Thursday, August 24, that there would be a change in export payment policy on sales of wheat made after the close of business of the previous day, Wednesday, August 23. This was done to immediately prevent overselling of certain classes of wheat.

The next day on Friday, August 25, the Department made a decision that the new export policy would be a two-tiered system of payments for a one week period. This was announced in a press release on Friday, August 25. Since some exporters conceivably might not have received word on Thursday, August 24, of the impending change, and therefore might have continued selling wheat under the earlier payment policy, the decision was made on Friday, August 25, to make the change in export payments apply to sales of wheat made after 3:30 p.m. Eastern Daylight Savings Time, Thursday, August 24.

The exporters who were notified by phone on August 24 would not find this information to their advantage, since they were told on August 24 that the new payment policy would be effective retroactively to the close of business of the previous day, August 23.

DEPARTMENT OF AGRICULTURE,  
OFFICE OF THE SECRETARY,  
*Washington, D.C., September 18, 1972.*

HON. GRAHAM PURCELL,  
*Chairman, Committee on Livestock and Grains,  
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: In accordance with your request, we are furnishing the following information concerning the wheat export payment program:

(a) A record of total export payment bookings by class of wheat and cost of shipment from the beginning of the present crop year to September 1, 1972, plus the carryover from fiscal year 1972. This table also includes a record of bookings at the special export payment rates under System 1, which was in effect during the period August 25-September 1 for sales made on or before August 24.

(b) Quantities by destination for bookings made under the special export payment rates under System 1 which was in effect during the period August 25-September 1.

(c) A list of companies that have booked export payments since July 1, 1972.

(d) A similar list of companies that have booked export payments under the special rates under System 1 which was in effect during the period August 25-September 1.

(e) Destinations on shipments made since July 1, 1972, on which export payments have been made.

(f) Payments made to individual exporters on shipments that have been made since July 1, 1972.

(g) A copy of Announcement No. 73-39 A issued August 25 whereby the dual rates were described.

We have not supplied the bushels or the dollar amount of subsidy booked by individual firms where the wheat has not been shipped and payment made. To reveal this information now would violate the confidence of private transactions and impose the severe competitive handicap upon individual firms. To a considerable extent, it would reveal their market positions.

We agree that this information is of public interest, and our problem is merely the timing when certain elements of it can be released without undue prejudice to the firms which are participating in the program. We trust you will understand our concern.

Sincerely,

CARROLL G. BRUNTHAVER.

## WHEAT EXPORT PROGRAM (GR-345) ACCEPTED WHEAT OFFERS—JULY 1, 1972, THROUGH SEPT. 1, 1972

	Hard Red Winter		Hard Red Spring		Gulf/ East	Durum West	White West	Soft Red White Gulf/ East	Total
	Gulf/ East	West	Gulf/ East	West					
Offers accepted July 1, 1972, through Sept. 1, 1972, excluding offers under announcement 73-39A.....	302,399,365	1,050,139	73,062,358	7,416,540	15,252,500	70,460	7,163,563	11,089,015	417,503,880
Offers accepted under system 1 of announcement 73-39A dated Aug. 25, 1972.....	201,282,789	9,887,850	5,301,347	5,885,937	14,278,998	590,921	38,613,480	6,206,372	282,047,694
Offers accepted before July 1, 1972, which were not completed with exports on July 1, 1972.....	50,653,855	5,019,171	7,463,412	8,484,580	10,509,116	210,905	9,224,230	4,589,092	96,154,361
Total.....	554,336,009	15,957,160	85,827,117	21,787,057	40,040,614	872,226	55,001,273	21,884,479	795,705,935

## EXPORT PERIODS

Hard Red Winter:

Gulf/East, Through May 31, 1973.

West, Through June 30, 1973.

Hard Red Spring: All Coasts, Through August 31, 1973.

Durum: All Coasts, Through August 31, 1973.

White:

Gulf/East, Through May 31, 1973.

West, Through June 30, 1973.

Soft Red Winter: Gulf/East, Through May 31, 1973.

## DESTINATION OF SALES REPORTED UNDER SYSTEM 1 OF ANNOUNCEMENT 78-39A

Destination	Hard Red Winter		Hard Red Spring	
	Gulf/East	Destination	West	Destination
Unknown	34,979,704	Ecuador	110,231	Unknown
Unknown	2,969,230	Guatemala	39,683	Belgium
Unknown	5,500,000	Japan	3,848,874	Germany
Brazil	2,205,392	Mexico	1,102,300	Holland
Israel	1,157,333	Nicaragua	190,000	Switzerland
Japan	1,895,213	Russia	1,837,270	United Kingdom
Mexico	496,500	Taiwan	2,759,492	
Nigeria	858,734			
Peru	734,908			
Russia	149,832,443			
United Kingdom	653,332			
Total	201,282,789		9,887,850	5,301,347

## DESTINATION OF SALES REPORTED UNDER SYSTEM 1 OF ANNOUNCEMENT 78-39A

Destination	Durum		Destination	Durum West
	Gulf/East	Destination		
Unknown	2,042,866	Costa Rica		220,462
Algeria	11,023,621	Japan		220,450
Austria	84,514	Panama		150,009
France	373,333			
Germany	224,001			
Russia	306,667			
Switzerland	223,996			
Total	14,278,998			590,921

## DESTINATION OF SALES REPORTED UNDER SYSTEM 1 OF ANNOUNCEMENT 78-39A

Destination	Hard Red Spring		White		Soft Red Winter/White Gulf/East
	West	Destination	West	Destination	
Unknown	532,807	People's Republic of China	11,200,000	People's Republic of China	3,733,333
Costa Rica	754,551	Costa Rica	298,593	United Kingdom	121,333
El Salvador	73,013	Iran	6,066,666	Yugoslavia	2,351,706
Guatemala	375,518	Japan	3,508,671		
Hong Kong	266,934	Nicaragua	60,000		
Japan	738,010	Panama	60,000		
Nicaragua	586,975	Philippines	709,334		
Panama	650,432	Russia	15,222,100		
Philippines	916,334	Taiwan	1,488,116		
Taiwan	804,691				
Thailand	186,667				
Total	5,885,937		38,613,480		6,206,372

## GRAND TOTALS

Hard Red Winter		Hard Red Spring		Durum		White	Soft Red White	Total
Gulf/East	West	Gulf/East	West	Gulf/East	West	West	Gulf/East	
201,282,789	9,887,850	5,301,347	5,885,937	14,278,998	590,921	38,613,480	6,206,372	282,047,694

## LIST OF EXPORTERS WHO HAVE SUBMITTED OFFERS SINCE JULY 1, 1972

Agricol Corp., Inc., Philadelphia  
 Ataka America, Inc., Portland  
 Bartlett & Co., Kansas City  
 Berns & Koppstein, Inc., New York  
 Bunge Corp., New York  
 Cargill, Inc., Minneapolis  
 Cargill, Inc., Portland  
 Cook Industries, Inc., Memphis  
 Cook Industries, Inc., Portland  
 Continental Grain Co., New York  
 Louis Dreyfus Corp., New York  
 Wilbur Ellis Co., Phoenix  
 C. B. Fox Co., New Orleans  
 Garnac Co., Inc., New York  
 General Mills, Inc., Minneapolis  
 Thomas P. Gonzalez Corp., Los Angeles  
 Goodpasture Export Corp., Gladena Park  
 International Multifoods Corp., Duluth  
 C. Itoh & Co., (America) Inc., New York  
 Kanematsu-Gosho (USA), Inc., Portland  
 Marubeni America, Inc., Portland

Mitsubishi International Corp., Portland  
 Mitsui & Co., (USA), Inc., Portland  
 Nichimen Co., Inc., Portland  
 Nissho-Iwai American Corp., Portland  
 North Pacific Grain Growers, Inc., Portland  
 Peavey Co., Minneapolis  
 The Pillsbury Co., Minneapolis  
 Producers Grain Co., Amarillo  
 Quaker Oats Co., Chicago  
 Sumitomo-Shoji America, Inc., New York  
 Alfred C. Toepfer, Inc., New York  
 Toshoku America, Inc., New York  
 Toyomenka (America), Inc., Portland  
 Union Equity Cooperative Exchange, Enid  
 United Grain Corp., Portland  
 West Coast Resources, Inc., Portland  
 Yuasa Trading Co. (America), Inc., Portland

## WHEAT EXPORT PROGRAM (GR-345)—EXPORTERS WHO SUBMITTED OFFERS UNDER SYSTEM I OF ANNOUNCEMENT 73-39A

Ataka American, Inc., Portland, Oreg.  
 Bunge Corp., New York, N.Y.  
 Cargill, Inc., Minneapolis, Minn.  
 Cargill, Inc., Portland, Oreg.  
 C. Itoh & Co. (America) Inc., Portland, Oreg.  
 Continental Grain Co., New York, N.Y.  
 Cook Industries, Inc., Portland, Oreg.  
 Garnac Grain Co., Inc., New York, N.Y.  
 General Mills, Inc., Minneapolis, Minn.  
 Goodpasture Export Corp., Galena Park, Tex.  
 Louis Dreyfus Corp., New York, N.Y.  
 Marubeni America, Inc., Portland, Oreg.

Mitsui & Co. (USA), Inc., Portland, Oreg.  
 Nichimen Co., Inc., Portland, Oreg.  
 Nissho-Iwai American Corp., Portland, Oreg.  
 Sumitomo-Shoji American, Inc., Portland, Oreg.  
 Thomas P. Gonzalez Corp., Los Angeles, Calif.  
 Toshoku America, Inc., New York, N.Y.  
 Toyomenka, Inc., Portland, Oreg.  
 Yuasa Trading Co. (America), Portland, Oreg.

*Exports by destination since July 1, 1972 (Public Law 480 not included)*

	[Quantity in bushels]	
Belgium-----	656,425	Trinidad----- 556,453
Brazil-----	2,031,935	United Kingdom----- 5,297,362
China, Republic of-----	2,744,863	U.K. territory: Hong Kong----- 272,898
Costa Rica-----	293,591	U.S.S.R----- 13,788,005
Ecuador-----	430,740	Venezuela----- 3,994,567
El Salvador-----	675,675	Algeria----- 3,072,856
France-----	1,631,997	Colombia----- 199,360
Germany-----	1,433,806	Guyana----- 288,186
Guatemala-----	511,259	Honduras----- 194,018
Japan-----	17,891,563	Jamaica----- 215,878
Netherlands-----	4,031,076	Mexico----- 5,772,285
Netherlands Antilles-----	54,843	Nicaragua----- 226,304
Nigeria-----	2,631,150	Philippines----- 2,871,343
Pakistan-----	2,947,128	Sierra Leone----- 163,439
Panama-----	332,059	Thailand----- 111,439
Peru-----	2,027,644	Yugoslavia----- 7,863,425
Portugal-----	1,311,669	
Surinam-----	301,617	
Switzerland-----	1,192,091	
		Total----- 88,018,949

EXPORTERS WHO HAVE MADE EXPORTS SINCE JULY 1, 1972, AND HAVE RECEIVED EXPORT PAYMENTS  
ON THE EXPORTS

Exporter	Bushels	Export payment
Ataka America, Inc. ....	449,846	\$28,790
Bunge Corp. ....	3,395,675	400,693
Cargill, Inc. ....	18,041,199	3,765,840
Continental Grain Co. ....	31,721,079	6,046,062
Cook Industries, Inc. ....	3,932,714	551,702
Louis Dreyfus Corp. ....	1,632,939	335,142
C. B. Fox Co. ....	379,409	28,173
Garnac Grain Co., Inc. ....	4,770,214	767,618
Goodpasture Export Corp. ....	3,218,855	811,695
International Multifoods Corp. ....	736,764	62,742
C. Itoh & Co. (America), Inc. ....	528,120	31,687
Kanematsu-Gosho (U.S.A.), Inc. ....	3,496,254	540,441
Marubeni America, Inc. ....	1,037,152	272,008
Mitsubishi International Corp. ....	800,083	88,646
Mitsui & Co. (U.S.A.), Inc. ....	1,849,025	83,907
Nichimen Co., Inc. ....	2,059,313	320,985
Nissho-Iwai American Corp. ....	1,345,188	260,909
Peavey Co. ....	871,118	93,380
Pillsbury Co. ....	684,507	92,353
Sumitomo-Shoji America, Inc. ....	1,186,410	175,544
Toshoku America, Inc. ....	1,210,686	235,350
Alfred C. Toepfer, Inc. ....	578,022	76,003
Toyomenka (America), Inc. ....	1,131,196	148,264
Union Equity Cooperative Exchange. ....	1,348,347	128,338
United Grain Corp. ....	142,583	44,201
Total .....	86,546,698	15,390,473

Note: The above are unaudited figures and are subject to adjustment upon a complete audit of our records. The total bushels for this table and the table for exports by destination should be the same.

ANNOUNCEMENT No. 73-39 A OF THE U.S. DEPARTMENT OF AGRICULTURE,  
EXPORT MARKETING SERVICE, AUGUST 25, 1972

The Department announced effective 3:31 p.m., e.d.t., August 25, 1972, dual export payment rates under the Wheat Export Program (GR-345) for all classes of wheat for export from all coasts.

The dual rates announced shall apply as follows:

*System No. I :*

These rates will be in effect until 3:30 p.m., e.d.t., September 1, 1972, and will not change. An exporter who wishes to qualify for a rate announced under this system must comply with the following terms and conditions and the applicable terms and conditions of GR-345.

(1) The exporter must include in his offer submitted under Section 1483.111, the terms "submitted under System I." The use of this term signifies the exporter's agreement to comply with the applicable provisions of this announcement.

(2) The offer submitted must represent the net difference in quantity between export sales (other than PL-480) made prior to 3:31 p.m., e.d.t., August 24, 1972, and offers submitted to and accepted by OCC prior to 3:31 p.m., e.d.t., August 24, 1972. Do not consider contract tolerances of the sale nor the tolerance provided by GR-345 in computing the net difference. Take into consideration exports already made against the sale and exports applied or made and to be applied to a contract with CCC.

(3) The offer must represent the same class of wheat for export from the same coast of export as the net difference between sales and offers determined under paragraph (2) above.

(4) The exporter must, within 5 business days after the date of the offer, furnish a certified statement for each sale for which an offer is submitted under this system showing the date of sale, name of buyer, contract quantity which has not been applied to a contract with CCC, contract tolerance, class of wheat, coast of export, delivery period, destination, exporter's sale number, and the CCC acceptance number to which the sale will be applied. The exporter must certify that the sale represents the net difference in quantity or a part of the net difference in quantity between sales made prior to 3:31 p.m., e.d.t., August 24, 1972, and offers submitted to and accepted by CCC prior to 3:31 p.m., e.d.t., August 24, 1972.

(5) The exporter must export wheat in accordance with the terms of the sale as provided in item (4) above and apply such exports to the contract with CCC to which the sale was applied. The exporter must furnish a certification with Form CCC-521, Report of Wheat Exported, to this effect.

*System II*

The payment rates announced for this system shall apply to offers which are not submitted under System I, to exports under sales made on and after 3:30 p.m., e.d.t., August 24, 1972, and sales made under PL-480. The rates are subject to change daily.

The Department also announced that the export rate periods applicable to exports of Hard Red Spring and Durum wheat from Gulf, East, and West Coast ports are merged into a single rate period terminating August 31, 1973. The East Coast Flour rate periods are also merged into a single rate period terminating September 15, 1973.

This announcement is made under the authority delegated to the Assistant Sales Manager, Commodity Exports, Export Marketing Service.

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LETTER TO THE MAJOR GRAIN EXPORTERS

CONGRESS OF THE UNITED STATES,  
HOUSE OF REPRESENTATIVES,  
Washington, D.C., September 8, 1972.

The House Subcommittee on Livestock and Grains will be conducting hearings on September 14, 18, and 19 dealing with recent price increases in the wheat market resulting from unusually large purchases by the USSR. In view of the great amount of comment and conjecture concerning the circumstances of this sale, we hope to explore the reasons behind these large wheat purchases by Russia and we are especially interested in determining the date on which information reached the U.S. about a crop failure.

As Chairman of the Subcommittee, I would like to invite you to provide testimony at our hearings. I would appreciate it if you or your representative would present information to the Subcommittee on several matters:

1. When did your firm first determine that Russia would suffer a crop failure and what is your estimate as to the magnitude of anticipated Russian requirements of U.S. grains?
2. What was the extent of your firm's transactions of wheat futures during the period May 1, 1972, to date? We would also appreciate obtaining the same information for the same period of time in 1970 and 1971.
3. The Subcommittee would like to know the amount of Federal export subsidies received, claimed, or to be claimed for grain exports for the past three years by your firm.

A written statement, in the event that you or your representative are unable to appear before the Subcommittee, would be appreciated. If for any reason your firm cannot comply with the Committee's request, please telephone our office by Tuesday, September 12, and follow it up with written confirmation.

Sincerely,

GRAHAM PURCELL.

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CONTINENTAL GRAIN Co.,  
New York, N.Y., September 18, 1972.

HON. GRAHAM PURCELL,  
Chairman, Subcommittee on Livestock and Grains of the Committee on Agriculture, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for your letter of September 8, 1972 inviting us to present testimony at the hearings of the House Subcommittee on Livestock and Grains in connection with the recent large purchases of wheat by the U.S.S.R.

We are responding by this letter to the three particular questions posed in your letter and Mr. Clarence D. Palmby, our Corporate Vice President for Market Planning and Development, will present a statement and testify in person on his own behalf and on behalf of our company to furnish you with further information concerning his own and our corporation's role in this historic transaction.

1. Our appraisal of Soviet Union grain production prospects in 1972 has been an evolutionary process rather than an instantaneous conclusion at any particular point in time. The weather in the U.S.S.R. during January had been extremely cold, the coldest winter in 50 years. In February, the Canadian Wheat board announced that the Soviet Union had purchased 3.5 million tons of Canadian wheat with an option to purchase an additional 1.5 million tons at a later date. By early March it appeared to us that losses of Soviet winter grains could be substantial. We could not, however, conclude that the U.S.S.R. would purchase substantial quantities of grain as it was possible that production of spring seeded grains might offset losses of winter grain. In the past the Soviets have waited until they could appraise their autumn harvest before making large purchases of grain in the international market. Their spring grain crops are usually twice the size of the winter grain crops. Even in 1963 when their purchases were very large, they began buying in Canada only in September and in the U.S. in December.

We emphasize that such information we have had concerning U.S.S.R. crop prospects has been gained from secondary sources, not "inside" information. This information has been concurrently available to the general public and especially the news media such as Associated Press and Reuters. One of our sources of information has been unclassified reports released on requests to the general public by the U.S. Department of Agriculture's Foreign Agricultural Service.

Frankly, we are unable even now to estimate the size of the U.S.S.R. 1972 grain crops and the extent of their needs. Typically, the U.S.S.R. is an exporter of wheat. In the past when the Soviet Union has purchased grain from other origins, such as Canada or France, some of the grain went to other Eastern Socialist countries, presumably to fulfill Soviet trade commitments. Thus U.S.S.R. purchases to date may well represent not only Soviet domestic needs but also supply for traditional buyers of grain from the Soviet Union.

2. With reference to your question regarding our firm's transactions in wheat futures, we are furnishing this information below for the periods and years requested. These figures represent combined totals in the futures contract markets in Chicago, Kansas City and Minneapolis.

## WHEAT FUTURES PURCHASES AND SALES

[In thousands of bushels]

	1972		1971		1970	
	Purchases	Sales	Purchases	Sales	Purchases	Sales
May.....	7,860	8,996	10,702	7,395	7,482	5,437
June.....	11,420	8,320	16,070	16,065	13,149	9,415
July.....	55,450	22,069	14,375	13,765	6,150	11,335
August.....	44,083	42,776	10,425	15,025	13,460	14,159
Total.....	118,813	82,161	51,572	52,250	40,241	40,346

Since as you might be aware our company uses the futures markets primarily for hedging purposes, we felt it would be appropriate to furnish you with our total cash purchases and sales for the corresponding periods for which we have given the above futures volume.

## CASH WHEAT PURCHASES AND SALES

[In thousands of bushels]

	1972		1971		1970	
	Purchases	Sales	Purchases	Sales	Purchases	Sales
May.....	12,559	8,697	5,721	14,397	7,276	8,013
June.....	28,190	29,640	18,122	12,541	15,560	10,482
July.....	50,228	205,368	15,103	12,986	17,260	17,383
August.....	83,867	14,384	19,338	21,356	15,377	7,152
Total.....	174,844	258,089	58,284	61,280	55,473	43,030

3. We list below for the periods designated the dollar value of total export equalization payments received by us for exports of wheat of all classes. We are also furnishing the bushel quantities exported by us during these periods.

Period	Subsidy value (millions)	Bushels exported (millions)
July 1, 1969, to June 30, 1970.....	\$14	1 90
July 1, 1970, to June 30, 1971.....	25	125
July 1, 1971, to June 30, 1972.....	9	107
July 1, 1972, to Sept. 12, 1972 <sup>2</sup> .....	74	256

<sup>1</sup> Estimated.

<sup>2</sup> This line represents a combination of grain shipped and to be shipped prior to Aug. 31, 1973.

We trust the foregoing is the information you desired to elicit.

Respectfully yours,

MICHAEL FRIBOURG, *President.*

GARNAC GRAIN CO., INC.,  
New York, N.Y., September 15, 1972.

HON. GRAHAM PURCELL,  
Subcommittee on Livestock and Grains,  
House of Representatives, Washington, D.C.

DEAR SIR: Your letter of September 8, 1972, unfortunately, has reached our New York office only on September 13. In spite of the very short time available, we shall endeavor to answer your three queries to the best of our knowledge.

(1) Some time in April 1972, we have started to hear about substantial damage to Russia's Winter Wheat crop due to abnormally low temperatures coinciding with almost a total lack of snow cover. Considering Russia's purchase of 3.5 million tons of Canadian Wheat, which could be increased to 5 million tons, our thinking was that the U.S.S.R. might have to buy a further 3 to 4 million tons of grains. The lifting of trade restrictions toward the U.S.S.R. made the U.S.A. the most likely potential origin to supply this extra tonnage. However, knowing that the U.S.S.R. had embarked on a program to develop meat production, we reckoned that they would mostly purchase feed grains.

We have sold to the U.S.S.R. 200,000 tons of Hard Winter Wheat on July 20th and another 350,000 tons on August 2nd. Up until this time, we have received no positive news about a crop failure in the U.S.S.R., nor could we learn anything to this effect from the Russian Purchasing Mission. The buyers have steadfastly refused to reveal anything regarding the quantity of Wheat and other grains they had bought in this country until August 2nd. It was not until the end of August that we have heard rumors about the quantities of grains bought by the U.S.S.R.

(2) Our total transactions of Wheat futures on the three grain exchanges of Chicago, Kansas City and Minneapolis for the period May 1st to September 8th have been in:

Purchases and sales combined: 1970, 47,980,000; 1971, 53,480,000; and 1972, 126,980,000.

(3) The amount of Federal Wheat export subsidies received, claimed, or to be claimed for Wheat exports during the last calendar years are in:

Dollars: 1969, 648,345; 1970, 3,662,581; and 1971, 2,891,425.

Bushels: 1969, 10,851,075; 1970, 15,113,010; and 1971, 21,909,427.

Yours very truly,

GILBERT VIGIER,  
*Executive Vice-President.*

LOUIS DREYFUS CORP.,  
New York, N.Y., September 25, 1972.

HON. GRAHAM PURCELL,  
Congress of the United States,  
House of Representatives, Washington, D.C.

DEAR CONGRESSMAN PURCELL: We will endeavor herein to give as concise a reply as possible to the questions set forth in your letter of September 8, 1972.

1. "When did your firm first determine that Russia would suffer a crop failure . . .?"

In replying to the question, we take its meaning to be "when did we 'learn' or did we conclude that Russia would be potential buyers of large quantities of U.S. Grain?"

There is no single date on which, and no single source from which, we have received such information on potential grain demand from Russia. What knowledge we acquired was entirely from normal public or trade sources and came to us over a period of time. Specifically, we have never at any time received such information from any representative of the U.S. Government, or from the Russian representatives themselves.

By way of background, we have long hoped that Russia would eventually become a regular buyer of U.S. Grains, and were encouraged at the feed grain sales made by other exporters in the fall of 1971. Following President Nixon's visit to Moscow in May, 1972, there appeared to be gathering substance for these hopes and at our urging, our European representatives spoke to the buyers in Moscow from time to time on a regular basis—but learned absolutely nothing relating to any such future demand.

On July 5th we learned the Russian buyers themselves were in New York; we were able to reach the buyers finally on July 6th; and first met with them in New York on Friday, July 7th. At this time Mr. Belousov requested that we make an offer of wheat, to reach him the next week. On Monday, July 10th we made an offer and on that day concluded our first sale. The buyers unexpectedly returned to New York on July 29/30th and we contacted them on July 31st, arranging a meeting on the following day when we made two additional sales. Neither on our initial contact nor since have our buyers ever been willing to indicate or discuss their total potential requirements.

1. ". . . What is your estimate as to the magnitude of anticipated Russian requirements of U.S. grains?"

At the present time we can only assume that Russia's requirements for U.S. grains have been met with the purchases already announced or reported—i.e., approximately 17,500,000 tons of U.S. wheat, corn and soybeans.

We have, at this time, no information or knowledge whatever, which would give us any special means of judging whether Russia has additional need for grain for the periods in question.

2. "What was the extent of your firm's transactions of wheat futures during the period May 1, 1972, to date? (what is) the same information for the same period of time in 1970 and 1971."

Responding directly to this question may present us with competitive problems which we are confident your committee did not intend. To, in effect, publish our futures position at this time when we are only at the beginning of the nine months of shipments of our Russian sales can put us at a serious disadvantage vis-a-vis our competitors.

In the event your committee feels that it absolutely must have this data we would be willing to provide you (on a strictly confidential basis) with the same daily reports we have submitted to the C.E.A. However, if it will aid the central purpose of your inquiry we can state here that our wheat futures positions in the months of May and June 1972 were very small and we bought no significant amount of wheat futures until July 11th, when we commenced buying to hedge our first Russian sale.

3. "(Give) the amount of Federal export subsidies received, claimed, or to be claimed for grain exports for the past three years by your firm".

Bushels: 223,322,725—Dollar amount: \$59,223,836.

The dollar figure above includes amounts received on shipments already made in calendar 1969, 70, 71 and 72 to date, as well as those to be received under current subsidy undertakings for shipments still to be made through May 31, 1973. The dollar figures are also "net", (Export Certificate costs of \$909,838 paid to the USDA in 1969 having been deducted). That is to say, that during 1969 the wheat export program included a "penalty" to the exporter to export wheat. This was more commonly referred to as an inverse subsidy or an export tax since the exporter had to pay the U.S.D.A., (as opposed to the current situation of positive payments). In both cases these payments were used to equalize world prices.

Sincerely,

PHILIP H. MCCAULL,  
Executive Vice President.

BUNGE CORP.,  
New York, N.Y., September 13, 1972.

HON. GRAHAM PURCELL,  
Congress of the United States,  
Washington, D.C.

DEAR SIR: I am pleased to reply to your letter of September 8, 1972, regarding information relevant to the purchase of wheat by the USSR, and to answer your questions as below:

1. Bunge Corporation had no knowledge of the crop conditions or of a crop failure in the USSR beyond the reports in the press and official USDA reports, all of which are available to the general public. Moreover, our experience has been that the Soviets, like any skilled buyer, never reveal market factors or the extent of their requirements. They downplay the factors underlying their purchase.

I would like to volunteer a response to the allegation that large exporters had inside advance information about the large Russian demand and bought wheat heavily before the public at large was aware of the true situation. Bunge had no knowledge from the USDA or any other USA government agency, or from the Soviet buying agency, Exportkhleb, or from anyone else, that the USSR was interested in wheat. We were first in telephone contact with Exportkhleb representatives in late June while they were in Washington, and we tried to set up a meeting to determine their interest. On July 7, we visited them, at their request, in their hotel suite at the New York Hilton Hotel for our first business discussion. We asked them about their potential grain requirements, and, based on their known desire to increase their meat and protein intake, we expected them to be interested in corn, barley, or soybeans. They denied interest in these commodities and to our surprise requested an offer for wheat. On Monday, July 10, we offered 600,000 tons of hard red winter wheat but failed to do the business and we were told that our price was too high. In late July, with no knowledge of USSR total requirements, we resumed negotiations and on August 2 sold Exportkhleb 600,000 tons of hard red winter wheat.

Despite later press reports making numerous and varied estimates, from which wheat purchased seem to have reached 10/12 million tons, we do not know to this day the actual USSR purchases or requirements.

2. Our wheat futures transactions during the periods you indicated were, in bushels, as follows:

	Bought	Sold
May 1 to Sept. 8, 1972.....	44,304,000	36,130,000
May 1 to Sept. 8, 1971.....	13,411,000	19,989,000
May 1 to Sept. 8, 1970.....	22,865,000	25,652,000

However, I would like to suggest respectfully that future figures, by themselves, are really not very meaningful. The information that your committee should be interested in, in my opinion, is what were the grain exporters' net long or short position (cash and futures combined) in wheat from May 1, 1972 until the day of their sales to the Russians. Bunge's position in wheat during such period averaged net long less than 1,000,000 bushels, and at the moment of our sale to the Soviets we became net short virtually the entire quantity of that sale.

3. The amounts of federal export subsidies received, claimed, or to be claimed for grain exports for the past 3 years by Bunge Corporation are:

September 1, 1969 to March 31, 1970: \$2,550,414.19.

April 1, 1970 to March 31, 1971: \$7,152,108.38.

April 1, 1971 to March 31, 1972: \$4,449,829.09.

April 1, 1972 to September 8, 1972: \$14,481,653.36.

As you know, export subsidies are not retained by the exporters; rather they are passed back to the farmers in the form of the higher prices paid to them.

We further would like to add that Bunge Corporation, even at this time, does not know what the financial outcome of our wheat sale to the USSR will be, since a large part of the physical wheat must still be purchased and all of the

wheat has still to be shipped. We hope to realize eventually a profit on this sale, in line with the modest margins customarily experienced in our highly competitive overall trade.

I trust this answers your inquiries. If we can furnish any further information please let me know.

Sincerely yours,

WALTER C. KLEIN, *President.*

COOK INDUSTRIES, INC.,  
*Washington, D.C., September 26, 1972.*

HON. GRAHAM PURCELL,  
*Chairman, Subcommittee on Livestock and Grains, House Committee on Agriculture, Washington, D.C.*

DEAR MR. PURCELL: This is in response to your letter of September 8, 1972, announcing your decision to conduct public hearings to deal with the recent sales of U.S. wheat to the USSR. I share your concern at the great amount of public comment and conjecture regarding the circumstances surrounding the sale and I welcome this opportunity to provide the basic facts pertaining to our company's participation in the sale.

First, let me assure you and the members of your subcommittee that Cook Industries did not have any so-called "inside information" concerning the condition of the Russian wheat crop and the size of subsequent purchases of U.S. wheat nor were we privy to any "tip off" as to the policy changes announced by USDA on August 25 regarding export subsidies for wheat.

The future for grain exporters, like that for grain producers, lies in two specific areas. First, we must maintain and hopefully expand our company's share of existing markets for U.S. grain. Second, we must find and develop new customers for U.S. grain in the international market. As a result, and in the normal course of our business, we followed with intense interest the very significant political, social and economic changes that occurred in Russia and Eastern Europe during the past several years.

Of particular interest to our industry has been the increased emphasis the communist governments have placed on improving the diets of their people by substantially increasing the production of meat, eggs and milk. In fact, this single development was a clear signal to all the world that Russia and its East European neighbors had embarked upon a livestock and feed program that would provide new and challenging opportunities for us to expand exports of U.S. grains.

In view of these developments, I visited the Soviet Union and the East European countries in June 1971. (As a matter of fact, I was in Moscow when President Nixon announced his decision to remove the requirement that 50% of all U.S. wheat and grain exports to the Soviet Union must move in U.S. ships.) Since that time representatives of our firm have traveled to Russia on a bi-monthly schedule.

Based on our own company's experience and in light of the extensive press coverage of the President's trip to Moscow last April and the subsequent trade talks between the two countries, we were very optimistic regarding the possibility of greatly expanding the sale of U.S. grains to Russia. However, at no time did we have cause to anticipate the present volume.

Following the sale of U.S. feed grains to Russia in November 1971, and throughout the spring of 1972, there were numerous reports of severe damage to Russia's winter grain crops. Official Russian releases confirmed extensive winter damage, but the impact of these reports on the world market were largely offset by simultaneous reports of massive over planting of summer grains. However, on several occasions these reports led to persistent rumors that the Russians actually were in the market and buying U.S. grain. Such rumors ran rampant throughout the grain trade during the week immediately preceding the July 8th announcement of a U.S.-USSR grain agreement.

Our first knowledge that the Russians were in the United States came at approximately 5:00 PM CDT, Thursday, July 29, 1972. The Russian representative called our headquarters in Memphis and invited our representative to Washington to dinner the following evening (June 30, 1972). No reason was given for the Russians' presence in Washington. Mr. John Antonius flew to Washington, had dinner with the Russians and returned to Memphis on Saturday, July 1, 1972, empty handed.

On July 10, 1972, I contacted the Russians in New York and arranged to meet with them at 4:00 PM EST, July 11, in New York, at which time we reached

an agreement covering the sale of 500,000 tons of U.S. wheat. Accompanying me on that trip were Messrs, Sparks and Antonius. Both are employees of Cook Industries.

On Monday, July 17, 1972, the Russians telephoned us in Memphis and asked for an appointment in Memphis on Tuesday, July 18, 1972. On Wednesday, July 19, we reached an agreement covering the sale of an additional 100,000 tons of U.S. wheat. The Russians returned to New York on Thursday, July 20.

On July 31, 1972, we learned that the Russians were back in New York and I called them to request an appointment. The Russian representative indicated an interest in buying milo and wheat and invited me to New York for lunch on August 1, 1972.

On August 1, 1972, Mr. Sparks accompanied me to New York and to the meeting with the Russians at which time we learned of their interest in U.S. soybeans. Following the luncheon meeting, we prepared an offer for one-million tons of U.S. soybeans. We also reached an agreement to sell an additional 300,000 tons of U.S. wheat.

On August 4, 1972, I met with the Russians in New York and completed the agreement covering the soybean sale. Contracts covering the soybean sale and the additional wheat sale were actually signed on August 5, 1972.

On August 10, 1972, I issued the attached press release announcing the soybean sale and acknowledging our participation in the wheat sales.

The delivery of wheat and soybeans against these sales contracts have begun and will continue through mid-1973. We do not know and will not know whether or not these sales will prove profitable until all deliveries are completed. However, it might be of interest to your committee that the total volume of U.S. wheat handled by our company exceeded 100 million bushels in each of the past two years and that the net pretax profits on those sales including export subsidies when applicable averaged less than 1% on volume.

The controversy surrounding the sales of U.S. wheat to Russia reveals a very serious misconception and distortion of the wheat export subsidy issue. The charges made before your committee that we "reaped windfall profits from early inside information" are totally untrue and dangerously misleading. That such charges were made by Members of Congress and farm organization leaders is shocking.

The economic interest of U.S. wheat producers and of all agriculture will best be served through a calm and deliberate examination of the subsidy issue rather than the current emotional clamor that goes on totally unsupported by the facts. To this end I pledge my continued cooperation.

For the interest of the committee we have prepared and enclosed a partial list of news items covering the developments leading to the sale of U.S. grains to the Soviet Union.<sup>1</sup>

Sincerely,

EDWARD W. COOK, *President.*

Enclosure.

NEWS RELEASE

COOK INDUSTRIES, INC.,  
August 10, 1972.

Edward W. Cook, President of Cook Industries, Inc., Memphis, Tennessee, announced today the recent sale of a large quantity of 1971 and 1972 crop soybeans to the Soviet Union. The export of these soybeans will begin immediately and continue into calendar year 1973.

Although the quantity was not revealed, Mr. Cook stated that he believes this to be one of the largest single commercial grain sales ever made to the Soviet Union.

In addition to this soybean transaction, Cook Industries, Inc. has also been a major participant in other recent farm product sales to the Soviet Union.

CONTINENTAL GRAIN Co.,  
New York, N.Y., September 25, 1972.

HON. GRAHAM PURCELL,  
*Chairman, Subcommittee on Livestock and Grains of the Committee on Agriculture, House of Representatives, Washington, D.C.*

DEAR CHAIRMAN PURCELL: I shall deeply appreciate your including the following comments in the record of the hearings recently held by your Subcommittee

<sup>1</sup> This material may be found in the files of the committee.

on the sale of U.S. wheat to the Soviet Union. Now having had the opportunity to read the transcript of my remarks before the Subcommittee on September 19, 1972, I want to add these supplemental details.

I related to the Subcommittee on Livestock and Grains of the House Committee on Agriculture on September 19, that I had made up my mind during the spring of 1972 that I wanted to resign as Assistant Secretary of Agriculture. I also stated to the Subcommittee that after the resignation of Secretary Hardin last November, I had received several offers for employment in the private sector.

After much thought during the winter and early spring of 1972, Mrs. Palmby and I decided that when I left government service, I would not stay in Washington in trade association or lobbying work, which is often the choice made by former high government officials. I did, as you might expect, give limited considerations to two offers to head agricultural-oriented association work in Washington, and had other approaches.

After an approach from the president of Continental Grain Company in early March regarding employment with the firm in New York, Mrs. Palmby and I spent several hours in New York looking at apartments and living conditions generally.

Following this, and with an appreciation of my background and experience in international trade, coupled with my keen desire to again spend full time in such work, Mrs. Palmby and I decided that whether I accepted the Continental offer or not, we were prepared to move to the seat of world trade in the United States—New York City. Somewhat by happenstance, we found a desirable apartment in a location very much to our liking, which would become available for occupancy in late July, if we acted quickly.

Because we owned our home in Arlington, Virginia, and on the assumption we would sell our home, and because of the tax structure being what it is, it was almost mandatory for me to buy a cooperative apartment as compared to renting.

Mrs. Palmby and I decided to contract for the purchase of a cooperative apartment. Because I was going to be away in Europe for some time, just before departing for a meeting in Paris, I signed the contract and mailed it back to the seller, who then also signed the contract in New York on April 5. Mrs. Palmby and I both realized that there was a gamble as to when we might occupy the apartment, but we both had absolute confidence that I could successfully and gainfully continue my career in the private international trade sector.

I made the down payment from my private funds and arranged for deferred payment on a portion of the balance. We sold our Arlington, Virginia home after my resignation on June 7 from government and before taking title to the cooperative apartment on July 28, 1972.

It was our feeling that an investment in good real estate in our situation with family responsibilities already fulfilled, represents minimum financial risk.

As is customary, a proposed buyer of an apartment must submit financial and personal character references to the cooperative corporation. I furnished the names of my home-town banker and four persons who were officers of Continental Grain Company acquainted with me in public and private life since the 1950's and 1960's. These four were aware of Mr. Fribourg's invitation to me to join Continental. I wished to avoid disclosure of personal matters suggesting an intention to leave government before I had myself decided among various possibilities and had advised appropriate officials in government. To minimize the risk of such premature publicity, I chose as my personal references the persons all in this one company, from which I then had an offer of employment; Continental as a company had nothing to do with my contracting for the apartment.

As earlier related to the members of the Subcommittee, I finally made up my mind on the evening of May 11 that I would like to join Continental Grain Company. I relayed this decision to Secretary Butz and the president of Continental Grain Company on May 12. This seemed the appropriate time to depart before becoming involved in a new round of legislative and other policy matters at the Department.

It may also be of interest to the members of the Subcommittee that I contracted to buy a lake shore lot in Itasca County, Minnesota, on August 27, 1971 when I was still a government official. I later received a building permit and have made preliminary building plans to build a "year around" home on that property.

Also for the information of the Subcommittee, since leaving government service, I have decided to make changes in my farming operation in southern

Minnesota and have scheduled an auction to dispose of my farm machinery on December 9, 1972.

The foregoing summarizes all personal information which I believe could conceivably be of any interest to the Subcommittee.

Sincerely,

CLARENCE D. PALMBY,  
Vice President,  
Market Planning and Development.

NEW YORK, N.Y., October 16, 1972.

Representative GRAHAM PURCELL,  
House of Representatives,  
Washington, D.C.

DEAR MR. PURCELL: The following are the facts pertaining to the sale of my apartment to Mr. Clarence Palmby.

Early this year I listed my apartment for sale with various New York real estate agents. Thereafter an agent, Mrs. Lillian Frank, brought Mr. & Mrs. Palmby to our apartment. Mrs. Richards was at home. She greeted the agent and prospective purchasers and the agent then escorted the Palmbys through the apartment. Mrs. Richards engaged in no conversation with either Mr. nor Mrs. Palmby at that time.

Subsequently our agent called to inform us that the Palmby's expected to move to New York and would like to buy our apartment. All of our negotiations for the sale were conducted with the agent.

My first meeting with Mr. Palmby was on a subsequent afternoon after he had been interviewed by two members of the Board of Directors of the Co-operative. To my best recollection our conversation was limited to the various features of the apartment. No mention was made to me then or subsequently concerning his employment plans.

I had occasion to speak to Mr. Palmby on July 24th at which time I called him at a New York number which had been given to me by Mrs. Frank and which I believe at that time I was aware—was at the offices of the Continental Grain Company.

My only other meeting with Mr. Palmby was on July 28th when title to the apartment was passed. At that time no conversation was engaged in other than the details of the closing.

Respectfully submitted.

HAROLD J. RICHARDS.

BUNGE CORP.,  
Washington, D.C., September 19, 1972.

HON. GRAHAM PURCELL,  
Chairman, Subcommittee on Livestock and Grains, House Committee on Agriculture, Longworth House Office Building, Washington, D.C.

DEAR CONGRESSMAN PURCELL: Because I have been asked by CBS for a clarification of my role as a former employee of the U.S. Department of Agriculture in the recent sales of grain to the U.S.S.R., I am herewith submitting to your subcommittee a background statement I have prepared. This is submitted to enable you to make it a part of your hearing record.

Respectfully yours,

CLIFFORD G. PULVERMACHER.

STATEMENT OF CLIFFORD G. PULVERMACHER

Gentlemen, my name is Clifford G. Pulvermacher. Since August 1, I have been manager of the Washington Office of the Bunge Corporation. Prior to June 30, I was in the Federal Government service for over thirty-one years. I appreciate this opportunity to correct some of the unfounded and untrue statements which have appeared in some of the press about the role I played in recent grain sales to the U.S.S.R. I refer specifically to the following allegations:

(1) I resigned my position with the Department of Agriculture to take a highly paid position with a large international trading firm;

(2) I was one of the "two Department officials who managed the grain deal with the Soviet Union";

(3) I carried privileged information available to me in the Department of Agriculture to the Bunge Corporation to assist it to make a grain sale to the U.S.S.R.

I shall comment upon these allegations in the order in which I have mentioned them.

On April 23, 1971 I had the USDA personnel department provide me with an estimate of my retirement benefits as of December 31, 1971 and December 31, 1972. During the summer of 1971, I notified my immediate superior, Mr. Clarence Palmby, Assistant Secretary, that I planned to retire from government service sometime in 1972. I advised him that I would be willing to have the retirement date set at such time during 1972 as would be most convenient to the naming of my successor. I further indicated that I would be willing to remain in my position until after the election this fall, but in no event later than early 1973.

In March 1972, I was informed by the USDA personnel department that the cost of living index during February had increased 3.3 percent, and if a 3 percent or greater increase was maintained during March and April, 1972, eligible federal employees who retired June 30 or before would receive an increased retirement annuity. I requested, and on March 30, 1972 received, a personnel department memorandum which estimated my retirement benefits as of June 30, 1972 and as of December 31, 1972. The estimates disclosed that my annuity would be higher annually if I retired on June 30 as compared to December 31, 1972.

I then informed Assistant Secretary Palmby and Secretary Butz that, if agreeable to them, I would plan to retire effective June 30, 1972. They consented to this and on June 28 I retired after more than thirty-one years in Federal service. There was nothing unusual in my decision in that 80,000 other Federal employees made similar decisions during June. I did not resign nor was my retirement motivated by my desire to seek employment in private industry.

With regard to the second allegation, I was one of the officials who accompanied Secretary Butz on his visit to the Soviet Union in early April. One of the purposes of the visit was to discuss with U.S.S.R. representatives their possible need for grain imports during the coming year. It also enabled Secretary Butz to return the visit of Minister Matskevich, Ministry of Agriculture, who visited the United States in December, 1971. At that time Minister Matskevich invited Secretary Butz to visit the U.S.S.R.

The Agricultural Attache in the U. S. Embassy in Moscow, in reports, had indicated that due to severe winter weather the U.S.S.R. had suffered winter kill of some of its fall sown grain crops. The extent of this damage could only be estimated in that Soviet statistics on crop damage are not available and travel of U. S. Embassy employees into many of the grain production areas is restricted.

In our discussions with U.S.S.R. representatives on April 11 and 12, 1972, the U. S. indicated its willingness to consider the extension of three year short-term CCC credit of \$250 million annually for three years at 6 $\frac{1}{8}$  percent interest if assured by a U. S. bank. The outstanding credit exposure at any one time could not exceed \$500 million. On at least seven occasions during the two days of discussion the U.S.S.R. representatives indicated that they had no interest whatsoever in short-term three year credit at 6 $\frac{1}{8}$  percent interest. They requested the U. S. to consider longer term lower interest types of credit. The U. S. indicated this was not possible.

The discussion of possible U.S.S.R. grain import requirements related themselves to corn, barley and other feed grains and protein supplements such as soybeans and soybean meal—none of the discussions related to wheat. The U.S.S.R. representatives, though they admitted to some crop damage, would not respond to the U.S. inquiries as to the kinds and quantities of grain they might desire to import for their expanded livestock feeding program.

The talks were concluded on April 12 and no agreement between the two governments on the sale of U. S. grains to the U.S.S.R. was concluded. I personally was pessimistic that there would be one in the near future. It was the feeling of several in the U. S. negotiating group that even though U.S.S.R. representatives had expressed complete disinterest in the CCC credit program, we believed that the U.S.S.R. would likely begin the import of three to five million tons of U.S. feed grains on a cash basis in the last quarter of 1972. The rational supporting this judgment was that the U.S.S.R. could make a better assessment of their grain import requirements after their harvest. It was also believed that their gold and foreign exchange reserves were adequate to carry out a grain import program.

To my knowledge, no further communication relating to grain imports into the U.S.S.R. between the U. S. and U.S.S.R. representatives took place between April 12 and June 28.

On that date advice was received that a team of U.S.S.R. representatives was enroute to the United States. Our message did not indicate the purpose of the team's visit. As indicated earlier, June 28 was my last day of official duty in U. S. government service.

There is no basis whatsoever for the allegation that I carried privileged information with me at the time of my retirement from the Department of Agriculture which I made available to the Bunge Corporation or to anyone else.

When it became known to persons in the private trade that I was planning to retire from government service sometime in 1972, I was contacted by representatives of eight different firms and associations who said they would be interested in talking to me about private employment after I had completed my government service. In all instances I stated that I would not engage in such discussions until I was completely disengaged from government service.

During the month of July, I did talk to representatives of these firms. On July 18 I met with Mr. Walter C. Klein, President, Bunge Corporation, New York, New York. At that time he offered me the position I now hold as Manager of the Washington office. At that time I asked him whether Bunge had offered any grain to the Soviets and he said that at the request of Exportkhleb they offered a quantity of hard red winter wheat. He indicated that Exportkhleb had declined the offer on the grounds that they considered the price too high. I had no further discussion with Mr. Klein or any other Bunge representative about the possible sale of grain to the U.S.S.R.

On July 24, I called Mr. Klein and accepted the position as Manager of the Bunge Corporation Washington office at a salary equivalent to what I had earned in my position as General Sales Manager in the U.S. Department of Agriculture. I reported for duty on August 1 and, on August 2, learned that on that day Bunge had sold 600,000 MT of wheat to the U.S.S.R. I played no part whatsoever in this sales transaction.

I can without equivocation, state that I violated no government regulation, rule or policy in either a legal, moral or ethical sense. I did confer with legal counsel prior to accepting my present position to be assured that no "conflict of interest" was involved. It is a sad commentary that the Soviet grain sales, which make such a meaningful revenue contribution to the wheat and feed grain farmers in the U.S. and to our balance of payments, has been so inaccurately reported upon.

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CONGRESS OF THE UNITED STATES,  
HOUSE OF REPRESENTATIVES,  
Washington, D.C., September 12, 1972.

HON. GRAHAM PURCELL,

*Chairman, Subcommittee on Livestock and Grains, Committee on Agriculture, House of Representatives; Chairman, Subcommittee on Livestock and Grains, Committee on Agriculture, House of Representatives.*

DEAR MR. CHAIRMAN: I want to congratulate you on your decision to investigate the circumstances surrounding the U.S.-U.S.S.R. grain agreement.

I know that you will conduct a full and fair investigation. I would like to suggest, however, that during your investigation you focus intensively on the effect of the agreement on the U.S. consumer. As you may be aware, I have been highly critical of this agreement since, from the outset there seems to have been very little information about the effect of this agreement on U.S. food prices. In response to one of my many letters to the Department of Agriculture, I was informed that U.S.D.A. still has no idea of the magnitude of the U.S. grain exports to the Soviet Union, and implies that it will not secure such information.

It is incomprehensible to me how the Department of Agriculture negotiated the grain deal, when it now admits to knowing nothing of the amount of grain involved, nor, more importantly, what this agreement will do to U.S. prices and the cost of grain products to American workers.

I hope that the Subcommittee will force the Department of Agriculture to get specific information on the size of the shipments, not only to the U.S.S.R., but those to other markets such as Mainland China as well, so that we might know exactly how much grain American farmers have to produce to keep domestic prices down.

At the same time, I believe, the Subcommittee should act to give affirmative and binding authority to U.S.D.A. to require the mandatory cultivation of unused wheat fields which are now eligible for "set aside" payments, so that we might prevent a wheat shortage.

The U.S.D.A. informed me that the "set aside" program is voluntary. Under the 1973 wheat program, farmers can decide whether or not to plant. I cannot see how the Department can allow such a crucial decision to be made by the individual farmer, when the Agriculture Department, itself, admits it does not know what the future grain need is.

For your information, I am enclosing a copy of the response I received from the Department of Agriculture.

Sincerely,

WILLIAM R. COTTER,  
*Member of Congress.*

U.S. DEPARTMENT OF AGRICULTURE,  
EXPORT MARKETING SERVICE,  
*Washington, D.C., September 12, 1972.*

Hon. WILLIAM R. COTTER,  
*House of Representatives,*  
*Washington, D.C.*

DEAR MR. COTTER: This is in further response to your letter of August 28 posing several questions about the U.S. wheat situation as affected by the Soviet wheat purchases.

The Administration does not share your concern about a possible shortfall in U.S. wheat supplies. Supplies are adequate to meet all domestic requirements and presently estimated commercial exports.

We see no reason to change the 1973 Wheat Program because it gives farmers complete freedom to seed as much land to wheat as they desire. They will decide how much to plant depending on their reading of the market and prospective returns. Because of strong prices, we anticipate farmers will take advantage of flexibility in the 1973 Wheat Program and will put fewer acres into the voluntary set-aside provisions of the Program. We believe they will plant more wheat, which in turn means additional supplies for the market place.

The degree to which wheat prices have strengthened since the announcement of the Soviet agreement in early July has surprised everyone. The reason for this is that no one anticipated the volume of wheat the Soviets would buy. In fact, because the sales have been made by private exporting firms, no one is sure even yet of the quantities involved, but they are substantial. Neither the Soviets nor the exporting firms have divulged any information about the purchases, but then, of course, they should not be expected to do so insofar as purchases have been on strictly commercial terms.

Export payment rates are set in a manner that will make U.S. wheats competitively priced in markets overseas. The rates, therefore, as you state in your letter, reflect the difference between U.S. domestic values and world price levels. Thus, while the subsidies are paid to exporters, they are, in effect, payments to producers, since they equate the higher U.S. price with the lower international price and thereby enable our wheat to move into export.

As a consequence of higher domestic prices caused by the knowledge of Soviet interest in buying U.S. wheat, it has been necessary to announce higher export subsidies than anticipated in order to maintain relatively level stable world price levels. We feel this will accrue to the best interest of the U.S. wheat producers, since artificially high world prices stimulate production in competing countries. Ultimately the latter would mean greater U.S. government expenditures to keep land out of production in our country. Further, our millers, bakers, and consumers also benefit from larger production because they are insured a greater selection of wheats to choose from.

There is no practical way to determine the margin of profit exporters might make on individual transactions. Competition between exporters is very high, generally resulting in narrow profit margins, and at various times in losses.

Being aware of the public interest in any material signs of improvement in trade relations with the U.S.S.R., the Administration has taken the utmost care to announce all developments immediately. This was the reason why the White House issued the announcement concerning the trade agreement within an hour after it was signed on July 8.

Sincerely,

LAUREL C. MEADE,  
*General Sales Manager.*

[Telegram]

HURON, S. DAK., *September 7, 1972.*

HON. JAMES ABOUREZIK,  
*U.S. House of Representatives,*  
*Washington, D.C.*

We respectfully request a full scale congressional investigation of the U.S. sale of wheat to Russia. We believe there may be violations of Federal conflict-of-interest laws because former USDA officials are now on the payrolls of grain export companies involved in the sale. We seek, also, answers to these questions: (1) How much wheat was sold to Russia? (2) What price was paid by Russia? (3) What grain exporting corporations received export subsidies and in what amount? (4) What other concessions were made on credit and transportation? (5) How much of the 1972 wheat crop was purchased by these grain corporations prior to announcement of sale and what profits resulted from speculation on futures market? (6) Were conflict-of-interest laws violated? We urgently request your help.

Lafe Lunder, E. Wald Osterberg, Luverne Jensen, Dorothy Authier, George Levin, Frank Butler, Harvey Faulstich, Adam Seidel, directors, South Dakota Farmers Union; Ben Radcliffe, president, South Dakota Farmers Union.

FOODS BY LIVINGSTON, INC.,  
*Pauls Valley, Okla., September 14, 1972.*

HON. CARL ALBERT,  
*The Speaker of the House of Representatives,*  
*Washington, D.C.*

SIR: In light of the recent publicity of the Russian Wheat Deal, I would like to bring to your attention from the grass roots of Oklahoma a condition which has made me very unhappy about our upcoming transaction. My supplier of flour has sent me prices in the last week where flour has increased from \$7.27 cwt. to \$8.45 cwt., which is a sizable increase for a one week jump. He contends his flour mills have raised prices because of upcoming Russian Wheat Deal.

I do not pretend to know about Governmental Economics but it looks like, if we are selling to Russia without a tremendous surplus on hand it will automatically raise everyone's prices and this is no way to curb inflation.

As for payment for the wheat, I do not cherish the idea of getting paid for it as we got paid for the World War II debt.

Very truly yours,

JULIAN M. FIELD,  
*President.*

THE MORRISON MILLING CO.,  
*Denton, Tex., August 30, 1972.*

Representative GRAHAM PURCELL,  
*The House of Representatives,*  
*House Office Building, Washington, D.C.*

DEAR REPRESENTATIVE PURCELL: May I call to your attention the spectacular increase of 50¢ per bushel in wheat prices that has occurred since July 1, 1972, and primarily as the result of huge Russian purchases of United States grain only recently made public.

Not only will this result in higher basic food costs for the American consumer, but it is indeed unfortunate that the majority of the Texas/Oklahoma wheat producers will fail to receive any benefit from the increase in price and conversely, as has been announced, suffer actual loss in the reduction of certificate payments under present U.S.D.A. Wheat Programs.

It appears obvious that substantial trade agreements must have been reached during President Nixon's visit to Moscow. One of the American Officials who accompanied Mr. Nixon, Mr. Clarence Palmby, resigned his position as Assistant Secretary of International Affairs, shortly after his return to join the Continental Grain Company in an executive capacity. According to information received by us the Continental Grain Company is one of the largest sellers to the Soviets. Shortly thereafter, Mr. Clifford Pulvermacher, a Deputy Secretary under Mr. Palmby, resigned for employment with the Bunge Corporation, another large grain exporting firm and participant too in the Russian purchases. It was the consistent heavy buying of these large grain exporting firms which forced the market upwards after July 1, 1972.

Unfortunately, by July 1, the greater portion of the Oklahoma/Texas harvest was completed and without knowledge of any such pending mammoth grain transactions, the statistical position of our Country's wheat supplies encouraged the majority of our Southwestern producers to sell. Now, with prospects of a reduced certificate payment, it is quite probable that many if not most of our Southwestern farmers will actually receive less for their grain this year than the year before.

As processors we too, have suffered from sharply advancing costs, which we have been unable to recover in selling prices. We have likewise suffered in option hedges against harvest purchased grain, since the cash wheat market has not fully followed the spectacular option gains. Too, we know without advance knowledge of these pending trades, the Baking Industry was unable to protect themselves and are being forced to seek immediate bread price increases to cover their increase in flour costs.

We feel the secrecy surrounding these negotiations and the possibility of "conflict of interest" resulting from the change in high U.S.D.A. Officials to these large grain firms does deserve investigation.

We hopefully call this to your attention for whatever action you may feel deserving after a more thorough investigation by yourselves. This being election year, we recognize that you are extremely busy and no acknowledgement is necessary.

Sincerely,

E. W. MORRISON, Jr.,  
President.

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TEXAS WHEAT PRODUCERS ASSOCIATION,  
Amarillo, Tex., September 12, 1972.

Hon. GRAHAM PURCELL,  
House of Representatives,  
Washington, D.C.

DEAR CONGRESSMAN PURCELL: It was good to visit with members of your staff earlier today relative to our belief that individual wheat producers in Texas (and the rest of the nation) may suffer actual income loss this year resulting from the sale of wheat to Russia coupled with provisions of the 1970 Farm Act. This letter is to reconfirm that belief and to submit material which may help substantiate such a belief—(1) figures demonstrating the expected Domestic Wheat Certificate value as of July 1 and the projected value after recent market price rises and (2) a release from the National Association of Wheat Growers.

We will not restate the problem here but instead refer you to the position of the National Association of Wheat Growers because—this Association is a supporting member of NAWG; we joined with wheat producers in other states in requesting NAWG to develop facts relative to the situation and now support the request being made to the Secretary of Agriculture. We go one step further however: If it is determined that the Secretary does not have authority to intervene to prevent such an income loss to producers, we seek your support and that of your distinguished colleagues to take legislative action, this session, to prevent the loss.

Be assured that the Texas Producers are not complaining (though disappointed) that they sold wheat before the price rise and missed the higher market—they are used to living with market fluctuations. The real problem is that after having sold their crop and taking the existing price that their income continues to be reduced further through loss of domestic certificate value with each sale (or rumor of potential sale that may never be made) to Russia or any country where administrative decision is required for such a transaction.

Some of the decisions we note and refer to are:

1. The administrative decision to sell to Russia at all.
2. The administrative decision to remove the requirement of shipping credit sales in 50% American bottoms.
3. The administrative decision to extend credit to Russia.
4. The administrative decision to attempt to hold world wheat prices stable through use of the U.S. export subsidy program.
5. The administrative decision to implement a temporary two-level export subsidy to protect international traders from loss on wheat sales to Russia due to rising U.S. wheat prices.

Accordingly, we now submit that at least one more decision (administrative or legislative) needs to be made and that is "to protect the U.S. wheat producer from loss of income," due to no action on his part, from the sale of wheat which comes about by administrative decision. When this is done, then Texas and U.S. producers can join the rest of the nation in hailing the advances in international relations, international market expansion and potential new era in agriculture which such recent wheat sales may be ushering in. In fact, through their membership in Great Plains Wheat, Inc., Texas producers strongly support morally and financially, program activities which led to the Russian sales and activities which may lead to continuing development of permanent markets around the world for U.S. wheat.

Your attention and assistance in solving the stated problem is respectfully requested and our pledge of cooperation in doing so is accordingly respectfully submitted.

Sincerely yours,

D. G. "BILL" NELSEN,  
*Executive Vice President.*

#### NATIONAL ASSOCIATION OF WHEAT GROWERS

##### SOME TAKE LOSS FROM RUSSIAN SALE

WASHINGTON, D.C.—The National Association of Wheat Growers today called on Agriculture Secretary Earl Butz for support in restoring \$20 to \$25 million of income lost to wheat producers through a quirk in the farm program payment formula.

Association president, Eugene Moos, speaking in behalf of 50% of the nation's winter wheat producers who could be effected by selling this year's crop before the recent market surge stated that many of the nation's wheat growers are benefiting from increased wheat prices but many in the Southern states are taking a real clobbering from a double loss.

Hard to believe in an up market? A change in the payment formula for domestic wheat certificates in the current farm law makes the difference. The formula calls for a payment based on the difference between the average market price for July, August, September, October and November and parity July 1. Under normal marketing conditions this has little effect—but this is not a normal year.

The formula will reduce this year's anticipated payment to the nation's wheat growers \$100 million because of the Russian sale and higher prices. For many producers the \$100 million USDA savings will be offset by higher market prices. The ones we are deeply concerned with are those in the early harvest areas of the United States who sold before the full impact of the Russian purchases were unanimously known. The double loss comes from selling when prices were low and now from a reduction in the certificate payment because of higher price averages. In this case a 20% loss in potential income and a possible 13% reduction in certificate payment.

"It doesn't help the individual farmer involved to be told that on the average wheat producers are O.K. Averages don't pay mortgages, farming costs and keep farm families going until next year's crop," stated Moos.

When major U.S. Exporters were caught this year in a somewhat similar bind, a \$128 million special export subsidy payment was administratively approved. If administrative action can be taken to avoid undue loss by the exporting companies in a surging market surely America's wheat growers should receive similar relief.

The Association recommends administrative action by USDA or their support for legislation was asked. If legislation is necessary the Association proposes an alternative payment formula based on the difference between national average price for a bushel of wheat during July (\$1.32) and parity July 1 (\$3.02). Eligible producers with early sales of 1972 crop wheat would receive payment on the number of bushels sold but not in excess of their certificate allocations for the farm. A blend formula could be devised to maintain equity between farmers receiving payment under the current or alternate schedule.

"The Association recommendations would save literally thousands of farmers from undue hardship and still leave a savings in certificate costs to USDA of \$75 to \$80 million accumulated from farmers who did benefit from higher farm prices," concluded Moos.

## TEXAS WHEAT PRODUCERS ASSOCIATION WORK SHEET

*Wheat domestic certificate situation July 1, 1972*

Wheat Parity July 1.....	\$3.02
National Average Market Price July 1.....	1.32
(Value of Domestic Cert. IF Price Remains at \$1.32).....	1.70
Advance Domestic Certificate Payment.....	1.28
Expected Additional Certificate Payment.....	.42

Final certificate based on national average marketing price first 5 months of market year.

*Market prices (national average) first 5 months of the marketing year*

July .....	\$1.32
August .....	1.51
Projected September.....	1.55
Projected October.....	1.60
Projected November.....	1.62
Projected 5 month average.....	1.52

*Wheat domestic certificate situation (projected) December 1972*

Wheat July 1 parity.....	\$3.02
National average market price (projected).....	1.52
Projected value of domestic certificate.....	1.50
Advance domestic certificate payment.....	1.28
Projected additional certificate payment.....	.22
or a loss of 20 cents bushel (may vary up or down depending on accuracy of price projections)	

Approximately 31.3 million bushel of domestic certificate allotment in Texas X20 cents=approximately 6.260 million dollars certificate loss.

Approximately 3.13 million dollars certificate loss by growers not able to recover by selling in higher market.

[Telegram]

CHICAGO, ILL., September 21, 1972.

Hon. GRAHAM PURCELL,  
Representative from Texas, Capitol Hill,  
Washington, D.C.

Our company has three plants and 493 employees in Texas. Recent increase in cost of flour will result in irreparable damage to our company unless immediate release is obtained. Current flour price will increase our cost more than ten million dollars annually. This company's pretax profit has averaged less than three million dollars per year over the past five years and ten million dollar increase cannot be absorbed. We request immediate assistance in obtaining immediate price release from the price release from the Price Commission, or elimination of the 75 cents per bushel processors certificate paid on all wheat processed for food in the United States, or prohibition of export of wheat.

L. ARTHUR CUSHMAN, JR.,  
Chairman and President American Bakeries Co.

MIAMI, TEXAS., September 10, 1972.

Hon. Congressman GRAHAM PURCELL,  
Washington, D.C.

DEAR CONGRESSMAN PURCELL: Sir, if you can find out from the Secretary of Agriculture, Mr. Earl Butz, who he is supposed to be trying to help, the Farmers, Russia or the big grain dealers.

Looks like we Farmers were sold down the river. Sec. Butz knew at our harvest time (the Middle of June), that this deal with Russia was going through, if we had of known we would have held our wheat and made that 45¢ per bushel instead Big grain men were told.

Ninety-nine percent of the people here, sell their wheat at harvest time, when it is over the loan price, to try to save the Government all they can, we would like a fair play the other way.

The check we got last fall due to the low price of wheat, we will also lose so we get a double dose. They should be forced to pay what we were beat out of, but I guess there will always be more horses rears than there are horses.

A \$10,000 tractor is hard to pay for on \$1.30 wheat on a dry land farm, that you make about one crop every fifteen years that amounts to anything.

All the Farmers around here are over Fifty years old, there is not enough money in it for these young people to go into the Farming business. What are they going to do, when we die off???? Somebody may go hungry if farm prices do not go up.

I appreciate your efforts.

Sincerely,

CLYDE (BUD) HODGES.

CROWELL, TEX., *September 9, 1972.*

Congressman GRAHAM PURCELL,  
House Building,  
Washington, D.C.

DEAR CONGRESSMAN PURCELL: We appreciate your efforts to investigate the recent grain deal with Russia.

All farmers, as well as yourself are glad to trade agriculture products where good faith is widened.

With the disastrous year of 1971 figured into this years average, along with increase of set aside acreage—tied to the price of wheat in the first five months of marketing years, plus the cut from \$.94 cents to 88 cents per bushel on yield, as you know, is disastrous.

All of us in Hoard County appreciate your efforts, we hope you continue to serve us after Jan. 1, 1973.

Cordially,

ALTON B. BELL.

*September 16, 1972.*

To: Hon. GRAHAM PURCELL.

From: R. J. Hokr, 3762 South Grape St., Denver, Colorado 80237.

Subject: The Wheat Price Manipulation Of 1972.

I am stunned at what has just taken place in our government, and through our Department of Agriculture.

It seems that no matter how hard the farmers of our country who feed us try to make a profit they always end up with the short end of the stick, and without a profit. For 8 years now they have been operating without a profit.

This year at wheat harvest time we were advised by the A.S.C.S. offices and all other government media, as well as all gain dealers that the sale of grain to Russia would not improve the price of wheat, as very little wheat was being sold to Russia. It was mostly feed grains they insisted.

Most farmers like myself were forced to sell their wheat at harvest time, as notes were due at the banks and other lending agencies. Harvesting expenses had to be paid, along with other debts which have accumulated over the past 8 years of low wheat prices, and high operating costs. This made it necessary to sell wheat for about \$1.21 per bushel by most farmers in this area.

At this time a favored few are receiving from \$1.75 to \$1.85 per bushel for this same wheat without any extra effort or expense on their part. Is this what you call fair treatment for the segment of our population who feed us?

The taxpayers are supporting the A.S.C.S. offices which are located in almost each county of this nation. In the past I have been of the opinion that they were there for the purpose of assisting the farmers in their respective counties. Their action as well as your action has robbed these same farmers of their December certificate payments, which is  $\frac{1}{4}$  of their entire 1972 payment, which was due them after December 1, 1972.

I have been a farmer during my entire life, and we have just witnessed the biggest double cross the wheat farmers of our country have ever been handed. I know that I am not the only wheat farmer who has been double crossed, but I am one who has decided that there is no future in the wheat farming business as long as we have gamblers in government and elsewhere, who are too lazy to work for a living, and like vultures prey upon the farmers of our country. They are the ones who set the price farmers must accept for their products.

Like so many farmers before me have done I am making plans now to get out of this business of farming, and possibly joins the ranks of the relief rolls of our great country, as too many farmers have had to do to survive.

Since it now develops that there might be a shortage of wheat in our country why would it not make sense to release the hot wheat which the farmers have invested a great deal of money into. This wheat is in storage in commercial elevators and in farm storage. This is the over production wheat which is being eroded each month by storage costs and bugs. Some has been stored for several years, and has been forgotten by everyone but the farmers. This wheat should now be released without delay, and more double talk.

I certainly hope to hear from you regarding these matters which should be of concern to everyone in government, as well as every American who cares about his country. When we are concerned about agriculture we are concerned about the backbone of our country. We could get along without the automobile industry and the other big industries if we had to, but we just would not get along without food very long. I just wish that the leaders of our country could remember this.

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WICHITA FALLS, TEX., *September 15, 1972.*

HON. GRAHAM PURCELL,  
*House of Representatives,*  
*Washington, D.C.*

DEAR CONGRESSMAN PURCELL: Please know that I support your inquiry into the wheat deals our country has conducted with Russia and China. It appears that there is very good reason to suspect the Nixon administration of having informed "Big Business" about this transaction so that they could profit from it—to the expense of the small farmer.

I hope that this particular episode will further inform you concerning Mr. Nixon. His intentions are not directed toward the benefit of the small farmer—or the small "anybody."

Continue your investigation, Congressman. Reveal the facts in this matter. That will be serving the people of this part of the country.

With my very best wishes, I remain

Sincerely yours,

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MICHAEL R. JACKSON.

MIAMI, TEX., *October 6, 1972.*

HON. GRAHAM PURCELL,  
*House of Representatives,*  
*Washington, D.C.*

DEAR SIR: Thank you for your efforts in behalf of the wheat farmers relating to the sales to the Soviet Union. We, who live in the Panhandle of Texas, were told by those operating the elevator at Miami, that Russia was buying grain but that the percentage of wheat was small, and would have no effect on our price. We sold directly after harvest all of our crop.

Now if we do not also receive our certificate money, this will mean a loss to us of \$1,200. My husband feels the farmer is meant to have this money. Thank you for your understanding of this and effort here too.

I also appreciate the list of government leaflets sent, and your questionnaire (opinion poll), both of which I hope to study more, and to which reply when I have more time and knowledge.

Also, it seems wrong to me to allow Mexicans to work in the U.S. at cheap wages (which are not cheap wages in Mexico) and to drain money out of the U.S. this way. Also they deprive the American worker of a job.

Legislation I would like to see enacted is that feedlots be required to locate at least 1½ or 2 miles from preexisting homes, unless with permission. It is an outrage they can be put across from homes unnecessarily.

Thank you.

Very sincerely,

Mrs. LLOYD HARVEY.

WICHITA FALLS, TEX., *October 11, 1972.*

DEAR CONGRESSMAN PURCELL: As a wheat farmer, I am pleased with the recent sale of wheat abroad (in some respects) but I agree with you that these substantial sales are not helping the producer now. I hope we can make further sales, but in a manner more favorable to the producer. I know you are aware of the need for some sort of legislation to amend the Farm Act of 1969, so as to stabilize the value of our domestic certificates. I am not a big farmer, but stand to lose a much needed \$1,800 as things look now.

I know you don't need any prodding in this matter, but am writing you anyway to say that I believe all Texas wheat farmers will appreciate your efforts in this direction.

As for me, I consider your diligent work for the producer as a personal favor.  
Best regards,

GENE FLEMING.

CONGRESS OF THE UNITED STATES,  
HOUSE OF REPRESENTATIVES,  
*Washington, D.C., September 22, 1972.*

HON. GRAHAM PURCELL,  
*Chairman, Subcommittee on Livestock and Grains, House Agriculture Committee,  
Washington, D.C.*

DEAR MR. CHAIRMAN: This is in regard to the hearings your Subcommittee recently held to investigate the sale of wheat to the Soviet Union, and the subsequent repercussions of that deal on domestic wheat prices.

I am enclosing a telegram I received from a bakery in my 21st District of Pennsylvania which I respectfully request you to include in the printed record of the hearings. It would be naive to think that the Schaller's Bakery in Greensburg, Pennsylvania is the only establishment of that kind which will suffer extreme hardship and possible termination of service because of the skyrocketing cost of wheat. I am sure that bakeries across the country are caught in the wheat-flour price squeeze as a result of the recently announced Russian agreement.

It is my hope that your Subcommittee will determine whether the trade deal with the Soviet Union is the root cause of higher bread prices, the imminent closings of bakeries, and the resulting unemployment.

With every kind regard, I am  
Sincerely yours,

JOHN H. DENT,  
*Member of Congress.*

Enclosure.

[Telegram]

SCHALLER'S BAKERY,  
*Greensburg, Pa., September 21, 1972.*

Congressman JOHN H. DENT,  
*House Office Building,  
Washington, D.C.*

Current wheat program and flour price will close our bakery and others within 60 days if immediate relief is not forthcoming. The jobs of our 40 employees and 20 routemen are in jeopardy. Urgently request an audience with you at your earliest possible convenience.

WEDDELL G. SCHALLER.

1. The first part of the report deals with the general situation of the country and the progress of the work during the year. It is a summary of the work done and is intended to give a general impression of the progress made.

2. The second part of the report deals with the results of the work done during the year. It is a summary of the results obtained and is intended to give a general impression of the progress made.

3. The third part of the report deals with the conclusions drawn from the work done during the year. It is a summary of the conclusions reached and is intended to give a general impression of the progress made.

4. The fourth part of the report deals with the recommendations made during the year. It is a summary of the recommendations made and is intended to give a general impression of the progress made.

5. The fifth part of the report deals with the summary of the work done during the year. It is a summary of the work done and is intended to give a general impression of the progress made.

6. The sixth part of the report deals with the summary of the results obtained during the year. It is a summary of the results obtained and is intended to give a general impression of the progress made.

7. The seventh part of the report deals with the summary of the conclusions drawn during the year. It is a summary of the conclusions drawn and is intended to give a general impression of the progress made.

8. The eighth part of the report deals with the summary of the recommendations made during the year. It is a summary of the recommendations made and is intended to give a general impression of the progress made.

