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EXAMINATION OF SUGAR MARKETING CONDITIONS SINCE DEFEAT OF SUGAR BILL

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DOCUMENTS

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MARKETING AND
CONSUMER RELATIONS

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

SECOND SESSION

DECEMBER 9, 10, 11, 12, AND 17, 1974

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EXAMINATION OF SUGAR MARKETING CONDITIONS
SINCE DEFEAT OF SUGAR BILL

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1. The first thing I noticed when I stepped
 out of the plane was the fresh air. It
 felt like I had been in a cocoon for
 hours. The sun was shining brightly,
 and the birds were chirping happily.
 I took a deep breath and felt my
 chest expand. It was a wonderful
 feeling. I had finally reached my
 destination.

EXAMINATION OF SUGAR MARKETING CONDITIONS SINCE DEFEAT OF SUGAR BILL

MONDAY, DECEMBER 9, 1974

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

The subcommittee met, pursuant to recess, at 10:05 a.m., in room 1301, Longworth House Office Building, Hon. Joseph P. Vigorito, chairman of the subcommittee, presiding.

Present: Representatives Vigorito, Foley, Denholm, Matsunaga, Goodling, Findley, Symms, and Johnson.

Also present: Representatives Poage, chairman of the full committee, Bergland, Wampler, Zwach, and Peyser.

Staff present: John O'Neal, general counsel; John Rainbolt, associate counsel; Hyde H. Murray, associate counsel; L. T. Easley, press assistant; Steve Allen, staff consultant; Steve J. Pringle, staff assistant; and Perry Shaw, staff assistant.

Mr. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations is now in session to study the sugar price situation at the present time.

So that I do not have to choose which individuals are being sworn under oath, I think we will make it very simple by having everyone under oath. I do not remember when the Committee on Agriculture has requested that witnesses give their testimony under oath. The reason I am requesting this oath is that if the information can be used by other Government agencies in studying the sugar industry, if they will be able to use it with evidence given elsewhere in the Government, then ours has to be accurate, thus the need for the oath.

I think the American people should have an answer to why sugar prices have gone through the roof, and if the prices continue to rise, everyone is going to go sour on the whole subject.

Our first witness will be Mr. Arthur Calcagnini, Director of the Sugar Division, U.S. Department of Agriculture.

Mr. Calcagnini.

STATEMENT OF ARTHUR CALCAGNINI, DIRECTOR, SUGAR DIVISION, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY KENNETH FRICK, ADMINISTRATOR, ASCS, AND ROBERT M. BOR, OFFICE OF THE GENERAL COUNSEL

Mr. CALCAGNINI. Thank you, Mr. Chairman. Accompanying me are my boss, Mr. Frick, and the general counsel of the office, Mr. Bor.

Mr. VIGORITO. All right, we will give you the oath, of course, and it will apply to all three of you.

Mr. Calcagnini, do you solemnly swear that the testimony that you are about to give this subcommittee will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. CALCAGNINI. Yes, sir.

Mr. VIGORITO. Let the record show that the witness is sworn in.

Mr. CALCAGNINI. Mr. Chairman and members of the committee—

Mr. VIGORITO. I have been informed that everyone has to take the oath.

Mr. Frick, do you solemnly swear that the testimony you are about to give to this subcommittee will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. FRICK. Yes; I do.

Mr. VIGORITO. And the other gentleman?

Mr. BOR. Mr. Bor.

Mr. VIGORITO. What is the name?

Mr. BOR. Bor. B-o-r.

Mr. VIGORITO. Mr. Bor. Do you solemnly swear that the testimony that you are about to give this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BOR. Yes, sir.

Mr. VIGORITO. Let the record show that the witnesses have been sworn in.

You may proceed, Mr. Calcagnini.

Mr. FRICK. Mr. Chairman, just to clarify, I would like Mr. Calcagnini to go ahead with the testimony, but I did wish to accompany him in case there are some clarifying questions I can be helpful with.

Mr. VIGORITO. We appreciate your attending this morning.

Mr. FRICK. He will go ahead with the testimony, and hopefully with the questions, and I will only fill in as required.

Mr. VIGORITO. Thank you.

Mr. CALCAGNINI. Mr. Chairman and members of the committee, I am Arthur B. Calcagnini, Director of the Sugar Division in ASCS, U.S. Department of Agriculture.

Testimony given before the Council on Wage and Price Stability hearing held recently here in Washington in our judgment strongly supports the theory that the price rise in sugar is a result of an imbalance in the supply and demand relationship caused by continuous population growth outstripping the productive capacity of the industry worldwide.

This trend extended over a 4-year period and culminated in the disastrous 1974 harvest of the East and West European sugar beet industry which normally produces about 33 percent of the world sugar production. This reduction is estimated at between 2 and 3 million tons, and prices soared to unprecedented highs as consuming countries sought to purchase needed supplies.

The testimony indicated very strongly that the situation today differs vastly from past price rises. Today, a lack of productive capacity is the root cause of the problem, while a 1- or 2-year reduction in inventories provided the leverage to price rises in the past.

Some of the testimony attributed the cause of these high prices to the defeat of the Sugar Act on June 6, 1974. Other testimony felt

that the Sugar Act defeat was one of the many contributory factors, and a final school of thought expressed the view that it was incidental.

Views on this are likely to be expressed for many years and are highly conjectural at this time. The Department feels, however, that neither the defeat of the proposed extension of the Sugar Act nor the administration of the present Sugar Act had any influence on the present sugar situation.

Please note that the Sugar Act, which expires December 31, 1974, obliges the Department to take certain actions to meet the requirements of consumers in the United States and to attain the price objective stated in the Sugar Act.

In order to attain this price objective, the raw sugar spot price must fall within a so-called price corridor.

Pursuant to the formula in section 201 of the act, the Secretary is required by section 202(g)(3)—when the raw sugar spot price is above or below the price corridor for 7 consecutive marketing days—to make adjustments in the consumption estimate—that is, the annual estimate of the amount of sugar which Americans will consume in any given calendar year—to the extent necessary to attain the price objective. The formula in the Sugar Act apportions this amount to the various supplying areas both domestic and foreign in the form of annual marketing quotas.

In order to illustrate the actual function required by the Sugar Act, we list as follows the actions taken by the Department starting from an arbitrary point in September of 1973, and extending through the latest action taken by the Department. The dates referred to are dates of the press releases issued by the Department rather than the effective dates of the actions, except for the May 29, 1974, date.

September 28, 1973—Requirements for 1973 increased by 100,000 tons to 11.6 million tons. I list the reasons:

1. Since previous quota actions in March 1973 sugar prices had been reasonably stable and quota actions, other than deficit reallocations, had not been required.

2. In late September, the price moved out of the price corridor prescribed by law and action was taken to increase the supply.

3. The first-come, first-served method provided under section 202(d)(2)(A) was followed to get prompt sugar arrivals during October and the first half of November.

October 4, 1973—Requirements for 1974 were proposed at 11.7 million tons:

1. This was the first public announcement of the best estimate of the 1974 sugar consumption and reflected the formula in the Sugar Act.

2. The requirement, as in the past, was announced as a proposal in order to enable interested persons to submit their views relative to the coming year's sugar use.

October 5, 1973—Deficits of 15,000 tons in 1973 quotas allocated:

1. This was a routine reallocation of quotas due to deficits in quantities from some areas. Required by the Sugar Act.

November 2, 1973—Requirements for 1973 increased to 11.7 million tons. Reason:

1. Domestic sugar price had gone above the corridor, and the quota was again increased to get corrective price action.

November 2, 1973—Requirements for 1974 set at 11.8 million tons:

1. Comments received on the USDA proposed 1974 quota and indicated 1974 sugar prices prompted an increase in the 1974 requirement from that proposed on October 4.

2. Normally, the coming year's sugar requirement is announced at this time each year.

November 14, 1973—Announced that no further increase in 1973 requirements was necessary at that time.

1. Price was above corridor.

2. The price had turned down toward the upper limit of the corridor; therefore, no further quota action was deemed necessary.

3. There was concern that quota increases when prices were receding might push the price through the lower corridor limit, particularly in view of the normally heavy quota arrivals at yearend.

November 27, 1973—Requirements for 1973 increased to 11.8 million tons:

1. The price had remained stable in the period since the previous announcement of no action.

2. While it remained outside the corridor, it had neither increased nor decreased prior to November 26, the day before, so quota action was withheld.

3. On November 26 the price moved upward.

4. The requirement was increased because the price had again begun to move away from the corridor.

December 11, 1973—Requirements for 1974 increased to 12 million tons:

1. Even though the current price was outside the current corridor, no action was necessary for the 1973 requirement because the 1973 yearly average price was well within the annual price objective.

2. At the same time it became apparent that the price at the beginning of 1974 would be above the corridor. The world price was also advancing.

3. As a result the sugar requirement for 1974 was increased.

December 21, 1973—We announced no further increase in 1974 requirements was necessary at that time:

1. World sugar markets were extremely unsettled at that time.

2. There was concern that any U.S. action could aggravate this situation.

3. The announcement of no action was an effort to cool a heating market.

January 11, 1974—Requirements for 1974 increased 500,000 tons to 12.5 million tons:

1. In early January the trend of world sugar prices indicated that the effort to lend any stability through no action had not succeeded.

2. After a momentary pause when domestic sugar prices receded a few points, prices on January 10 and 11 advanced sharply, reflecting an exploding world market.

3. Since it became increasingly apparent that the world sugar situation was rapidly becoming chaotic, the need to assure an ample supply of sugar for the United States became paramount.

4. The assessment prompted the substantial increase of 500,000 tons in the 1974 sugar requirement.

5. In order to obtain the additional supply promptly, the increase was made on a first-come first-served basis which made the quota available to any supplying country, except for 86,666 tons which were prorated to the mainland cane area.

March 15, 1974—Deficits of 14,726 tons in 1974 quotas allocated:

1. This is a routine allocation of quotas due to deficits in quantities from some domestic and some foreign areas.

May 29, 1974—Published in Federal Register a notice of determination that no domestic areas or countries will fail to market their respective 1974 sugar quotas except as heretofore determined. Such determination required by the act.

September 25, 1974—Deficits of 600,000 tons in domestic quotas and 50,708 tons in foreign allocated:

1. This is a routine allocation of quotas due to deficits in quantities from domestic and foreign areas. Required by the Sugar Act.

No increases in the consumption estimate were made after the announcement of January 11, 1974, which was intended to secure additional supplies. Increases in the consumption estimate were not made because it was considered unlikely that they would have resulted in additional supplies for U.S. consumers.

It was considered unlikely that further quota increases would result in the raw sugar price falling within the limits of the price corridor described earlier and required by the Sugar Act. In fact, one school of thought within the Department held that further quota increases may have caused a temporary psychological stimulus to the raw sugar price level.

The alternative of a reduction in the quota level was rejected on its face as being an action that could result in a reduction in the quantity of sugar available to the American consumer.

We view the position taken by certain sugar importing nations at the International Sugar Conference in November of 1973 as being a strong contributory influence to the present sugar price level. In the past, U.S. sugar policy has caused nations to dump sugar on the residual world market at prices below the cost of production, while forcing American consumers to pay higher prices in order to protect our domestic industry.

We would agree that our domestic industry must be protected—but not in this manner. We believe strongly that the signals in the marketplace caused by the uneconomic prices in the world sugar market are responsible for this present crisis.

Mr. Chairman, I have a point of clarification on the very important quota announcement of January 11, that I would like to read and include in our testimony.

Mr. VIGORITO. What was the date again?

Mr. CALCAGNINI. January 11, 1974, and I have copies here, but there is an addition to that and I would be happy to give the young lady a copy.

This is an explanation, sir, of the quota increase of January 11, 1974. That was the 500,000 tons increase on a first-come-first-served basis.

The first-come-first-served method was used in order to permit any country to supply the increased quota. The action was taken in order to achieve the price objective of the act by securing supplies at a time

when it was feared that market conditions could result in a reduction in supplies available for the United States. Sugar refiners reported that quantities of sugar available for first quarter arrival in the United States were light. Reasons for this were given as: 1. Some countries had shipped early to participate in previous first-come-first-served quota increases; and 2. Brazil and others did not have available supplies because of previous commitments taken as far back as the middle of the previous year.

The amounts supplied under the quota allocation on a first-come-first-served basis were as follows: Dominican Republic, 35,000; Brazil, 172,455; West Indies, 160,181; Costa Rica, 15,854; Belize, 5,752; Mauritius, 12,624; Swaziland, 5,846; Thailand, 5,622; totaling 413,334 tons. About 140,000 tons of this amount could not have entered the United States had this action been taken on a pro rata basis.

The balance came from countries that then had unfilled quotas.

In deciding to take this action, the Department caused additional sugar to come in as well as more sugar to come quicker than would have occurred in the absence of the January action. The action was taken in order to aid in accomplishing the price objective of the act.

As a result of these actions we have imported more foreign sugar into the United States to date this year than any prior year under the Sugar Act. Our experience during the year has demonstrated that in a period of world shortages and inflation, suppliers are unwilling to sell sugar at prices consistent with the price objective of the Sugar Act. It is also our view that had we not taken the action on January 1, 1974, supplies would have been more limited and domestic prices may have been even higher than they were.

The foreign charges as of November 30, 1974 are 5,417,272. In 1973, 5,068,093. In 1972, 5,085,560. In 1971, 5,062,010, and in 1970, 4,931,260.

Thank you Mr. Chairman.

Mr. VIGORITO. Thank you, Mr. Calcagnini.

I have a few questions that I would like to ask you. First, how long have you been at your present position?

Mr. CALCAGNINI. Approximately 18 months.

Mr. VIGORITO. Well, why did you decide you wanted the job that you have at the present time?

Mr. CALCAGNINI. Sir, I sought to make a contribution to this government. I sought to discuss openly and ventilate the issues of the sugar question that I felt had not been discussed and were not well appreciated or well known to the industry, to the Government or to any party dealing in sugar.

Mr. VIGORITO. Where were you employed before your present job?

Mr. CALCAGNINI. The Amerop Corp. in New York.

Mr. VIGORITO. And what do they do?

Mr. CALCAGNINI. They are international sugar dealers, and dealers in other commodities and brokers of sugar. They may also have interests in sugar-producing companies and marketing consultants in sugar as well as other commodities.

Mr. VIGORITO. I imagine your salary at your present position, that is frozen at \$36,000?

Mr. CALCAGNINI. Yes, sir.

Mr. VIGORITO. That is substantially less or more than your previous employment with Amerop?

Mr. CALCAGNINI. Less.

Mr. VIGORITO. A lot less?

Mr. CALCAGNINI. Not greatly less.

Mr. VIGORITO. Half as much?

Mr. CALCAGNINI. No, sir. I do not recall exactly, due to bonus arrangements and so forth, but somewhat less.

Mr. VIGORITO. Certainly you should know within say \$10,000 or \$20,000 whether this \$36,000 is half or three quarters of your previous salary.

Mr. CALCAGNINI. Well, it would be \$10,000 or \$20,000 less, yes, sir.

Mr. VIGORITO. Do you plan to make a career in government service?

Mr. CALCAGNINI. Sir, I plan to stay as long as I am useful to Mr. Frick and Secretary Butz, yes, sir.

Mr. VIGORITO. If you leave the Government service where would you go? Do you have any idea? Would you go back to your former employer?

Mr. CALCAGNINI. No, sir.

Mr. VIGORITO. You would not go?

Mr. CALCAGNINI. At this time, I would not go back to the sugar industry. I plan to stay here in the Government as long as I can be useful.

Mr. VIGORITO. Do you have any written or oral understandings with Amerop or any other sugar industry firm as to your future employment?

Mr. CALCAGNINI. No, sir.

Mr. VIGORITO. Getting back to your present appointment as head of the sugar division how did you go about getting the job that you now have?

Mr. CALCAGNINI. The personnel department at the White House called me and asked me to submit a résumé. I did so and they called me to have a personal appointment with the personnel head at the White House who then put me in touch with the Department of Agriculture.

Mr. VIGORITO. Did any outside individual like Mr. Perot of Texas, did he have anything to do with getting your job?

Mr. CALCAGNINI. You will have to ask Mr. Perot. I don't know.

Mr. VIGORITO. Have you ever talked to Mr. John Ehrlichman or anyone on this staff about the position you have now?

Mr. CALCAGNINI. What was that name, sir?

Mr. VIGORITO. Mr. Ehrlichman.

Mr. CALCAGNINI. Not that I recall, sir.

Mr. VIGORITO. You do not know of anyone who went to bat for you to get your present position?

Mr. CALCAGNINI. No, sir.

Mr. VIGORITO. Did the former Vice President Agnew or anyone on his staff assist you in any way in getting your present job?

Mr. CALCAGNINI. No, sir.

Mr. VIGORITO. Is this correct, that in the past year the United States price of sugar has averaged about 2.3 cents per pound less than the world price?

Mr. CALCAGNINI. I would have to check my records on that, sir. I realize I am under oath. I have the impression that at times the world

market price has lagged behind the U.S. market price, but I would be unable to put—

Mr. VIGORITO. Well, those are the figures I have in front of me, and they come from the United States Department of Agriculture.

Mr. FRICK. Mr. Chairman, could we submit that for the record to be accurate on the question?

Mr. VIGORITO. Yes, you may. If my calculations are right then, 2.3 cents times 2,000 pounds per ton equals 4,680 per ton times 5,000,000 tons of foreign sugar equals about \$234 million. That would be about right.

In other words, the American consumer has really saved about \$235 million in the past year or so because of the 2 cents plus less for sugar; is that correct?

Mr. FRICK. Well, if those figures are the accurate figures, yes, sir. [The following information was later submitted:]

SUGAR PRICES

[Cents per pound]

Year and month	Raw cane sugar spot price		Quota premium and discount ³
	Domestic sugar at New York duty paid ¹	World sugar ²	
1969-73 monthly average	8.74	5.74	+1.86
1972 monthly average	9.09	7.43	+0.55
1973 monthly average	10.29	9.61	-0.70
1974:			
January	12.63	15.32	-4.24
February	17.09	21.28	-5.74
March	18.11	21.27	-4.75
April	19.25	21.77	-4.15
May	23.05	23.65	-2.35
June	26.30	23.67	+0.90
July	28.35	25.40	+1.29
August	32.60	31.45	-0.48
September	33.71	34.35	-2.24
October	38.83	39.63	-2.47
November	57.30	57.17	-1.54
1974 average through November	27.93	28.63	-2.34

¹ Spot prices are for bulk sugar under contract No. 10, duty paid or duty free, full duty rate 0.625 cent per pound.

² Spot prices are for bulk sugar under contract No. 11, which beginning on Jan. 1, 1971, replaced contract No. 8. The terms of these contracts are f.o.b. and stowed at Greater Caribbean ports including Brazil.

³ The No. 10 "domestic bulk" contract has been adjusted by deducting duty (0.625 cent) computed freight from the Greater Caribbean ports (including Brazil), insurance and unloading charges before calculating the differential from the "world contract" spot prices.

Note: U.S. sugar imports January-November 5,417,000 short tons, raw value: \$2.34 times 20 times 5,417,000 equals \$253,515,600 equals approximate savings on U.S. sugar imports January-November 1974 (when purchasing sugar at the U.S. price compared to the world price)

Mr. VIGORITO. Mr. Calcagnini, are you in favor of continuing the present Sugar Act?

Mr. CALCAGNINI. The present Sugar Act, sir?

Mr. VIGORITO. Yes.

Mr. CALCAGNINI. The present Sugar Act was defeated by the Congress.

Mr. VIGORITO. Well, I know that because I voted for it, and it was defeated, but I asked you if you think that we should continue this act.

Mr. CALCAGNINI. It is not my prerogative, sir. I do not feel that that Sugar Act answers the questions before the sugar world, including the United States today.

Mr. VIGORITO. What do you think that we should have?

Mr. CALCAGNINI. Sir, I am not prepared to propose a panacea for the sugar world, but I do feel that this Sugar Act did not cope with the questions and is not a solution to the answers to our sugar problems—which is more sugar production.

Mr. VIGORITO. But the world sugar production is around 80 million tons a year; am I correct on that?

Mr. CALCAGNINI. Yes, sir.

Mr. VIGORITO. And the world sugar shortage is around 2 to 3 million tons a year, so that is a very small percentage. And what I would like to know is if we have such a small percentage of 2 million over 80 million tons, why should the price of sugar jump up 500 or 600 percent? Do you have an answer to that?

Mr. CALCAGNINI. I feel that the price of sugar has advanced sharply this year because of a decrease in production over a 4-year period while consumption was continuing to grow, and, therefore, stocks were reduced. On top of that, the disastrous crop in Eastern Europe resulted in a reduction of 2 to 3 million tons at a time when the consumer interests who were requiring that sugar for consumption had to go into the sugar market, and because of the lack of incentive to produce sugar over a long period of time in the international sugar market, that sugar was not available, and they had to continue to bid and bid for prices.

Of course, we had an unfortunate occurrence this year with the concurrence of many factors, such as the energy crisis, this European crop, the oil, the movement of great amounts of foreign exchange to the oil-producing countries who are also sugar importers. The fact that Poland had to exert, had a force majeure and did not deliver on contracts they had previously committed put the market into a frenzy, into a state of buying panic that brought the price level up that would have occurred regardless of whether or not we had a Sugar Act.

Mr. FRICK. Mr. Chairman, could I clarify one thing?

Mr. VIGORITO. Yes.

Mr. FRICK. That he may have misstated in the fact that sugar production has gone up but it has not kept pace with consumption. I think I just want to clarify that statement.

Mr. VIGORITO. Yes, but what I am trying to get at, the difference between production and consumption is about 3 percent, and why should this 3 percent cause a 500- or 600-percent increase in the price of sugar? Do you believe that maybe there is speculation at work or people buying and hoarding and so forth to drive up the price.

Is there an artificial demand even greater than this 3-percent shortage?

Mr. CALCAGNINI. I do not know.

Mr. VIGORITO. Mr. Frick, do you have an opinion on that?

Mr. FRICK. Yes. I think if we will look back over various commodities over the last few years, you will find that a number of them have increased by as much as five times during a certain moment in time.

Mr. VIGORITO. Who is doing the purchasing?

Mr. FRICK. Well, let us just take some commodities that have gone up as much as sugar has and have come back down. Certain types of wheat. At one moment, soybeans went dramatically over five times what they had been back in the 2 or 3 years previously, and I think

there are any number of commodities that have been subjected to this dramatic rise in price under certain circumstances. I think even cotton went up dramatically at one point in time, and if we look back over again the consumption and production patterns, I think we can find reasons for this.

I think we can find that in other commodities where we just had the price a little too cheap for too long to attract the capital into the production of those commodities timely to where we would not get into the situation we are on sugar. When you have this many years of having consumption outrun production, at some point there has to be an adjustment, and I think if you look back at it, why you will find that what we did in our own concept here in the United States was to be sure we had attracted enough sugar for ourselves at a certain price objective, but the thing we forgot was that the demands for sugar in this world were gaining dramatically.

And if you will look at some countries who have now the ability to pay, where they did not have any in years previously, their demands have gone up dramatically and they are now able to come on into the market, regardless of price, and take care of these demands. We didn't use to have this situation. Today we do.

And I am trying to illustrate that I think the ingredients are and were there for this to have happened.

Now, as to the dramatic gains, we know that to attract production you do not need 60- or 70-cent sugar. Maybe something like 30-cent sugar. I don't know.

But, at some point when people begin bidding and are willing to pay anything to attract a commodity, it goes much higher than necessary and we noticed that the high, it has come down dramatically since the high.

Mr. VIGORITO. How long has this period been? When did we reach the high point in sugar price?

Mr. CALCAGNINI. Just a minute. I have this here, sir.

Mr. FRICK. About a month ago.

Mr. VIGORITO. About a month ago. Very, very recently, but this still has not been reflected in the price of sugar on the grocery shelf.

Mr. FRICK. Oh, yes, sir.

Mr. VIGORITO. It has?

Mr. FRICK. I am sure that the effect is still there. I think that wholesale prices always take a while for retail to reflect them, but wholesale happens first, retail later.

Mr. VIGORITO. Well, the prices go up, and it goes up much faster at the retail level, and the time lapse is very short, but when it comes down the tendency seems to be longer, and the decrease is never as great as the increase.

Mr. Calcagnini, in your next to the last sentence you say that we would agree that our domestic industry must be protected, but not in this manner. I am assuming you mean the Sugar Act?

Mr. CALCAGNINI. The sugar industry, yes, sir.

Mr. VIGORITO. Well, what manner would you think is needed to protect the domestic sugar industry?

Mr. CALCAGNINI. Sir, my whole point in coming to the Government is to ventilate this subject, engage in debate and change where necessary in the context of a world that is vastly different from that of

the 1930's with Cuba as the sugar supplier of the United States. I do not have a panacea.

We floated as a trial balloon earlier a target price concept. I am not authorized to discuss the Department's thinking, nor any other thinking on where we are going from here, and I am not prepared to answer that question.

Mr. VIGORITO. Mr. Denholm, do you have any questions for Mr. Calcagnini?

Mr. DENHOLM. Yes. Thank you, Mr. Chairman.

Mr. Calcagnini, you indicated that you were employed by a firm in New York before you accepted your present position. Will you state the name of the firm?

Mr. CALCAGNINI. The name of the firm was Amerop Corp.

Mr. DENHOLM. What is the primary purpose of that firm?

Mr. CALCAGNINI. Primarily, they are market consultants in sugar, brokers of sugar, and in buying and selling of sugar and other commodities.

Mr. DENHOLM. Do they buy and sell in the domestic and foreign market?

Mr. CALCAGNINI. Yes, sir.

Mr. DENHOLM. And what were your duties in that employment?

Mr. CALCAGNINI. Well, I was there as a vice president selling to the domestic market. And then I was advanced to executive vice president dealing with the futures activities and sales to the domestic market, and then as president in the overall policy levels of the company.

Mr. DENHOLM. Were you the executive vice president of that firm?

Mr. CALCAGNINI. Yes, sir.

Mr. DENHOLM. Now, you did not seek your present position with the Government, but the Government sought you, is that correct?

Mr. CALCAGNINI. Yes, sir. Let me clarify. The Government asked me to send a resume to them, and then they asked me to come down for an interview, and then they put me in touch with Under Secretary Campbell at the Department of Agriculture. I was interested in serving in the Government at that time in my life.

Mr. DENHOLM. Is your former employer a corporation?

Mr. CALCAGNINI. Pardon me?

Mr. DENHOLM. Is your former employer a corporation?

Mr. CALCAGNINI. Yes, sir.

Mr. DENHOLM. Do you have any stock in that corporation?

Mr. CALCAGNINI. No, sir.

Mr. DENHOLM. Have you had in the past?

Mr. CALCAGNINI. Yes, sir. I was a small stockholder, with one share of a subsidiary company.

Mr. DENHOLM. You indicated in your response to questions from the chairman that you did not and do not recall as the former executive vice president of that company your level of income while you were employed by the Amerop Corp.

Mr. CALCAGNINI. Oh, yes, I remember my salary was \$25,000 a year, but I did not remember the exact amount of my bonuses over the last few years. It was \$35,000 last year.

Mr. DENHOLM. So you were at a maximum of \$60,000 per annum in that position as compared with your present salary of \$36,000 per annum, is that correct?

Mr. CALCAGNINI. Yes, sir.

Mr. DENHOLM. How long have you been employed in your present position?

Mr. CALCAGNINI. Since June in 1973.

Mr. DENHOLM. What was the nature of the domestic sugar market in June of 1973. Was it more or less stable as to consumer prices and prices received by producers?

Mr. CALCAGNINI. Yes, sir.

Mr. DENHOLM. When did the price irregularities begin that we are experiencing right now?

Mr. CALCAGNINI. In January of 1974.

Mr. DENHOLM. Now, referring to your direct and prepared statement at page 3 to about the middle of page 7 you have indicated the changing demand for sugar and the adjustments of projected quota allotments published by the Department; have you not?

Mr. CALCAGNINI. Yes, sir. Would you repeat that, sir?

Mr. DENHOLM. Well, I have referred to your prepared statement beginning at the top of page 3 and through page 7. You have indicated in your prepared statement that the responses, administrative responses, reflect the changing demand of the economic conditions of sugar, is that correct?

Mr. CALCAGNINI. Yes, sir.

Mr. DENHOLM. Did you make those decisions?

Mr. CALCAGNINI. It is very difficult for me to answer. I put forth the reasoning and a number of alternatives on these decisions, and I have endorsed every one of these decisions. I believe that they were made at a level higher than myself.

Mr. DENHOLM. Are you at a policymaking level in your present position?

Mr. CALCAGNINI. No, sir.

Mr. DENHOLM. Who makes the decisions in the Department as to policies on sugar?

Mr. CALCAGNINI. I would have to defer to Mr. Frick.

Mr. FRICK. Congressman Denholm, these are Secretarial decisions. Of course, in any decisions on quotas, increasing and so forth, we carry out our normal checking procedure on anything that would effect the economy like this, and we have rather a complete checking in addition to the State Department, OMB, the normal checking processes.

Mr. DENHOLM. I ask you, Mr. Frick, are you at the policymaking level with the Department?

Mr. FRICK. Mr. Denholm, when I first came to town I found out I was not.

Mr. DENHOLM. Well, are you now?

Mr. FRICK. I noticed that my position has not changed. I remember going over to a meeting one day, and I thought I would come in and, you know, I would have something to say about things, and Mr. Whitten was the speaker in that particular meeting and he stated very clear that policymaking decisions were above the Administrator and I have always respected that.

Mr. DENHOLM. Who does make the administrative decisions for the Department?

Mr. FRICK. Sir, I am sorry, I misunderstood.

Mr. DENHOLM. Will you read the question?

[The reporter read back the prior question.]

Mr. FRICK. Well, those that are secretarial, we take it on up to the Secretary for policy decisions, either to the Assistant Secretary or to the Secretary, and every one of these decisions is always checked at the secretarial level.

Mr. DENHOLM. Who made the decision to oppose an extension of the Sugar Act in 1974?

Mr. FRICK. I do not think any decision was ever made to oppose the extension of the Sugar Act, Mr. Denholm.

Mr. DENHOLM. Was it the position of the Department to support the extension of the Sugar Act in 1974?

Mr. FRICK. It was the Department, the administrative decision, to support the Sugar Act, and the Department had two exceptions on how it came from the Congress.

One had to do with continuing payments to growers, which we were against, and No. 2, if the payments were done away with, we were against the continuation of administering the labor provisions of that particular act, and not finding any reason for having sugar production on farms any different from other commodities in the United States.

Those were the two differences, but we were in favor of some type of sugar act.

Mr. DENHOLM. Now, Mr. Calcagnini, you indicated that you thought the target price concept might work for sugar. You have testified to that or somebody from your Department did testify to that proposition.

Mr. FRICK. No; originally I believe it was a year ago last November, we did, as you suggested, float a target price suggestion to the sugar industry as to would this be satisfactory in an extension, and after a great deal of discussion I believe it was the consensus of the sugar people is that this is not what they would prefer.

I do not think it ever got the point of testifying in favor of it. I think that by that time the administration came to the position of working with the Congress on the extension of an act.

Mr. DENHOLM. Now, taking the projections that have been reported in the testimony prepared by Mr. Calcagnini, at the top of page 3 through the middle of page 7, in his prepared statement, in retrospect, how did those projections compare with the actual results? It covers a period from September 28, 1973, through September 25, 1974.

The question is, were the projections above or below the actual domestic consumption?

Mr. CALCAGNINI. Sir, I would like to ask Mr. Bor to comment on this. The consumption estimate is a tool, is a—

Mr. DENHOLM. Just answer the question, please. Were they above or below your projections?

Mr. CALCAGNINI. Is the consumption in the United States above or below the—sir, this is not a projection.

Mr. DENHOLM. Well, on September 28, 1973, you made certain adjustments in your projections on quota imports and now you have

established facts for assessment. What were the actual results for that same period of time from September of 1973 until September of 1974?

Mr. CALCAGNINI. We had less consumption than the quota.

Mr. DENHOLM. All right. For the same period of time, what population changes occurred in the United States?

Mr. CALCAGNINI. I would like to supply that data.

Mr. DENHOLM. Well, your testimony indicates that population and demand exceeded production, and if you are certain of that conclusion, it seems to me that you must have figures and statistical data to justify such a statement.

Mr. CALCAGNINI. I was speaking of world population increase.

Mr. DENHOLM. Well, I do not intend to evaluate the population of the world, but do the more populated countries such as India need more sugar than the less populated and more sophisticated society of the United States?

Mr. CALCAGNINI. Normally, sugar is a barometer of standard of living. The higher the standard of living, the more sugar consumed.

Mr. DENHOLM. What nation in the world has a higher standard of living than the United States?

Mr. CALCAGNINI. I know of none.

Mr. DENHOLM. Then where is the greatest per capita consumption of sugar?

Mr. CALCAGNINI. I am speaking in generalities. There are a number. The United States falls, as I recall, fourth or fifth in the per capita consumption at slightly over 102 pounds. I believe that in Scandinavia they go up to a 110 and in England 109, but that is generally considered a high per capita consumption level, as is ours.

Mr. DENHOLM. Mr. Chairman, the witness has testified that increased population has resulted in a demand for sugar that has outstripped the production of sugar, and that is the cause for increased prices. The evidence in his prepared statement and in his responses to my questions do not support that contention. The witness must support his testimony with documented evidence if his appearance is to be of value to the committee.

Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you.

[The following information was supplied:]

U.S. AND WORLD POPULATION AND SUGAR CONSUMPTION AND WORLD PER CAPITA CONSUMPTION, 1960-73 SHOWING ANNUAL PERCENTAGE INCREASES AND PERCENT OF INCREASES FROM 1960

Year	Population				Short ton, raw value				Sugar consumption				World per capita consumption (pounds)	World per capita consumption as percent of 1960
	United States (millions)	World (millions)	Annual increase, United States (percent)	Percent of 1960	Annual increase, world percent	Percent of 1960	United States (thousands)	World (millions)	Annual increase, United States (percent)	Percent of 1960	Annual increase, world (percent)	Percent of 1960		
1960	180.1	2,993	1.67	101.7	1.97	102.0	9,393	53.7	1.88	101.9	8.38	108.4	32.9	106.4
1961	183.1	3,052	1.58	103.3	1.93	103.9	9,570	58.2	1.92	103.8	3.26	111.9	35.0	108.2
1962	185.0	3,111	1.50	104.8	1.93	105.9	9,754	60.1	1.95	104.8	0	111.9	35.6	107.4
1963	188.8	3,171	1.43	106.3	1.92	108.0	9,838	61.4	.91	104.7	2.16	114.3	35.2	107.0
1964	191.5	3,232	1.10	107.5	1.92	110.1	10,000	65.7	1.65	106.5	7.00	122.3	36.8	111.8
1965	193.6	3,294	1.10	108.8	1.88	112.2	10,273	67.4	2.73	109.4	2.59	125.5	37.4	113.7
1966	195.9	3,357	1.19	109.9	1.88	114.3	10,298	69.5	.24	109.6	3.11	129.4	37.8	114.9
1967	198.0	3,420	1.07	111.0	1.87	116.4	10,720	73.1	4.10	114.1	5.18	136.1	39.1	118.8
1968	200.0	3,484	1.00	112.1	1.89	118.6	10,832	75.4	1.04	115.3	3.15	140.4	39.5	120.1
1969	202.0	3,550	1.09	113.4	1.89	120.8	11,190	79.5	3.30	119.1	5.44	148.0	40.7	123.7
1970	204.2	3,617	1.03	114.5	1.91	123.1	11,361	81.9	1.53	120.9	3.02	152.5	41.3	125.5
1971	206.3	3,686	.87	115.5	1.90	125.5	11,373	83.7	1.10	121.1	2.20	155.9	41.5	126.1
1972	208.1	3,756	.72	116.4	1.86	127.8	11,606	83.7	2.05	123.6				
1973	209.6	3,826			1.88	130.2								
1974		3,898												

Source of Data: U.S. Population and Sugar Consumption, Sugar Reports, ASCS; World, Sugar Consumption, I.S.O. Manual; World Population, ERS, USDA.

Congressman Goodling?

Mr. GOODLING. Thank you, Mr. Chairman.

First of all, I would like to make an observation to you, Mr. Denholm. You questioned whether or not the administration opposed the Sugar Act. As a member of the ad hoc committee, we spent hours and hours and hours in an attempt to write a good sugar bill. The Department was in constant attendance for questioning, and, as you know, legislation is a matter of compromise.

I know of no case where the Department did not approve the Sugar Act. Not every portion of it, of course not, but generally it was approved.

Mr. DENHOLM. Will the gentleman yield?

Mr. GOODLING. Yes.

Mr. DENHOLM. Mr. Frick responded quite well in that he recalled that it was on two points that the Department did not agree, and of course, those were major points, and the cause for the failure of the extension of the act.

Thank you for yielding.

Mr. GOODLING. Mr. Calcagnini, I am both a producer and a consumer, so naturally I am interested in both. Can you give this committee or the general public any assurance that the actual producer of sugar is benefiting from the high prices of today?

I mean the man that is producing the cane and the beets?

Mr. CALCAGNINI. Yes, sir. It is my understanding that the producer is the recipient of the higher price level of sugar, the currently high price level of sugar in the United States.

Mr. GOODLING. Is that true of farmer cooperatives also?

Mr. CALCAGNINI. Yes, sir. In that case the producers are the owners of the processing facilities, and, as such, they do benefit.

Mr. GOODLING. You may already have answered my question, but I want to ask this again. Would the passage of the Sugar Act in June of this year have made any difference in prices, in your opinion?

Mr. CALCAGNINI. No, sir. Not in my judgment.

Mr. GOODLING. Not in your opinion?

Mr. CALCAGNINI. No, sir. Let me clarify. We are using negatives and double negatives. I am of the opinion that the sugar price level would not be different from that of today had the Sugar Act passed.

Mr. GOODLING. Is it not true that we were buying sugar below the world market?

Mr. CALCAGNINI. At some points in the price trend this year, the world market price fell below—pardon me, the U.S. price did fall below the world market price, yes, sir.

Mr. GOODLING. Was that not true pretty generally throughout 1974?

Mr. CALCAGNINI. Yes, sir.

Mr. GOODLING. And because of that, were not some foreign countries exporting sugar to us at a loss simply in order to protect their quotas? I think that they realized that this honeymoon was not going to last forever, and they wanted to protect those quotas. I have a feeling that the Sugar Act did have some bearing on the price of sugar today for the reason that I have just stated.

Mr. CALCAGNINI. In my view, there are many reasons for the differential between the U.S. market and the world market. As an example, for years the world market price traded, which we use as a com-

parison to the U.S. price was at a premium to the London market, which market was a cost-insurance and freight delivered London contract, and the reason for that was the nature of the contract differs with the terms of the contract.

If one buys sugar committed to a port of destination as an investor or speculator, it has less appeal. In the case of the U.S. market, its terms are to deliver to a U.S. refiner and if you are a user of sugar in Tunisia or Britain or anywhere in the world, you must buy sugar free on board, country of origin, with unlimited destination.

In buying sugar for unlimited destination, your alternatives are greater and your ability to pay higher prices is higher, and, therefore, the price in the world residual market during this period of scarcity was above that of the U.S. price, No. 1.

No. 2, the only reason for this lag in addition to this fundamental difference in the nature of the contracts was that we took this quota action to increase by 500,000 tons on a first-come-first-serve basis, which brought more sugar into our system and was helpful in keeping the U.S. price below that of the world price.

Mr. GOODLING. Have all of our quotas been filled to date, do you know?

Mr. CALCAGNINI. Not all, sir.

Mr. GOODLING. Will the last quarter quotas be filled by all countries?

Mr. CALCAGNINI. There will be many quotas unfilled.

Mr. GOODLING. One final observation, and I do not want to take up too much time.

Is it not correct to assume that as the price of wheat, corn, and feed grains come back to their normal levels, or more normal levels, that the United States is going to increase sugar production? Some refer to farmers as dumb farmers but I have never gone along with that statement.

If a farmer can get \$8, \$9, and \$11 a bushel for soybeans, he is not going to grow sugar beets. Now, it is just that simple.

Now, am I correct in assuming if the price of these commodities come down we are going to produce more sugar in the United States.

Mr. FRICK. Congressman Goodling, it appears very definitely so. We will know better in the Department when we have our January intentions.

But, in talking to people that do process sugar, they expect their factories to run at full capacity in the 1975 crop year. So, I think you are exactly correct.

As the prices get to be more normal, where the competitive advantage now is with sugar, we will have a dramatic increase in sugar beet expansion next year, where we did have a decrease in 1973 and a further decrease in 1974 when other commodities were higher as far as income producers for farmers.

They grew the other crops rather than sugar, which was a minimal income producer.

Mr. GOODLING. We are building some new refineries, are we not, and upgrading some old ones?

Mr. FRICK. I understand that there has been some upgrading of old ones, and we know two new ones went onstream up in the Dakotas and the Minnesota area, with one more due to come on, I believe, in the 1975 crop year.

Mr. GOODLING. As I recall, at least one of those was a cooperative.

Mr. FRICK. Yes; at least one and maybe more. I think there is one thing that maybe should be clarified, Mr. Goodling, and that is when we say that countries will not meet their quotas, I looked at some figures back in the last day or two and it appears that most all countries, not all, but most all, will bring in more sugar than they did a year ago.

But, as Mr. Calcagnini started to state a while ago, the size of the quota is also used as a tool and not as an absolute, and we do have to go higher than the absolute consumption of sugar to acquire the supplies needed. And, of course, then we go back to the January 11, first-come first-serve declaration, and we were looking at that part of the act which says adequate supplies for consumers.

And I know that it is over a year ago in my own mind that it was not—we should not worry much about the grower in the coming year. I believe that the act talks about three different things that you are trying to accomplish, and one of those has to do with protecting the welfare of those engaged in the domestic production of sugar.

The second one is to provide U.S. consumers with ample supplies of sugar, and it says at reasonable prices. It certainly was evident that we would have to concentrate on the second item, and that is to be sure that consumers have ample supplies of sugar during the 1974 year.

Now, we did lose on the at-reasonable-prices part of it, but I think that the action did put us in the position of having sufficient supplies so that the U.S. consumer could relax in that respect.

Mr. GOODLING. One final question, Mr. Chairman, very briefly.

In your opinion, either of you, would the Sugar Act have had any bearing on the 1975 prices?

Mr. CALCAGNINI. No, sir.

Mr. GOODLING. Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Matsunaga.

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

Mr. Calcagnini, you state that the Department feels that neither the defeat of the proposed extension of the Sugar Act nor the administration of the present Sugar Act had any influence on the present sugar situation.

Now then, why is it that from the day following the defeat of the Sugar Act in the House of Representatives the price of sugar started skyrocketing? If you followed the debate on the floor, you will recall that I made a prediction that if the Sugar Act were defeated, the price of sugar would begin to skyrocket from the very next day, and that has proven to be true.

Now, is this pure coincidence that the price of sugar has skyrocketed since the defeat of the Sugar Act?

Mr. CALCAGNINI. Sir, I am unable to guess and give reason for free market activities. I learned one thing in dealing in commodities—

Mr. MATSUNAGA. Well, can you not make a calculated guess, or rely on the fact that for 40 years since the adoption of the Sugar Act the price of sugar was stabilized except for a few instances, at prices nowhere as high as those of today?

Now, does this not give you some indication that the Sugar Act was, in fact, working?

Mr. FRICK. Mr. Matsunaga, may I pursue this, please?

Mr. MATSUNAGA. Mr. Frick.

Mr. FRICK. The question is certainly to the point, and I know I have pursued it on my own, trying to consult with people I respect in the field of economics and in the world of the economists, on the lack of a Sugar Act. I am told that there isn't any convincing evidence that that lack of a Sugar Act has any effect on the price of sugar today.

Mr. MATSUNAGA. All right, let us follow that. Now, you talk of supply and demand as being the contributors. It has been pointed out by the chairman here that there has been a shortage of only 2 million tons in this country, and if you talk of supply and demand domestically in the United States, we do import 45 percent of our sugar needs, as you well know, and produce only 55 percent; 45 percent is imported.

Now, as soon, or shortly after the Sugar Act was defeated, countries such as the Philippines, for example, announced that they were not going to provide the quotas assigned to them by the United States. Is this not true?

Mr. CALCAGNINI. I do not know, sir.

Mr. MATSUNAGA. You do not know? You are the head of the sugar section and you do not know?

Mr. CALCAGNINI. I have not been advised. To my recollection, I have not been advised by the Philippines that they would not supply.

Mr. MATSUNAGA. Good heavens. It was publicized; it was in the papers; it was announced by the Philippine Government that they were not going to ship 100,000 tons to the United States.

Mr. CALCAGNINI. Sir, I do not believe all press reports I read, and we have—

Mr. MATSUNAGA. Well—

Mr. CALCAGNINI. We have the representative of the Philippines here. I do not recall exactly, but I do not believe they said they would not supply us.

Mr. MATSUNAGA. Well, we will find that out. But, you have no knowledge?

Mr. CALCAGNINI. No, sir.

Mr. MATSUNAGA. Have you heard any rumors?

Mr. CALCAGNINI. Many, sir.

Mr. MATSUNAGA. Relative to this specific issue?

Mr. CALCAGNINI. No, sir.

Mr. MATSUNAGA. No?

Mr. CALCAGNINI. What I read. I read as you did in the press.

Mr. MATSUNAGA. Good heavens. Mr. Calcagnini, it has been reported, and you know the magazine that reported this, that you are personally committed to the defeat of the Sugar Act. Is that correct?

Mr. CALCAGNINI. No, sir. That is not correct.

Mr. MATSUNAGA. When you were first sworn in, I recall, Mr. Calcagnini, you made a public statement that the Sugar Act must go. Is that not correct?

Mr. CALCAGNINI. I do not recall that public statement. If you will like, I will refer to a speech I made in December of 1973 warning if we did not change this system now, while we still had time, it would fail us. And we were at that time opening discussions on a suggested start to new concepts in sugar, which was called the target price concept, which never did get started. I have the speech here if you would like to refer to it.

Mr. MATSUNAGA. You will recall, Mr. Calcagnini, that after your statement raising grave doubts about the Sugar Act, you and I had dinner over at the Democratic Club. I do not know whether the people who run the club knew about it, but I had you there, you recall?

Mr. CALCAGNINI. Yes.

Mr. MATSUNAGA. And we discussed this, and of course you likened the Sugar Act to other agricultural acts which provide subsidies for wheat, corn, feed grains, et cetera. As I try to recall now, I think you finally did see the difference between the Sugar Act and the other agricultural acts, that sugar had never been subsidized, that sugar had, in fact, paid into the Federal treasury over and above the operating costs of the act, \$600 million, or thereabouts. In other words, the taxpayer had profited from the Sugar Act and had not paid any subsidies, this because of the compliance payments being much less than the so-called processing tax which the industry pays.

Now, it seems that despite the difference between the Sugar Act and the agricultural acts, primarily because of a tax which the sugar industry pays which the other agricultural products do not, that you would have been convinced that the Sugar Act was a good thing, not only for the industry but for the consumers as well, and stability had been created over 40 years in price, and yet if I understand it, your position and the position of the Department of Agriculture is that you were opposed to any continuation of the Sugar Act. Is that correct?

Mr. CALCAGNINI. No, sir.

Mr. MATSUNAGA. What is the position that you have taken and which the Department has taken?

Mr. CALCAGNINI. The Department position is to cooperate with the chairmen of the appropriate committees dealing with sugar.

Mr. MATSUNAGA. Cooperate in what sense?

Mr. CALCAGNINI. Please—

Mr. FRICK. Are you talking about during the legislative period of the Sugar Act or are you talking about today?

Mr. MATSUNAGA. I am talking about the time that the Sugar Act was before the Congress, before the House, you were opposed to the measure, were you not?

Mr. CALCAGNINI. No, sir. As I said, we were not opposed to the measure. Our policy was to cooperate with the chairmen of the committees appropriately concerned.

Mr. MATSUNAGA. Word was sent down to the Members of the House that the administration was opposed to the Sugar Act, and so while we had counted at one time as many as 90 Republicans to be in support of the Sugar Act, we got only 47 or 46 votes on the floor for the act.

Mr. JOHNSON. Would the gentleman yield at that point?

Mr. MATSUNAGA. Yes.

Mr. JOHNSON. Gentlemen—

Mr. MATSUNAGA. I will have the answer from Mr. Frick first.

Mr. FRICK. Well, the Secretary did come up to testify on sugar and I think his position was defined at that time. And I think he only mentioned two or three items that he had a disagreement on at that time, and those disagreements continued during the period of discussion of the Sugar Act.

He was doing his very best to cooperate with the Committee on the extension of the Sugar Act, but differences on these two or three points, and I think the position has stayed rather consistent during that whole period.

Mr. JOHNSON. If the gentleman will yield?

Mr. MATSUNAGA. I will yield to the gentleman.

Mr. JOHNSON. The gentleman must be aware that there were many of us on this committee that cosponsored the bill as it came out of the committee who subsequently ended up voting against it because of the amendments that were added to it on the floor. I think that the gentleman's assumption that the Republican support on the House floor was lost because of the administration pressure is totally erroneous and wrong, and the record should reflect this at this time.

It was the amendments that were added on the floor by the gentleman's party that resulted in our opposition to the act.

Mr. MATSUNAGA. The gentleman I think will agree with me that the administration did, in fact, send word down the last day that the administration was opposed to the extension of the act as it was.

Mr. FINDLEY. I got no such word.

Mr. MATSUNAGA. I would not get into any argument now with any of the gentlemen. I will continue my questioning here.

Now, Mr. Calcagnini, again you say that your position is one to cooperate with the Congress, and not to oppose the Sugar Act, is that correct?

Mr. CALCAGNINI. At that time, sir.

Mr. MATSUNAGA. And what about today?

Mr. CALCAGNINI. I will ask Mr. Frick to answer that.

Mr. MATSUNAGA. Mr. Frick?

Mr. FRICK. Mr. Matsunaga, the Department does not believe that an extension of the Sugar Act at this time would do anything for the acquisition of sugar in the near future. As to a discussion of a Sugar Act in the next Congress, that certainly has not been addressed at this point in time, but today the Department of Agriculture is not favorably inclined to an extension of the Sugar Act, because we believe that it would purely confuse what is going on in the sugar world today. That if our company's that are acquiring sugar know what they are doing. They are out acquiring sugar for the year ahead.

Mr. MATSUNAGA. Is the administration paying no heed to the testimony presented before this committee that the Sugar Act is necessary in order to lend stability to the industry, to the sugar industry in foreign countries?

Mr. FRICK. Mr. Matsunaga, I do not know. As you begin to question people on this subject, we do not find that what we had is going to necessarily lend the type of stability that may be necessary in the sugar industry in the future in foreign countries. There has been such a change.

Mr. MATSUNAGA. Are you disregarding the 40 years of experience?

Mr. FRICK. Oh, I think it is rather obvious that this act was passed in the middle of our depression at a time when our sugar industry was on its back.

Mr. MATSUNAGA. Forty years of depression?

Mr. FRICK. Well, Mr. Matsunaga, I think that the Sugar Act, if we look back over the history when we had cheap sugar, surplusses in

the world that has worked the way it was designed to work. But, during the periods in which we have had less than ample cheap supplies, and we have had two or three of those periods, it has had moments of not working, and today I think is one of the greatest examples of how it is outdated and needs to be relooked at.

Mr. MATSUNAGA. But, then it was only after the defeat of the act that the price of sugar started skyrocketing, and it was only after the defeat of the act that foreign countries refused to supply and comply with their quotas, is that not correct?

Mr. FRICK. Again, though as I look at the record, these countries have come in with their sugar, and I think this is a credit to the Sugar Act that these countries have respected the commitment that they made to this Nation, and I see that they are following through with bringing sugar in here. And I do believe that they think this is maybe the best market in the world for their sugar in the future.

Mr. MATSUNAGA. Had they not complied, or should they not be complying in shipping us their quota, would not the situation then be even worse here in our country?

Mr. FRICK. I just guess, I don't know how—if sugar did not come into the United States then, of course, you would have a bad situation if there was not sufficient supply. But there are sufficient supplies. Sugar has come into the United States.

Mr. MATSUNAGA. You are, of course, already presuming the defeat of the Sugar Act, as I understand it, and no extension at all this year?

Mr. FRICK. Well, I figured it had been defeated, and we were looking forward to how it would be handled since it was defeated. I did not know there was going to be an extension at this time.

Mr. MATSUNAGA. I say this, because it is my understanding that you have already made plans to dismantle the Sugar Division.

Mr. FRICK. Well, the President did make a proclamation, did issue a proclamation recently indicating how we would go ahead under the present circumstances, and I believe that is a global quota that was required to retain the present low tariff and that has been issued and made public. I do not know, was it about a month ago?

Mr. MATSUNAGA. Is it true that there are plans already laid to dismantle the Sugar Division which has about 25 employees—employees who are experts in the sugar industry?

Mr. FRICK. Well, I am glad you brought this up, because our plans would be about this way: There are certain industry information statistics and so forth that are very necessary to the industry. We wish to continue all of those informational statistics that they supply, and they wish to have distributed, and so the Department of Agriculture will continue to make those available.

Now, in our other commodities, those are made available through different agencies than ASCS and some point in time we will try to put those into their appropriate slots.

Then as far as the continuation of that part which is left to administer, it will be, it will continue to be administered by a division or branch to get that job done.

As to a continuation of the Sugar Division as large as it has been, this would be ridiculous in light to where we are headed, because it

does not seem to be prudent to keep assembled the number of employees when the responsibility is not there. Now, those people will not be dismissed. They certainly will be put where they will do the best job.

Mr. MATSUNAGA. Of course, the present Sugar Act continues until the end of this month; is that correct?

Mr. FRICK. Yes, sir.

Mr. MATSUNAGA. Can you wait and delay the execution of your plans until such time as the Sugar Act is dead and buried?

Mr. FRICK. Oh, Mr. Matsunaga, there will be no change until after the first of January.

Mr. MATSUNAGA. I see. No further questions.

Mr. VIGORITO. Thank you, Mr. Matsunaga.

Mr. MATSUNAGA. Mr. Chairman, may I at this point insert a letter into the hearing record from Senator Inouye addressed to Secretary Butz relative to the dismantling of the Sugar Section?

Mr. VIGORITO. The letter will be printed in the record at this point. [The material referred to follows:]

U.S. SENATE,
Washington, D.C., December 2, 1974.

HON. EARL L. BUTZ,
Secretary, Department of Agriculture,
Washington, D.C.

DEAR MR. SECRETARY: It needs no stressing on my part to remind you that sugar is on the minds of the vast majority of the people of the United States. It has become the symbol of run-away inflation.

Without exploring the reasons why or how the price, now nearing \$1.00 per pound retail for refined sugar, reached that unthinkable and unforeseen figure, the Congress of the United States, whether it wants to or not, will be forced to list sugar legislation very high on the agenda of legislation to be considered in the first session of the 94th Congress.

It is my understanding your department presently has a staff of approximately 25 persons, highly trained to deal with the intricate problems of an act difficult to administer let alone difficult to fully understand. I have been reliably informed it is your intention to dismantle this staff at the end of this year.

With the uncertainty that prevails in sugar circles, Mr. Secretary, I am writing to ask you not to do this and keep the present staff of the Sugar Division intact at least until Congress has an opportunity next year to examine the sugar situation. To do otherwise, I firmly believe, would not be in the best interests of the country.

I was distressed to also note that you were quoted in the November 26th Wall Street Journal as saying "I suspect we'll be getting more (of our sugar) from the rest of the world," and intimating further that this is just the way you want it. I would remind you that while cotton and some other crops may be suitable substitutes for sugar beets in parts of California and elsewhere there is no suitable substitute for the growing areas in Hawaii and certainly none which can provide the pay scales to agricultural workers sugar does nor, equal return to the farm or plantation operators.

I am mindful of the fact that we are already importing half of our sugar and note with alarm what can happen when we become overly dependent upon other nations for the supply of basic commodities as has happened in the case of petroleum in the past year. I am not a protectionist but there are prudent limits beyond which we venture at our peril.

I shall await your reaction to my concern, feeling as I firmly do that consideration of sugar legislation will be undertaken early in the first session of the forthcoming 94th Congress.

Aloha,

DANIEL K. INOUE,
U.S. Senator.

U.S. SENATE,
Washington, D.C., December 2, 1974.

HON. GERALD R. FORD,
The President of the United States,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: It needs no stressing on my part to remind you that sugar is on the minds of the vast majority of the people of the United States. It has become the symbol of run-away inflation.

The price, now nearing \$1.00 per pound retail for refined sugar, has gone out of control, and the Congress of the United States, despite the defeat of the Sugar Act by the House of Representatives on June 5th, will be forced to list sugar very high on the agenda of legislative activity to be considered in the first session of the 94th Congress.

It is my understanding the Department of Agriculture presently has a Sugar Division staff of approximately 25 persons, who are highly trained and experienced in dealing with the intricate problems of a difficult program. I have been reliably informed it is the intention of the Department to dismantle this staff at the end of this year.

With the uncertainty that surrounds the sugar situation today, Mr. President, I am writing to ask you to prevent the Department from doing this, and on the contrary, to keep the present staff of the Sugar Division intact at least until Congress has an opportunity next year to review the sugar program. To do otherwise, I firmly believe, would not be in the best interests of the country.

I shall await your reaction to my concern, feeling as I firmly do that consideration of sugar legislation will be undertaken early in the next Congressional session.

Aloha,

DANIEL K. INOUE,
U.S. Senator.

MR. VIGORITO. Congressman Findley.

MR. FINDLEY. Thank you, Mr. Chairman.

MR. Calcagnini, you have had a few rough moments this morning. For one thing, it was pointed out that you took a cut in pay in order to serve the Government, and I would hate to leave the impression that you were the first person to do that. In fact, my good friend from Colorado tells me that he took a cut in pay from his law practice in Colorado to serve in Congress.

And I am not a lawyer, and I must admit that I increased my personal income a little bit when I was elected to Congress. But there are a good many of my colleagues who did make a personal sacrifice to serve the Government, and I think actually you are to be commended for taking a sacrifice, if that is what occurred, in order to fill this position.

Second, you have been given a lot of credit by some of the press, and one story I read gave you credit for singlehandedly organizing and carrying out the defeat of the Sugar Act. And until I read that, I thought that I was the one who singlehandedly carried out the defeat of the Sugar Act, and so you can see my feelings are hurt a little bit.

But, it does strike me as strange that you could bring about such a result, occupying a position which by your own testimony, is not even policymaking, and not even having yourself a vote in the committee or in the Congress on either side of the aisle. So, I think you are given credit perhaps beyond your due in regard to your effect upon the Sugar Act.

Some mention was made also of the fact that you came to your present position from the sugar industry. Now, what I am going to say may touch the sensitivities of some people in this room. But, I do not think that it is a desirable situation for people to go from private in-

dustry to administrative positions in Government which have authority over the industry they came from. I do not regard that as desirable. I do not think that on the face of it that means that there is any wrongdoing involved, I just think it is bad policy, and I have stated this on many occasions over the years.

But, if you are to be singled out for criticism for moving from private industry into a position of responsibility in the Government which has some jurisdiction over the industry you left, then I think in fairness we ought to note that at least half of the witnesses who will appear later before this subcommittee have at least done the reverse.

And I mention this not to suggest that there has been any wrongdoing, because I do not have any evidence of it, but Tom Murphy, for example, was head of the Sugar Division for many years and served with a great deal of ability, in my opinion. He, so far as I know, immediately went to the private industry to serve as president of the U.S. Beet Sugar Association.

And Lawrence Myers, former administrator of the Sugar Division, now represents Philippine interests in the private sector.

And Horace Godfrey, who served with distinction as head of the ASCS Committee, and, of course, had authority over Mr. Murphy, the head of the Sugar Division. I do not think Mr. Godfrey had any interruption between his departure from that position as head of the ASCS Division and his acceptance of a position as vice president of the American Sugar Cane League and the Florida Sugar Cane League.

So, if you are to take any blame for moving from private industry to Government, there are a lot of people in this room who ought to share the blame, because there has been quite a bit of cross-fertilization of talent between the private sector and the Government.

As I said, I do not view that as a desirable condition, and I hope that one of these days the Congress will look into that question of public policy. I have long felt that as a condition of employment with the U.S. Government, an individual should be required to wait at least 6 months after leaving Government service before entertaining any offers of employment and vice versa. The Government should not entertain the employment of any individual who within 6 months has had any responsibility in the private sector over which he would have some authority in his new position.

Now, I guess the fundamental question before this committee is the effect of the action of the Congress last summer in terminating the Sugar Act upon the price of sugar for the consumers. Mr. Frick, I do not think you have responded yourself to this question.

In your opinion, did the defeat of the Sugar Act in the House of Representatives have any substantial influence on sugar prices from that day to the present time?

Mr. FRICK. No, sir. I do not believe it has resulted in any particular change in prices from what it would have been otherwise. And rather than trust myself, I did consult economists in the Department, and they used the term no convincing evidence as apparently an economist uses.

Mr. FINDLEY. Is that the consensus view of the economists in the Sugar Division or in your branch of the Department of Agriculture?

Mr. FRICK. I do not know that it is a consensus view. I sought out views and went to those I respect in the Department.

Mr. FINDLEY. Are you aware of any economist within the Department who occupies a position of prominence in the Departmental scheme of things who holds a contrary view?

Mr. FRICK. Oh, yes. Yes, I think there is. I have read papers where there is, or the statement is made that there may be some psychological effect, and they place a figure on it, but there may be some psychological effect that the defeat of the Sugar Act has upon sugar prices.

Mr. FINDLEY. So these views hold that this caused sugar prices to go up or go down? What was the effect of this psychological impact?

Mr. FRICK. Apparently, it indicates they have gone up some because of the psychological effect.

Mr. FINDLEY. Mr. Frick, do you anticipate that sugar prices will go down substantially in the next 6 months?

Mr. FRICK. Substantially from where they are today in the next 6 months?

Mr. FINDLEY. Yes.

Mr. FRICK. I doubt it. They have come down dramatically since the high. Just where they are going to be in 6 months I don't know. I notice that the futures market puts them down dramatically a year from today.

Mr. FINDLEY. Do you expect the futures market to hold at that position? Do you have any reason to doubt the correctness of the price position indicated by the futures market a year from today?

Mr. FRICK. I guess I have reason to doubt it only if we look back at what the position of the futures market was a year ago. They were not very good oracles of what it is today.

Now, we all know that the futures market is the best indicator at that moment in time by buyers and sellers of what they are expecting a year from now. It is the value they place upon it today.

But as to them being oracles of what the value will be eventually a year from now, obviously they missed a year ago.

Mr. FINDLEY. Mr. Calcagnini, as one who has had a close relationship with the private trade, what is your estimate of the price of sugar in the next 6 months? Will it go down substantially or not?

Mr. CALCAGNINI. Impossible to say. However, I feel that the likelihood of prices being below current levels is greater than the likelihood of them being higher. And in the long term, I feel that price levels will be considerably below present levels.

Mr. FINDLEY. As you gentlemen may know, there is a possibility that the House Committee on Agriculture will report out a sugar bill this week, and this bill would then go to the House floor to be considered under the suspension of rules procedure. That is a possibility. It has not happened, but it is in the scheme of things. I want to assure you.

Would each of you comment on what effect this action would have on the price of sugar?

Mr. CALCAGNINI. I think it would be a mistake and that it would further disrupt the market conditions which are already very unpredictable. And I feel that way because there are countries that have made plans for shipments in 1975, and companies in the United States that have made commitments for purchasing sugar in 1975.

If our system is reinstated and quotas are given to countries that have committed sugar in other directions, we would be at a disadvantage, we would have a commitment to buy from those countries where those countries would have already committed their sugar to other markets, and it would place us in a position where we would have to buy from a quota country who does not have the sugar, and the quota country and another country perhaps, who may not have a quota, may have sugar available, and that sugar would be unable to enter this market.

Mr. FINDLEY. What effect do you think this action would have on the price of sugar?

Mr. CALCAGNINI. I think it would tend to make it go higher.

Mr. FINDLEY. To add a little to the background of these events, which will probably occur later this week, the expectation of those advocating this action by the House Agriculture Committee is that this action would cause a very substantial decrease almost instantly in the price of sugar.

Mr. Frick, would you comment on the probable price result if the House does resurrect the Sugar Act before it adjourns this month?

Mr. FRICK. Of course, to comment on any price changes in the future is always subject to being wrong, or normally subject to being wrong. But, I can't—again, I believe that it would have no affect on price as far as my own, off-the-top-of-my-head, from what I have discussed with other people. There is no evidence that it would change the sugar prices from what they are today.

I might just add one comment to that. I believe when sugar prices are a little lower or a little higher in the world, that quota countries come in very nicely. With the differences there are today, relative to the price objective that was in the original extension, I think those differences are too great for these countries to be expected to bring in sugar at the price objective. I think there is just too much difference.

Therefore, I just think that the prices will not change.

Mr. FINDLEY. Mr. Calcagnini, in your statement you give the rationale for your January 11 decision increasing the requirements by 500,000 tons. Would it be a fair interpretation of that decision to say that you saw a need for greater supplies in the United States and acted to meet that need?

Mr. CALCAGNINI. No, sir. Not at all, sir. I think that any sophisticated market follower would understand that the per capita consumption in the United States is relatively constant, and that the increase of quota was intended to achieve the price objective in the sugar market, and that this increase of quota would not mean any increase in the consumption of sugar in the United States.

I think that anyone aware of—

Mr. FRICK. Was your question supply, not consumption?

Mr. FINDLEY. Well, that's what I intended to say. I am not sure I said it. But—was the purpose of your determination to assure adequate supplies at the price objective for the American people?

Mr. CALCAGNINI. Pardon me, I misunderstood the question. Yes; that is correct.

Mr. FINDLEY. In other words, you viewed your decision as safeguarding the interests of the American people as users of sugar?

Mr. CALCAGNINI. Yes, sir.

Mr. FINDLEY. Was there any other motive beyond that, really?

Mr. CALCAGNINI. No, sir. Only to achieve the price objective.

Mr. FINDLEY. I believe in the marketplace system, I think we can wisely rely on the forces of supply and demand to provide consumers with fair prices provided a satisfactory level of competition exists in the industry, and the monopolistic trend in the sugar industry greatly concern me.

I would like to ask you gentlemen for any details you can give to the subcommittee about the structure of the private sugar industry. Let me illustrate.

About 5 years ago, when I last had an opportunity to delve into the structure of the sugar industry, a corporation in Philadelphia known as International Utilities, Inc. was a holding company which controlled C. Brewer & Co. Is that still the case? Can either of you tell me?

Mr. CALCAGNINI. I believe it is, sir, but I am not sure.

Mr. FINDLEY. And C. Brewer & Co. has what sugar interests? Can you tell the subcommittee?

Mr. CALCAGNINI. I believe they have producing interests in Hawaii and that producing interest is a member of the cooperative in California, the C & H Sugar.

Mr. FINDLEY. Can you tell me approximately how much Hawaiian sugar production C. Brewer accounts for?

Mr. CALCAGNINI. I don't recall, sir.

Mr. FINDLEY. Is it true that they are one of the big five?

Mr. CALCAGNINI. Yes, sir.

Mr. FINDLEY. Is it also true that C. Brewer & Co. controls C & H Refining Co. of California?

Mr. CALCAGNINI. I don't know, sir.

Mr. FINDLEY. Do you know if C. Brewer and Co. has other interests in the worldwide sugar industry?

Mr. CALCAGNINI. I don't recall.

Mr. FINDLEY. Can you, Mr. Frick, or you, Mr. Calcagnini, state any interlocking interests that exist in the production, processing, and distribution of sugar that this subcommittee should be aware of?

Mr. FRICK. Mr. Findley, maybe we could submit for the record whatever we have. I just, off-the-top-of-my-head, do not know of the interlocking relationships. We know that there are some companies that are involved with other companies, but what their interlocking relationships are I do not know.

I do not know what it is and maybe we should submit for the record whatever we have.

Mr. FINDLEY. Well, the Sugar Act came into being about 40 years ago because of the existence of what was known as the sugar trust, which was considered the abomination of the users of sugar of that period, and I think a pretty good case could be made for that contention. It is my fear that the sugar trust still exists, and that our Government should be more concerned than it has been about the monopolistic character of the sugar industry.

Now, I ask you, Mr. Frick, if you share my concern about the monopolistic character of the sugar industry.

Now, I ask you, Mr. Frick, if you share my concern about the monopolistic tendencies in the sugar industry worldwide?

Mr. FRICK. I think there is every reason to share your concern. I think that people talk about the lack of free traded sugar and whatever that lack is, why it may not be to the best interests of consumers. We know that consumers in agricultural commodities at least do come out well if there is free trade and free competition allowed in those enterprises. I think that more of that in the sugar industry would be better for the consumer than it is today.

Mr. FINDLEY. I have just one more question.

Mr. VIGORITO. One more question, because time is getting short, and I would like to conclude the witnesses before 12 o'clock and still give the other Congressman on the committee a chance to ask questions. One more question, Mr. Findley.

Mr. FINDLEY. It was mentioned by my friend and colleague, Mr. Matsunaga, that the Sugar Act has made money for the Government. But, is it not correct that during almost all of the 40 years that the Sugar Act has been in effect the U.S. price has been above the world price, so it might just as easily be argued that during all of that time the U.S. users paid a penalty as consumers, although they may not have had a hardship as taxpayers?

Mr. CALCAGNINI. That is correct.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. Calcagnini, though I disagree with you about the efficacy of the Sugar Act, I think that it is an absurdity to intimate that you personally were responsible for killing the act.

Mr. CALCAGNINI. Thank you.

Mr. JOHNSON. Anybody around at the time would recall that there was a wide combination of people opposed to the act for one reason or another. The gentleman from New York, Mr. Peyser, was opposed for one reason, and Mr. Findley was opposed for another.

There were several of us who were cosponsors of the act to begin with, when it left this committee, but who wound up voting against it because we were against the restrictions with respect to labor, and it was felt that these restrictions would destroy the sugar industry in my part of the country, and the small farmers would be just unable to live with those requirements, and so it was a wide combination of interests and events which combined to defeat the Sugar Act.

And this business that it was you, or it was the administration, is totally erroneous, in my point of view.

But, as I say, I do disagree with you on the efficacy of the Sugar Act, and I would like to get your feelings as to the reasons for these higher sugar prices, and nobody has asked you to illustrate or to give a further explanation of your statement at the top of page 8, which I understand it is the only place where you have indicated why you think the prices have gone up so much.

You said that: "We viewed the position taken by certain sugar importing nations at the International Sugar Conference in November 1973 as being a strong contributory influence on the present sugar price levels." Would you explain what position that was and what countries were involved?

Mr. CALCAGNINI. There are many factors involved in the present sugar price rise. The fundamental issue of any price situation is supply and demand. I believe we already covered those.

The other aspects of the price situation are many and varied, including the oil crisis, inflation, the move on the part of countries holding heavy credit balances to move into commodities, and I feel that the failure of the International Sugar Agreement also was a contributory factor in that it injected some uncertainty. And I feel that our obligation to the global community is to try to participate in constructive dialog to find answers to the questions, to the question of sugar production in the world.

I think we can no longer afford to take an isolated view of sugar, and stick to what we think, and what some theorists feel is an answer to U.S. consumers when it has proved—

Mr. JOHNSON. Excuse me, Mr. Calcagnini. Time is running short, and I really am not interested in that viewpoint. I am trying to find out what was the position taken by the sugar importing nations at the International Sugar Conference which you regard as being contributory to the present price level of sugar, and what countries were involved?

Mr. CALCAGNINI. They were willing—the position taken was of not willing to sign the accord, and that was their position and primarily, I believe, it was Japan and Canada, but there may have been others.

Mr. JOHNSON. And you are attributing high sugar prices to the action of Japan and Canada in 1973?

Mr. CALCAGNINI. Not attributing, I am not attributing the high sugar prices to their actions. I am stating that the failure of the International Sugar Agreement was a contributory factor.

Mr. JOHNSON. You said strong contributory influence in your statement, sir. You are evidently not indicating that that is the case now.

Mr. CALCAGNINI. No; it was a strong contributory influence. Yes, sir.

Mr. JOHNSON. No further questions.

Mr. VIGORITO. Mr. Symms.

Mr. SYMMS. Thank you, Mr. Chairman.

I would like to thank you gentlemen for being here this morning and testifying before our committee. But one question has not come up this morning. I would like to get both your opinions. Just this past Saturday night I was with one of the directors of the Beet Growers Association in southwestern Idaho. This past year our plants are only going to run at about 50-percent capacity in Oregon and Idaho. He informed me that beet production plantings are really on the upswing now, and the farmers are all very enthusiastic about it because they do not have to fool with all the Government redtape any more to grow sugar beets. They are all small growers, averaging 30 or 40 acres. They also are enthusiastic about the prices they are receiving this year from their first payments on the higher sugar prices.

Now, is this just an isolated case? I heard my friend from Minnesota, Mr. Bergland, say they will not grow beets in his area without the Sugar Act. But the impression I am getting from our growers is that they are going to grow more beets this year than last year, and they anticipate growing more the year after.

What do you see as far as beet production and cane production without the Sugar Act in this country? I would like to have both of your opinions on this.

Mr. FRICK. Congressman Symms, in the 1975 crop year I would expect again all sugar plants to be running at capacity in the beet area. I would expect the same thing in cane, that it is a favorable, profitable crop at this moment in time and therefore, farmers are delighted to respond, will respond, and will have maximum production if the weather will allow in 1975.

And to add to that, I would expect that sugar production would be like any other commodity, that people respond to the markets that are there, and if we have a favorable advantage in the United States to growing sugar compared to other countries growing sugar, why we will continue to see an expansion.

Mr. SYMMS. Thank you. Would you care to comment on that, Mr. Calcagnini?

Mr. CALCAGNINI. I would concur that all of the discussion that I have had with people in producing groups would indicate a very strong interest in producing next year and the year after.

Mr. SYMMS. Well, if this in fact happens, in the long run, say 2 years from now, if supplies are increased, this means that it will have to have an effect on the price eventually.

Mr. CALCAGNINI. I think they will decline.

Mr. FRICK. I assume—I agree that, yes, sir, I think it is like our other commodities, when you get a response, at some point we are going to fulfill the need for sugar consumption. We know there is adequate sugar at a price at any time, but adequate sugar at a reasonable price will be fulfilled by expansion of production around the world.

Mr. SYMMS. So, perhaps the coincidence of higher world prices, and the defeat of the Sugar Act in the House created some psychological effect on sugar prices, but patience might offset that effect in the long run, adjusting the market price. Is that what you are saying?

Mr. FRICK. Yes, sir.

Mr. SYMMS. Prices will stabilize or come down. Now, I would like to ask you one other question, a hypothetical question. If we do extend some form of the Sugar Act, and say the world price is 5 cents or something higher than the U.S. price, where do you think a lot of this sugar from Hawaii would end up going? Would it come to the mainland, or would it end up going to Japan or other places where they could receive a higher price?

In actual practice, what do you think would happen with Hawaiian sugar?

Mr. CALCAGNINI. I have heard that the Hawaiians will ship their sugar to the United States regardless. But you might check with their representatives.

Mr. SYMMS. Well, I just mean as a practical effect, don't you think the producers would naturally try to get the highest price available?

Mr. FRICK. You are saying that there would be a price of 5 cents to 10 cents higher?

Mr. SYMMS. Yes.

Mr. FRICK. Would they not come here?

Mr. SYMMS. No; say higher in Japan than it is in the United States.

Mr. FRICK. Under the Sugar Act, of course, I believe the way the law was written for the extension, it was written where they would be

required to bring it here. But, if there was no law, why certainly there would be an attractiveness to the higher priced market.

Mr. SYMMS. I hear an awful lot about the reimposition of wage and price controls these days. I'm not sure we can predict what might happen, but I question what could happen from a practical point of view.

Do you think there would be a black market on sugar if we tried to interfere in the market?

Mr. FRICK. I think under the rules of the Extension Act that the sugar would come here. If I remember correctly, it is stated that no domestic sugar may go anywhere other than stay domestic, and I think that would be followed through very clearly.

But, I have to say under the lack of an act, why certainly the high dollar is attractive to any producer of sugar.

Mr. SYMMS. Would either one of you have any fears at all as far as domestic producers are concerned in this country to go ahead and try it on a free market for a couple or 3 years and see what happens?

Mr. CALCAGNINI. I would have no fears.

Mr. SYMMS. Mr. Frick?

Mr. FRICK. No. I think that it is rather obvious that this was long overdue, and it is rather obvious that the free market approach in other commodities is working. And I think if we will look at it closely, in the interrelationship between these commodities, we will see that the way farmers are acting under free commodity production system, that it is very much in tune with the demand around the world.

I think the reaction is absolutely, I think much better than anybody expected it would be under the Agricultural Act of 1970, the Agricultural Act of 1973. I think sugar will do the same thing.

Mr. SYMMS. Thank you. I just want to make one closing statement.

Mr. Calcagnini, I would just like to commend you on your testimony this morning about increasing the quota by 500,000 tons. If I understood the exchange with my friend, Mr. Findley, correctly, a parallel can be drawn rather simply regarding these supply movements on the international market. When you increased the quota January 11, it was just the reverse of an excessive exportation of our domestic grain. While we might have at one time exported more grain to foreign nations than we intended, creating a great hue and cry around the country, in the case of sugar we imported a great deal. The same hue and cry was raised in England and other countries. They were caught short of sugar because we had imported the available supply to the United States.

Mr. CALCAGNINI. Yes, sir. I think that is the case.

Mr. SYMMS. Okay, thank you, Mr. Chairman.

Mr. VIGORITO. Thank you, Mr. Symms. Counsel for the committee, Mr. O'Neal, would like to ask some questions.

Mr. O'NEAL. I will be happy to defer until the other members have finished their questions.

Mr. BERGLAND. Mr. Chairman, may I be permitted to question the witness?

Mr. VIGORITO. Yes, Mr. Bergland.

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

Mr. Calcagnini, is it true that the world produces about 80 million tons of sugar?

Mr. CALCAGNINI. Yes, sir.

Mr. BERGLAND. Is it also true that about 30 percent of that quantity is traded in world markets; that is, it is shipped beyond the borders of the country in which it is produced?

Mr. CALCAGNINI. Yes, sir.

Mr. BERGLAND. Is it not also true that about 40 percent of that sugar is marketed under some form of an export agreement with a consuming country?

Mr. CALCAGNINI. Yes, sir.

Mr. BERGLAND. Is it also not true that historically the prices under the sugar traded under these agreements tend to be much more stable than the very volatile world market?

Mr. CALCAGNINI. Yes, sir.

Mr. BERGLAND. Is it not true that in the last 24 months that the world market price has been higher than the U.S. price in 19 of those 24?

Mr. CALCAGNINI. As I recall, sir, but without checking my figures.

Mr. BERGLAND. Are you familiar with the meeting that was held recently in Mexico at which the possible creation of a Caribbean-type sugar cartel was discussed?

Mr. CALCAGNINI. I am familiar, but I did not attend that meeting nor did I get reports after the meeting. But, I did speak with one of the persons who intended to go to that meeting.

Mr. BERGLAND. Mr. Calcagnini, I am troubled by the fact that about 13.4 million tons of sugar sold in the world is sold under a free market arrangement, and with the expiration to the Sugar Act we will dump a 6-million-ton American demand on top of that, and we will be depending on, for the principal part of our sugar, the production in the Caribbean region, and I am afraid that we are going to be led into a trap. I do not think that anybody can honestly characterize the oil industry as being free, and I am afraid that if we dismantle these agreements that have proven to be effective in maintaining an element of stability and put ourselves in the world market that we are going to be at the mercy of a Caribbean sugar OPEC, and I just do not want Fidel Castro to be dictating the sugar policies in the United States.

I think that as a matter of public policy, this would be a tragedy and a mistake. I represent a part of the largest sugar beet growing area in the United States, the Red River of the North. This year we will produce a billion pounds of sugar. This increase of sugar in the last 4 years in my territory can be directly attributed to the Sugar Act of 1971 in which we provided for substantial expansion and incentives to expand the domestic industry.

Now, sugar and grain cannot be likened. The sugar is produced in a region and it is refined in that region. The only limiting factor in expanding production in my territory is manufacturing capacity.

We have a potential to double our present capacity, to produce and refine sugar for the U.S. market in the territory I represent. Those people are unable to build plants at a cost of \$40 million apiece unless they are provided some assurance that the price will be relatively stable, and they are not asking for 50 cents a pound.

The price could drop at least by half or perhaps by two-thirds from the recent highs and we would still be able to invest the great amounts of money to build new plant capacity.

And as we look down the road, and as we look in the past, on these worldwide markets I think, Mr. Calcagnini, that it is in the best interests of this country to come as near to developing self-sufficiency in sugar as quickly as is possible.

Now, if this Sugar Act does expire the end of December of this year, which I expect it will, your capacity as head of the Sugar Division will be altered somewhat. How do you plan to bring down the price of sugar to the U.S. consumer when the act expires?

Mr. CALCAGNINI. I plan to serve my boss in whatever capacity they delegate. I do not know whether I will be in the sugar end of government or not.

Mr. BERGLAND. Well, we all lead a rather dangerous life. I will grant you that. Do you know, Mr. Calcagnini, or Mr. Frick, does the Department of Agriculture have any contingency plan at all? Do you have any idea of what you plan to do?

Mr. FRICK. Congressman Bergland, I think there are two points. First of all, when we go back to the cooperatives in your area who did, at their own expense and at their own risk, invest in very high priced sugar processing plants, and if I understand it correctly, fortunately the way their growers are tied into these cooperatives this year, that the cooperatives will pay off a certain portion of those factories that would not have been paid off, and they are in better financial condition today under the present situation than they ever would have been under any other situation. And I think it is a very positive force in their favor, that they have been able to pay off a very high risk situation that they were in.

Second, as far as plans of the Department, we believe that the market will attract sugar. We believe that the United States is the best sugar market in the world. We do have faith in the people, the commercial people that deal in these commodities, not only sugar but others, that they will go out and attract the sugar supply, attract the sugar supplies needed, that they will attract some on a long-term basis and the United States shall be well served.

And I have seen other material from the State Department that indicates this same thing, although I know they are going to testify later on today. And I think they have a better feel for what foreign people have in mind.

Mr. BERGLAND. Are you willing to put the consumers of the United States at the mercy of a Caribbean sugar combine?

Mr. FRICK. Mr. Congressman, just a little background on this. Now, in the soybean business and in the wheat business we have continued to suggest to Japan and other countries they can rely on this Nation for these very important, needed commodities, that we are producers that are reliable, we are producers that can be counted upon, and there has been no nation-to-nation agreement. It has been purely in the commercial world, and they have accepted that and have dealt with our commercial people for their food supplies. Personally I do not see much difference in sugar with the foot on the other shoe, or I mean the shoe on the other foot. Really sugar is another agricultural commodity that farmers and other investors go into not too differently than other commodities. And I think that what we have tried to get along with in the case of Japan and other countries in our export, that the same

thing prevails in the import of sugar, and I think that the U.S. consumer will be well served in the years to come.

Mr. BERGLAND. One final question, Mr. Chairman.

Mr. Frick, if my producers go into the market and borrow another \$120 million in the next 5 years with which to substantially increase our sugar refining capacity, what assurance do you see that they will have any chance of paying off those loans?

Mr. FRICK. If I were a producer in that area, I would certainly look very hard at the situation.

Mr. BERGLAND. If you were a banker, given the uncertainty of the market, would you be willing to extend that kind of credit?

Mr. FRICK. Not having been a banker, that is a lot of money.

Mr. BERGLAND. You had better believe it.

Mr. FRICK. And I would certainly want to know what is going to happen.

Mr. BERGLAND. So would I. Thank you very much, Mr. Chairman.

Mr. VIGORITO. Mr. O'Neal?

Mr. O'NEAL. Thank you very much, Mr. Chairman.

Mr. Calcagnini, in your statement you have purported to list your actions which you have taken over the past 1½ years. Is that a complete list of all of the actions you have taken in the Department?

Mr. CALCAGNINI. To the best of my knowledge; yes, sir.

Mr. O'NEAL. Do you remember the July 25 announcement that was made by the Department in the form of a press release? I do not see that that was included there where you reallocated 104,000 tons of foreign deficits?

Mr. FRICK. Mr. O'Neal, if we have missed something we will go back over our records and be sure that it is complete.

Mr. O'NEAL. Right. Would you please furnish that for the records?

Mr. FRICK. Yes, sir.

Mr. O'NEAL. Was that ever published in the Federal Register?

Mr. CALCAGNINI. I will ask Mr. Bor to answer that.

Mr. O'NEAL. Was the July 25 announcement ever published in the Federal Register?

Mr. BOR. If my memory is correct, there were a couple of announcements between July and sometime in October that were made by the Department, and they were reflected in an announcement that was published in October in the Federal Register.

Mr. O'NEAL. Section 204 of the act requires the announcement to be made every 60 days, is that not correct?

Mr. BOR. Yes, sir.

Mr. O'NEAL. And does it not require the publication of all deficits every 60 days under section 204 of the act? Mr. Bor?

Mr. BOR. The act requires that the deficits be announced every 60 days, that's correct; sir.

Mr. O'NEAL. And the last announcement was May 29, 1974, is that correct? That was published in the Federal Register.

Mr. BOR. The announcement of October 1974 reflected what was considered to be the domestic deficit as indicated in Mr. Calcagnini's testimony of some 600,000 tons.

Mr. O'NEAL. And that was the first announcement that had been published in the Federal Register since May 29, was it not, which is somewhat in excess of the 60 days?

Mr. BOR. I think that is correct.

Mr. O'NEAL. In other words, the October announcement was not made within 60 days after the May 29 announcement, and if section 204 of the act had been strictly followed there would have been another announcement due to be published in the Federal Register somewhere around July 25 to 29. Is that not correct?

Mr. BOR. And I think—

Mr. O'NEAL. And publication was put out by the Department of Agriculture on July 25 to reallocate 104,000 tons of foreign deficits, but that was never published in the Federal Register, nor did it acknowledge the existence of approximately 600,000 tons of domestic deficit. And my question, Mr. Calcagnini, was why was that not done in compliance with the act?

Mr. CALCAGNINI. The 600,000-ton domestic deficit at that time, and in our best judgment cannot be determined for—I think we were waiting for the next crop report, and in October, as I recall.

Mr. O'NEAL. It had been publicly announced by ERS, had it not?

Mr. CALCAGNINI. Certainly if it were before October, and I am speaking of the October crop report, it had not been announced, you know, the deficit pro ration has to do with our estimate of the crop at harvest, so in July the information is less than it is in August, and less than it is in September and so forth.

Mr. O'NEAL. Well then, why wasn't—you had announced on September 25 a 600,000-ton domestic deficit. Why was that not published in the Federal Register as of that time? Why was there a delay until October?

Mr. CALCAGNINI. I don't know, but I will supply the answer.

Mr. O'NEAL. The act does require you under section 204 to publish all known deficits every 60 days, and I assume your testimony is that you did not make any public announcement from May 29 until September 25, is that correct?

Mr. CALCAGNINI. Well, whatever is written here, of course, is my testimony. If it needs to be corrected I will, and I will supply the information you have requested.

Mr. O'NEAL. Fine. And would you also supply whether or not that was published in the Federal Register, the July 25 announcement?

Mr. CALCAGNINI. Yes, sir.

Mr. O'NEAL. Thank you.

[The following material was subsequently submitted:]

ADDITIONAL INFORMATION CONCERNING ANNOUNCEMENT OF DOMESTIC DEFICITS BY
U.S. DEPARTMENT OF AGRICULTURE

On July 25, 1974, the Department issued a press release announcing foreign deficits totalling 104,589 short tons. There were no domestic deficits announced at this time.

Domestic deficits were *not* announced because of the following reasons:

1. Information on hand at that time was not considered adequate to make a valid estimate of domestic deficits. The July Crop Production Report issued by SRS Crop Reporting Board on July 11 dealt with planted acreages of sugarcane and sugarbeets. This was not a production estimate. Many months remained before sugar harvest and there was not available at that time reliable data from which estimates could be made of actual harvest conditions in the fall and the production from the crop.

2. The actual marketings of sugar from new crop is difficult to determine. Regardless of the slight reduction in planted acreage from the previous crop, it seemed likely that the sugar crop production would be marketed rapidly after

production, thereby filling the quota. Consideration was given to the fact that the market price structure showed strong premiums for the nearby position with much lower prices for later delivery positions.

A domestic deficit was declared as soon as more reliable information became known to the Department through actual production reports.

The July 25 announcement was given wide publicity was not published in *The Federal Register*. A copy of the announcement is enclosed with this statement.

Enclosure.

USDA ANNOUNCES DECLARATION AND PRORATION OF ADDITIONAL 1974 SUGAR QUOTA DEFICITS

WASHINGTON, JULY 25.—The U.S. Department of Agriculture (USDA) today declared additional deficits in sugar quotas totalling 104,589 short tons for Ecuador, Haiti, Honduras, Nicaragua and Panama and prorated this amount to nine other Western Hemisphere countries able to supply additional sugar.

The deficits in the quotas are (short tons, raw value) Ecuador, 34,000; Haiti, 33,584; Honduras, 10,216; Nicaragua, 10,000 and Panama, 16,789.

The nine countries receiving increases in quotas and the amounts in short tons, raw value, are Argentina, 8,632; Belize, 3,836; Bolivia, 734; Colombia, 7,672; Dominican Republic, 30,000; Guatemala, 4,500; Peru, 20,500; El Salvador, 5,473; and West Indies, 23,242.

Availability of foreign sugar was determined from wires recently received from all quota countries in response to a USDA query. Today's action does not change the quota level from 12,500,000 short tons, raw value, nor does it change the amount to be supplied from foreign countries.

The USDA is required by law to periodically determine whether any area or country will fail to fulfill its quota obligations. Each foreign country that will not be able to fill its revised quota as announced today is to so notify the USDA of the amount of such shortfall as soon as possible.

Revised quotas and quota changes are shown in the following table.

[Short tons, raw value]

Production area	Change in quota	Basic quotas	Temporary quotas and prorations pursuant to sec. 202(d) ¹	Deficits and deficit prorations	Allocations made on a first-served basis	Total quotas and prorations
Domestic beet sugar.....	0	4,025,667		-725,667		3,300,000
Mainland cane sugar.....	0	1,764,333		0		1,764,333
Texas cane area.....	0	100,000		-40,000		60,000
Hawaii.....	0	1,110,000		0		² 1,110,000
Puerto Rico.....	0	855,000		-755,000		² 100,000
Hawaii.....	0	1,110,000		0		² 1,110,000
Puerto Rico.....	0	855,000		-755,000		² 100,000
Total domestic area.....	0	7,855,000		-1,520,667		6,334,333
Philippines.....	0	1,126,020	73,280	399,781	0	² 1,599,081
Dominican Republic.....	30,000	427,345	184,303	229,912	35,000	876,560
Mexico.....	0	377,933	162,994	176,797	0	717,724
Brazil.....	0	368,585	158,960	172,424	172,455	872,424
Peru.....	20,500	254,228	87,224	143,883	0	485,335
West Indies.....	23,242	4,505	1,546	87,589	160,181	253,821
Ecuador.....	-34,000	54,420	23,469	-8,542	0	69,347
Argentina.....	8,632	51,081	22,030	32,528	0	105,639
Costa Rica.....	0	46,073	19,871	21,553	15,854	103,351
Colombia.....	7,672	45,045	19,583	28,913	0	93,901
Panama.....	-16,789	43,068	18,574	3,358	0	² 65,000
Nicaragua.....	-10,000	43,068	18,574	10,147	0	71,789
Venezuela.....	0	34,790	11,936	-46,726	0	0
Guatemala.....	4,500	39,396	16,990	22,929	0	79,315
El Salvador.....	5,473	28,712	12,383	18,905	0	60,000
Belize (British Honduras).....	3,836	22,703	9,791	14,456	5,752	52,702
Haiti.....	-33,584	20,699	8,928	-23,901	0	5,726
Honduras.....	-10,216	8,013	3,454	-6,467	0	5,000
Bolivia.....	734	4,340	1,872	2,764	0	8,976
Paraguay.....	0	4,340	1,872	2,030	0	8,242
Australia.....	0	167,599	46,071	0	0	213,670
Republic of China.....	0	69,777	19,182	0	0	88,959
India.....	0	67,106	18,447	0	0	85,553
South Africa.....	0	47,408	13,032	0	0	60,440
Fiji Islands.....	0	36,725	10,096	0	0	46,821
Mauritius.....	0	24,706	6,792	0	12,624	44,122
Swaziland.....	0	24,706	6,792	0	5,846	37,344
Thailand.....	0	15,358	4,221	0	5,622	25,201
Malawi.....	0	12,353	3,395	0	0	15,748
Malagasy Republic.....	0	10,016	2,753	0	0	12,769
Ireland.....	0	1,107	0	0	0	² 1,107
Total foreign.....	0	3,481,585	988,415	1,282,333	413,334	6,165,667
Total.....	0	11,336,585	988,415	-238,334	413,334	12,500,000

¹ Prorations of the quotas withheld from Cuba, Southern Rhodesia, Bahamas, Uganda, West Indies, Peru, Venezuela, and Ireland.

² Direct-consumption limits in tons: Hawaii, 40,356; Puerto Rico, 169,000; Philippines, 59,920; Panama, 3,817; Ireland, 1,107.

Mr. VIGORITO. Mr. Murray, would you like to ask some questions?

Mr. MURRAY. Yes; Mr. Chairman. I would like to submit for the record a set of tables which I obtained from the Economic Research Service of the Department of Agriculture relative to background material useful in these hearings. I believe each member of the subcommittee has a set of these tables. And I would like to briefly explain each one of them, and if the committee would like we can make them available to those that are interested.

The first table deals with prices received by sugar producers, and it shows among other things that as of November of this year cane sugar growers were receiving 304 percent of parity and beet growers 251 percent of parity.

The second insert includes an understandable definition of what the world price is. It is a term of art, and precise technical material,

and we have an explanation of what world price means and how it is calculated.

Table No. 2 is a comparison of prices for the last 2 years, and for each year by months, and then for the last year back to 1960 showing U.S. sugar prices.

Table No. 3 shows sugar prices by month in the United States this year, and last year, 1974 compared to 1973.

Table No. 4, now this is a table that shows the impact of sugar prices in the United States on consumers in 1973 and 1974, and the significant number is \$4.2 billion. That is how much the American consumers paid more for sugar in 1974 than in 1973.

The next table deals with balance of payments and the impact that rising sugar prices in the world have had on our adverse balance of payment situation.

Table No. 5 has a typographical error in it in its present form, and we are in the process of correcting that.

Table 6 deals with world production for each of the last 10 years.

And the final table, table No. 7, shows the impact of the Sugar Act this past year, now limping along as it has under the benign guidance of the Department where it has still represented, according to these figures from the Department, a savings to the consumers of \$240,934,000, which represents the difference between the world price in 1974 and the U.S. price in 1974.

Mr. VIGORITO. Thank you, Mr. Murray.

Mr. FINDLEY. Mr. Chairman, could I ask one question?

Mr. VIGORITO. Please be brief.

Mr. FINDLEY. On that last item that Mr. Murray read, crediting the act with a very substantial savings since the action in the House last summer, I will ask both of you gentlemen can the difference in price really be credited to the existence of the Sugar Act, or are there other principal factors?

Mr. CALCAGNINI. As I commented earlier, Congressman Findley, there are certainly other external factors that result in the two markets trading at different price levels, and I would also like to point out to Mr. Murray that here we are talking about billions of dollars above the price objective that the American consumer is forced to absorb, and what we are looking for is a system that will prevent this recurrence.

Mr. FRICK. Mr. Congressman, only one thing. I think that by being aggressive instead of benign in January, that this did help keep supplies maybe somewhat excessive compared to the rest of the world during the first 6 months of this calendar year because when you get right down to it, why prices normally reflect supply, and I think we had what some people might have considered in the past excessive supplies during that period, which did keep prices somewhat below the world price.

Mr. VIGORITO. The tables as presented by Mr. Murray will be included in the record at this point.

[The following tables are corrected versions of those submitted by the Department and contain all corrections and updated information as of December 9, 1974:]

December 9, 1974

Request from the House Agricultural Committee for
Information on Sugar1. Comparison of prices received by farmers (current) with
parity price (beets and cane).Table 1--Prices received, parity prices, and prices
received as a percent of parity, cane, and beet sugar, 1971-1974,
monthly 1973-1974

Date	Prices received by farmers		Parity price		Prices received by farmers as percent of parity	
	Beet	Cane	Beet	Cane	Beet	Cane
	Per ton of beets or cane					
1971	18.49	11.40	23.22	15.54	79.6	73.4
1972	18.75	12.19	24.60	16.60	76.2	73.4
1973						
Jan.	18.31	12.65	25.70	17.80	71.2	71.1
Feb.	18.31	12.71	26.10	18.00	70.1	70.6
Mar.	18.33	13.04	26.50	18.30	69.2	71.3
Apr.	18.61	13.41	26.90	18.60	69.2	72.1
May	18.84	13.83	27.40	18.90	68.8	73.2
June	19.43	14.15	28.00	19.40	69.4	72.9
July	18.94	13.85	28.00	19.20	67.6	72.1
Aug.	18.94	14.75	28.90	19.90	65.5	74.1
Sept.	21.31	15.51	28.70	19.70	74.2	78.7
Oct.	21.48	15.26	28.80	19.80	74.6	77.1
Nov.	21.48	15.20	29.10	19.90	73.8	76.4
Dec.	21.48	15.53	29.40	20.20	73.1	76.9
Average:	19.62	14.16	27.80	19.10	70.6	74.1
1974						
Jan.	22.80	16.76	29.20	20.00	78.1	83.8
Feb.	28.99	23.38	29.50	20.20	98.3	115.7
Mar.	33.62	23.72	29.80	20.40	112.8	116.3
Apr.	35.36	25.52	30.50	20.90	115.9	122.1
May	42.95	30.00	30.60	20.90	140.4	143.5
June	49.15	34.65	30.80	21.10	159.6	164.2
July	49.12	34.65	32.00	22.10	153.5	156.8
Aug.	53.57	40.44	33.00	22.70	162.3	178.1
Sept.	56.82	42.28	33.50	23.00	170.1	183.8
Oct.	65.32	46.42	33.70	23.20	193.8	200.1
Nov.	85.43	71.47	34.00	23.50	251.3	304.1
Dec.						
Average:						

Source: ASCS Sugar Division, unpublished statistics.

2. Describe what "world" price for sugar is, how it is derived, the difference between tariff and shipping prices for sugar; and compare U.S. with world price for recent years.

What is the "world" prices

The world price is the price of sugar stowed in Greater Caribbean ports, including Brazil. By adding transportation costs, insurance and the U.S. duty of .625 cent per pound, the world price can be adjusted to a New York basis price. (See accompanying table).

Until December 31, 1974 such sugar can be imported in to the United States for use in livestock feed, for production of alcohol, or for re-export including re-export in sugar-containing products.

The world sugar price is that price paid for sugar which is not marketed under some type of preferential agreement. At present, about 30 percent of sugar in the world is traded in the International Market. This is sugar that is consumed in a country other than which it is produced. In 1974, about 40 percent of this sugar traded in International Markets was under Preferential Agreements including the U.S. Sugar Act, the Commonwealth Sugar Agreement and the USSR-Cuba Agreement. The other 60 percent is sold in the world market at whatever price can be obtained.

When world sugar supplies are in surplus, the world price is much lower than preferential prices. This difference is frequently called the quota premium. When sugar supplies are tight, the world price is usually much higher than preferential prices. This difference is frequently called the quota discount.

With sugar marketed under preferential agreements, prices tend to be much more stable than the volatile prices of sugar sold in the world market. For example, during the increasingly tight supply situation of 1973 and 1974, the world price was higher than the U.S. price in 19 out of the 24 most recent months.

2. Describe what "world" price for sugar is, how it is derived, the difference between tariff and shipping prices for sugar; and compare U.S. with world price for recent years.

Table 2--Comparison of world and U.S. sugar prices
1960-74 and monthly, 1973-74

Year and month	World : sugar price : (stowed : Caribbean) : 1/	Transportation : insurance and : duty to New : York : 2/	World : price : New York : basis	U.S. : sugar : price : New York : basis	Difference : between U.S. : and world : prices New : York basis 3/
<u>Cents per pound</u>					
1960	3.14	0.95	4.09	6.30	2.21
1961	2.91	.94	3.85	6.30	2.45
1962	2.98	.89	3.87	6.45	2.58
1963	8.50	.91	9.41	8.18	-1.23
1964	5.87	.92	6.79	6.90	.11
1965	2.12	.95	3.07	6.75	3.68
1966	1.86	.96	2.82	6.99	4.17
1967	1.99	.96	2.95	7.28	4.33
1968	1.98	.98	2.96	7.52	4.56
1969	3.37	1.00	4.37	7.75	3.38
1970	3.75	1.13	4.88	8.07	3.19
1971	4.52	1.13	5.65	8.52	2.87
1972	7.43	1.11	8.54	9.09	.55
1973	9.61	1.38	10.99	10.29	-70
1974 4/	29.69	1.64	31.33	29.10	-223
1973					
Jan.	9.40	1.26	10.66	9.38	-1.28
Feb.	9.06	1.28	10.34	9.14	-1.20
Mar.	8.89	1.31	10.20	9.45	-.75
Apr.	9.06	1.31	10.37	9.65	-.72
May	9.67	1.32	10.99	10.06	-.93
June	9.77	1.36	11.13	10.25	-.88
July	9.81	1.40	11.21	10.25	-.96
Aug.	9.09	1.41	10.50	10.75	.25
Sept.	9.01	1.43	10.44	10.97	.53
Oct.	9.56	1.47	11.03	11.15	.12
Nov.	10.14	1.50	11.64	11.10	-.54
Dec.	11.83	1.52	13.35	11.34	-2.01
1974					
Jan.	15.32	1.55	16.87	12.63	-4.24
Feb.	21.28	1.55	22.83	17.09	-5.74
Mar.	21.27	1.59	22.86	18.11	-4.75
Apr.	21.77	1.63	23.40	19.25	-4.15
May	23.65	1.75	25.40	23.05	-2.35
June	23.67	1.73	25.40	26.30	.90
July	25.40	1.66	27.06	28.35	1.29
Aug.	31.45	1.63	33.08	32.60	-.48
Sept.	34.35	1.60	35.95	33.71	-2.24
Oct.	39.63	1.66	41.29	38.83	-2.46
Nov.	57.17	1.67	58.84	57.30	-1.54
Dec. 5/	47.33	1.67	49.00	48.00	-1.00

1/ Sugar stowed at Greater Caribbean ports including Brazil.

2/ Includes duty of .625 cents per pound.

3/ Quota premium when U.S. price exceeds world price. Quota discount when world price exceeds U.S. price.

4/ Estimated by using December forecast.

5/ Forecast.

Source: Sugar Reports, ASCS

3. For 1973, 1974 actual to date and projected for remainder of 1974 show: (a) U.S. raw sugar (wholesale) prices; (b) U.S. retail sugar prices; (c) difference in total U.S. consumer expenditures for sugar 1974 vs. 1973; and (d) difference in U.S. foreign exchange payments for sugar 1974 vs. 1973.

Table 3--Sugar prices 1973 and 1974 monthly

Month and Year	Raw cane sugar	Refined cane sugar	
	spot price domestic sugar at New York duty paid	quoted wholesale price in the Northeast	Retail U.S.
Cents per pound			
<u>1973</u> (Average)	10.29	14.07	15.10
January	9.38	13.15	14.12
February	9.14	13.18	14.24
March	9.45	12.94	14.34
April	9.65	13.30	14.42
May	10.06	13.55	14.58
June	10.25	13.96	14.84
July	10.25	14.05	14.92
August	10.75	14.50	15.06
September	10.97	14.80	15.36
October	11.15	14.95	15.98
November	11.10	15.13	16.50
December	11.34	15.33	16.78
<u>1974</u> (Average)	29.60	34.74	31.44
January	12.63	15.65	16.96
February	17.09	18.49	17.76
March	18.11	20.90	20.80
April	19.25	23.78	22.96
May	23.05	27.61	24.84
June	26.30	31.04	28.32
July	28.35	32.50	32.14
August	32.60	36.83	34.88
September	33.71	40.74	37.96
October	38.83	43.59	41.68
November	57.30	60.69	1/51.00
December	<u>1/48.00</u>	<u>1/54.00</u>	<u>1/54.00</u>

1/ Estimate.

Source: Sugar Reports, Sugar Division, ASCS/USDA.

3. For 1973, 1974 actual to date and projected for remainder of 1974 show: (a) U.S. raw sugar (wholesale) prices; (b) U.S. retail sugar prices; (c) difference in total U.S. consumer expenditures for sugar 1974 vs. 1973; and (d) difference in U.S. foreign exchange payments for sugar 1974 vs. 1973.

Table 4--Consumer expenditures for sugar, 1973 and 1974 by quarters

	1973	1974	Difference
<u>1,000 dollars</u>			
<u>Retail</u>			
1st quarter	150,713	229,368	78,655
2nd quarter	174,761	305,010	130,249
3rd quarter	239,803	<u>1/</u> 559,840	320,037
4th quarter	<u>199,985</u>	<u>586,720</u>	<u>386,735</u>
Subtotal	765,262	1,680,938	915,676
<u>Industrial</u>			
1st quarter	491,495	717,474	225,979
2nd quarter	585,064	1,175,654	590,590
3rd quarter	649,954	<u>1/</u> 1,607,022	957,068
4th quarter	<u>594,557</u>	<u>2,004,880</u>	<u>1,410,323</u>
Subtotal	2,321,070	5,505,030	3,183,960
Total	3,086,332	7,185,968	4,099,636

1/ Estimated from forecast.

Note: Consumer expenditures for sugar at retail for 1973-1974 were estimated by multiplying quarterly deliveries of refined sugar in consumer size packages (less than 50 pounds) by the quarterly average of BLS reported, refined sugar prices.

Consumer expenditures for sugar purchased in prepared food products (industrial sugar) were estimated by multiplying quarterly industrial sugar deliveries by the average of the quarterly Northeast wholesale refined sugar prices.

3. For 1973, 1974 actual to date and projected for remainder of 1974 show: (a) U.S. raw sugar (wholesale) prices; (b) U.S. retail sugar prices; (c) difference in total U.S. consumer expenditures for sugar 1974 vs. 1973; and (d) difference in U.S. foreign exchange payments for sugar 1974 vs. 1973.

Table 5--Comparison of U.S. foreign exchange payments for sugar imported in 1974 versus 1973

Month	1973			1974			Difference in U.S.	
	Quantity : imported : 1/	U.S. price : New York : spot 2/	Total : value : 3/	Quantity : imported : 1/	U.S. price : New York : spot 2/	Total : value : 3/	foreign exchange payments 4/	vs. 1973
	Short tons	cents/lb.	\$1,000	Short tons	cents/lb.	\$1,000		\$1,000
January	435,660	9.38	81,730	243,573	12.63	61,527		-20,203
February	292,445	9.14	53,459	499,749	17.09	170,814		117,355
March	448,869	9.45	84,836	553,657	18.11	200,535		115,699
April	477,367	9.65	92,132	509,261	19.25	196,065		103,933
May	506,816	10.06	101,971	512,145	23.05	236,099		134,128
June	418,522	10.25	85,797	505,339	26.30	265,808		180,011
July	452,574	10.25	92,778	600,353	28.35	340,400		247,622
August	570,622	10.75	122,684	593,075	32.60	386,685		264,001
September	394,320	10.97	86,514	437,217	33.71	294,772		208,258
October	219,588	11.15	48,968	369,186	38.83	256,422		207,454
November	5/556,891	11.10	123,630	6/503,022	57.30	6/576,463		452,833
December	5/487,280	11.34	110,515	6/503,022	6/48.00	6/482,901		372,386
Total or average	5,266,954	10.29	1,085,014	5,820,599	29.79	3,468,491		2,383,477

1/ Tel Quel basis

2/ New York spot price for bulk sugar, contract No. 10 includes duty, .625 cent per pound

3/ Total value of imports, tel quel, basis, valued at New York spot prices.

4/ Positives indicate value of imports in 1974 larger than in 1973.

5/ Revised.

6/ Forecast

7/ Estimated based on forecasts for November and December 1974.

4. World production of sugar last 10 years including estimates for 1974.

Table 6--Sugar: World production, raw value 1/

Year	:	1,000 metric tons
1964/65	:	65,832
1965/66	:	62,864
1966/67	:	64,570
1967/68	:	66,232
1968/69	:	67,620
1969/70	:	71,895
1970/71	:	70,524
1971/72	:	70,623
1972/73	:	75,315
1973/74	:	80,492
1974/75 <u>1/</u>	:	80,857

1/ November 18, 1974 forecast. Entire crop included for all harvests begun during the indicated May 1-April 30 crop year, regardless of when harvest is completed.

Source: USDA, FAS.

5. Difference between U.S. and world sugar price monthly or quarterly during 1974 and difference in costs of sugar to U.S. consumers had they paid on the basis of world rather than U.S. price.

Table 7--Comparison of sugar costs to U.S. consumers if sugar had been purchased on world market, 1974

Month	: Difference between : : U.S. and world : : sugar price: : : New York basis 1/ :	: Volume of U.S. : : sugar imports : : 2/ 3/ :	: Difference in : : costs to U.S. : : consumers 3/ 4/ :
1974			
January	-4.23	243,573	20,655
February	-5.74	499,749	57,371
March	-4.75	553,657	52,597
April	-4.17	509,261	42,269
May	-2.35	512,145	24,071
June	.90	505,339	-9,096
July	1.29	600,353	-15,489
August	-.48	593,075	5,694
September	-2.24	437,217	19,587
October	-2.46	360,186	17,722
November	-1.54	5/ 503,022	5/ 15,493
December 5/	-1.00	5/ 503,022	5/ 10,060
Average or total :	6/ -2.23	6/ 5,875,000	6/ 240,934

1/ Data from table 2. Negatives indicate world price, New York basis, higher than U.S. price.

2/ Tel Quel basis.

3/ Data from Development and Trade Division, Economic Research Service.

4/ This column assumes that had the United States purchased sugar from the world market, these purchases would not have affected the historical relation of the world and U.S. sugar prices in 1974. Positives indicate the added costs to U.S. consumers for sugar purchases on the world market in 1974, contingent on the preceding assumption.

5/ Forecast.

6/ Estimated based on forecasts for November and December.

Mr. VIGORITO. I wish to thank the gentlemen very much for being here today. We appreciate your testimony.

And I would like to say that we will reconvene at 2 p.m. for the remaining witnesses.

Mr. FRICK. Thank you, Mr. Chairman.

Mr. VIGORITO. The committee stands in recess until 2 p.m.

[Whereupon, at 12:15 p.m., the hearing was recessed to reconvene at 2 p.m. this same day.]

AFTERNOON SESSION

Mr. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations will now resume.

Our first witness will be Congressman Peyser of New York.

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

Mr. PEYSER. Mr. Chairman, first of all, while you and I have disagreed on the issue in front of us, I want to thank you very much for the opportunity to testify and to express my point of view on this sugar question.

To start with, as I understand it, basically the point of this hearing is to, one, establish what the problems are, why the sugar market has reacted in this past year the way it has; and also I understand that some underlying reason is the possibility of extending the present Sugar Act into the next year. So, I will try to address myself to those issues briefly.

I would like to start off by saying that any time we deal with anything affecting the public the way the sugar situation affects the public today, it seems to me it should be incumbent on us that a hearing of this nature would of necessity include consumer groups as well as people representing the Agriculture Department and representing refiners and growers.

Mr. VIGORITO. Mr. Peyser, would you permit me to issue a remark right here?

Mr. PEYSER. I would be pleased to, Mr. Chairman.

Mr. VIGORITO. Well, first, we are taking this hearing in steps, from the Government officials to producers, to the processors and refiners and distributors, and importers, and so forth.

I do not need consumer groups coming in and telling me that the price of sugar went up. If at the end of the scheduled hearings that I have scheduled as of now I feel that consumer groups can add to it, I will be very happy to hold a day of hearings for consumer groups. But we know sugar prices are high, we know they have gone up 500 or 600 percent in a very short period of time, that is the primary reason for these hearings.

Anyone that has any information that can point out to me or this committee why we have a shortfall of only 3 percent in the world sugar production and consumption, why prices should go so high, you just write me a letter and give me the facts, and we will look into it further.

Mr. PEYSER. All right, Mr. Chairman. I heard your comment, and I guess I have the feeling that in any public hearing of this nature all elements have to be represented because basically, it seems to me, we are dealing with the question of whether to continue the old Sugar Act, or not; and I do have a feeling that the consumer and the taxpayer have a real stake here. Let's see how this develops.

In my opinion, what we have been seeing in the last 8 to 10 months is the worst side of the so-called free economy, and also the worst side of the controlled economy in this world. The American refiners, and the American farmers in the sugar field have been, I believe, and I can put it no other way, have been "socking it" to the American public because today they are making the largest profits in their history. At this point I'd rather simply say that instead of asking questions, such as where do these figures come from, and how do we know this, we should be exploring the profit situation. They are high because there are corporations that are making fantastic profits, and I would like to name one or two refineries just to cite the example.

The net income of Great Western in 1973 was \$1,170,000, that was after taxes and expenses. In the third quarter of 1974, in other words, with another quarter still to be reported, the net income of Great Western is \$14,320,000. I think anyone would believe that when profits move in that direction, that it's got to be part of the cost to the consumer.

Amstar went from \$14,870,000 in 1973 to \$31,410,000 after the end of June of this year.

Holly, \$2,640,000 to \$5,300,000.

Michigan Sugar from \$180,000 to \$3,060,000 in 9 months. Now, these are figures provided by Standard & Poor's on a regular reporting form for the industry, showing their earnings.

Now, I noticed this morning in both questioning and testimony, there was really no reference to profits and it is apparent to me that profits are one of the key problems we are facing here. We all were very upset when the oil companies started reaping 300- and 400-percent profits, and I agree, and I am for windfall profit taxes on oil companies.

But we are talking about profits in the sugar refining corporations that are running anywhere from 250 to 1,000 percent, and I think this is also cause for alarm and cause for us to be thinking about it.

Now, I mentioned the controlled economy, and by that I was speaking of the Russians and the Arabs because it has become apparent in the world sugar market that the Russians and Arabs have moved into that market with far more activity than ever before. I mentioned this fact a little over a week ago, and Secretary Simon stated that he had no evidence that this was taking place. And yet, 2 days later in the New York Times there was a lengthy story out of the London market that the Russians and Arabs had moved actively and were purchasing and buying both futures and spot sugar far more actively than ever before, and in relationship to the Arab countries far more than their need.

So, I have a distinct feeling that we are seeing an effort on the part of the Arab countries particularly, that are so loaded with the black-mail oil money that they have, that they are now moving into another area; namely, the sugar area. And this is something that you and I on this committee I don't think can do anything particularly about. But it is certainly my hope that the State Department is going to get involved in this area and take a hard look, and just see what is happening, and what pressures can be brought to bear.

Now, the American farmers themselves, the sugar farmers—and incidentally, I heard my good friend and colleague Congressman Goodling make the statement we often speak of the dumb American farmer. I want you to know, George, I have never spoken of the dumb American farmer. I think the American farmer is a very good businessman and a very bright businessman.

At this point I am just asking the sugar farmer to be a reasonable businessman because it is apparent that we could have a 30-percent rise in sugar prices right now, domestically, and have both sugar farmers and refiners still making a substantial profit.

We have reached a point in the sugar situation in our country where for the first time we are actually seeing smuggling of sugar into this

country from Mexico. This is coming in by the truckload and being purchased by small canners and small bottlers.

Now, I have mentioned this a week ago, and this morning I noticed a feature story in the New York Times on the sugar bootlegging in Mexico, and how Americans are going into Mexico to buy 9-cents-a-pound sugar. So, these are things that are happening in the marketplace today, and these are things I think we have to direct ourselves to.

Now, I have a positive point of view here. I have—and I have no great pride in authorship in this because I think there are probably many other improvements that can be suggested, or other things added—but I have six points that I think we should be looking at.

One. I think that if we are going to face this sugar problem realistically, we as individuals should use at least 35 percent less sugar than we are using currently in our own home use. And I think we can do this without any hardship.

Two. The industry itself, and by saying “the industry,” I mean industry that is using sugar, can start making a real shift to more corn sirup in food processing. The corn sirup industry presently produces 2½ million tons of sugar, but it has the capacity of producing nearly 4 million tons of sirup a year. The cost of corn sirup, as you know, is approximately one-half the price of sugar.

Three. I am going to make a recommendation that we are working on now to the FHA, that there is a special program involved to making money available for building new sugar beet refineries. Mr. Bergland mentioned this morning the expenses and the risk involved; and I think money should be made available under Federal programs to help build refineries because we have the capability of producing far more than we are now, if we have the refineries to do it.

Four. I think we should take all steps that we can to encourage the farmer to produce more. Now, one of the ways to do it is by way of the Government doing more research to see how we can get more productivity in the sugar field, as we have done this in many other crops.

Five. I think the Justice Department should move ahead more rapidly than they have been with their present investigation to see if there is price fixing in the sugar industry, and to see what other unfair and illegal competitive practices may be underway. I think we ought to have a clear picture of this, and the public is entitled to it.

Six. I think the Congress should consider the question of windfall profit taxes, as I said before, not only in relation to the oil industry, but in relation to the sugar industry itself.

I saw a clipping in the newspaper—not a clipping, really, a cartoon—that some of you may have seen, last week, and it shows the gentleman “Sugar” with a gun pointed at the American public, and literally holding us up. I think that is unfortunately the type of thing that has been happening.

Now, finally, I think the future as to where we are going in sugar pricing today is of a positive nature. I think we have not seen the worst in our sugar pricing. I still believe that we are going to see sugar probably reaching that dollar a pound that has been talked about, and probably within the next 2 or 3 months that could happen.

But I think in the long term—and by long term I am talking a year—we are going to see a turnaround in the sugar market. We know already that if the weather holds, we are going to have substantially

increased production in the United States. There is substantially increased production all over the world in many of the producing countries, and I think we are going to see a definite decline in sugar prices. By the time we reach next fall, we should see sugar down to 30 to 35 cents apound. If we had said that a couple of years ago, of getting sugar down to that price some would have thought we were crazy. But today I think, where the sugar is, we can look to 30, or 35 cents a pound by next fall with some realistic hope that at least it will get down that far.

And finally, Mr. Chairman, as far as the thought of reintroducing the sugar bill and extending the sugar bill, it is certainly my hope that the Agriculture Committee will not see fit to do this at this time. I think we have heard testimony this morning from the experts involved in the Agriculture Department itself that offered no hope of anything but confusing the marketplace, and having the impact of maintaining and increasing the present level of sugar.

I would think that the Sugar Act really represented many things that were the worst in legislation, and the worst in practices that we have seen. We saw continual lobbying efforts on the part of the foreign countries to get into the quotas, to increase a percent here or a percent there. We saw, I think, many things that we don't want to see again. And if we are truly talking about a free economy and the right to produce, and the right to compete in the world, then I think we have to give up the idea of subsidizing costs; and I am sure you remember, even though it didn't get pointed out this morning, that when the sugar bill was intact in January of 1974, we had seen an increase of 100 percent in sugar costs, 100 percent, with no indication that the sugar bill was going to be defeated.

When I took the floor of the House in June of 1974, when we debated this issue, as you remember, I came on with two 5-pound bags of sugar, one purchased in May, and one in June. And at that time there was no indication the sugar bill was going to be changed, or be defeated, and yet we saw in those actual prices here in Washington, D.C., an increase of 40 percent in 1 month in the cost of 5 pounds of sugar.

So, those who say the sugar bill has maintained a level, I think what they are saying, it maintained a level when the demand—when there was plenty of surplus sugar, and there wasn't a demand that outstripped the production. And I think what we have seen on the record, when the demand outstrips the production, the sugar bill is a minus, and it costs the taxpayers not only in high sugar prices, but also in subsidies that are paid to the sugargrowers, producers.

So, it is my hope, Mr. Chairman, that the result of these hearings will be that we will stay where we are in our present sugar situation with the future looking far brighter, and far sweeter, if you will, than it does today; and give it a chance to work, give the free economy a chance to come through. And I am convinced it will work.

And, Mr. Chairman, I also ask unanimous consent that a statement by the National Consumer Congress be added in the record for the benefit of those taking part in the hearings.

Mr. VIGORITO. The statement will be entered in the record at this point.

[The statement of the National Consumers Congress before the Council on Wage and Price Stability, Nov. 25, 1974, is as follows:]

STATEMENT OF NATIONAL CONSUMERS CONGRESS BEFORE THE COUNCIL ON WAGE AND PRICE STABILITY, NOVEMBER 25, 1974

My name is Aileen Gorman, Executive Director of the National Consumers Congress. NCC is a grassroots, mass membership consumer organization which grew out of the meat boycotts of 1973. Since its inception, NCC members all over the country have worked continuously to bring economic equity into the nation's agricultural production, processing and food distribution systems. It is in accordance with this effort that I come here today to explain our analysis of the sugar industry, and its spiraling prices.

The basic problem confronting the sugar consuming public by now is well known. The retail price of a five pound bag of sugar a year ago was 90 cents. Today it is close to \$3.00. The monthly average price for domestic raw sugar (N.Y. duty paid) in 1973, was 10.29 a pound. At present, it is approximately 57 cents a pound.

While dramatic price increases may force a beneficial reduction in the consumption of sugar, they are unquestionably not beneficial to the wallets of American consumers. The question this Council must address is whether or not these increases are justified by natural economic forces. Available evidence suggests that they are not.

In the past year, world sugar production increased 3 percent over 1973; during that same period, world consumption increased 10 percent. The USDA contends that this shortage-induced price rise will not be remedied until mid-1975 when we see the results of a new harvest. They further contend that the frenzied buying of the Soviet Union, the Arab countries and the large U.S. industrial users have forced the world price of raw sugar to skyrocket. A vital aspect of the problem which they fail to address is the possibility that sugar companies have used this supply shortage to maintain artificially higher prices. For an investigation of the current price of sugar, two steps are essential: (1) a careful examination into the extent of vertical integrations, the high level of market concentration, the pricing policies, and the high profits being reaped by the sugar companies; (2) an examination into the possibility that manufacturers of food products containing sugar have passed through price increases incommensurate with their increased costs. Our findings and questions about these areas account for the bulk of this testimony.

By examining available data, we found that domestically produced and imported sugar each account for approximately half of U.S. sugar consumption. Beet sugar supplies about 60 percent of the domestic production with the remainder filled by cane sugar. The vertically integrated posture of our domestic industry, in conjunction with the quota provisions of the Sugar Act have served historically to guarantee sugar refineries a stable supply at a favorable price. According to a USDA report,¹ over half the sugar cane grown in Louisiana and $\frac{3}{4}$ of the sugar cane grown in Florida is "administrative cane." That is, cane grown directly by large processors. All of the sugar cane grown in Hawaii is delivered to a cooperative whose members are the sugar cane processing companies of Hawaii. The coop in turn operates a large refinery in San Francisco, which is the only refinery on the Pacific Coast. This completes the integration of the Hawaiian sugar industry and also points to an amazing degree of concentration in the production of refined sugar cane.²

This pattern of high concentration is repeated throughout the country. In 1969, the two largest refineries manufactured nearly one-half of the refined cane sugar produced in the U.S. None of the other refiners supplied more than 6 or 7 percent. Thus, the ability of the refinery to command favorable prices is ensured by the degree of concentration in the production cycle.

In evaluating the extent of concentration within the beet sugar industry, one discovers initially that sugar beets must be grown in rotation with other crops. Therefore, the domestic beet sugar industry does not exhibit the same degree of integration as the cane sugar industry. However, beets are grown under the terms of annual contracts between grower and processor and few beet growers have more than one outlet for any of the sugar beets they produce.

The lack of competition becomes even more obvious when we consider that the four largest companies accounted for 65 percent, and the six largest for 88 per-

¹ Agricultural Economic Report No. 213, U.S. Department of Agriculture, *The Structure of the U.S. Sweetener Industry*, by Roy A. Ballinger, Agricultural Economist.

² Appendix I gives a more detailed account of vertical integration in major cane sugar areas of the U.S.

cent of the total beet sugar manufactured in the United States in 1969. Furthermore, production concentration in the hands of one or two companies is considerably greater in certain producing areas than for the U.S. as a whole. For instance, sugar production in the northeastern U.S., nearly all of it by cane sugar refineries, accounted for approximately one-third of total output in 1968. More than one-half of this sugar came from five northeast plants owned by Amstar. Amstar is the nation's largest refiner and their regional output is four times greater than that supplied by any other company in the area.

The inevitable conclusion one must draw is that U.S. sugar companies have enough market power to exert considerable leverage on the prices paid for their goods. The question then becomes, have they exerted that power, and, if so, to what extent? Before answering those questions directly, it is important to make several observations.

(1) The price of sugar has been amazingly stable in the past, particularly in comparison with other agricultural commodities. In October 1972, before sugar prices broke, the University of California Extension Bulletin stated:³

U.S. sugar prices have been unusually stable. This stability has resulted from the manner in which the Sugar Quota Law has been administered. Prices have been maintained at a relatively high stable level by increasing and decreasing annual sugar marketing quotas needed to prevent all but minor price fluctuations. These characteristics have undoubtedly been of great economic benefit to producers of beet and cane sugar in domestic areas. Generally higher prices in the U.S. have been reflected in higher prices paid for sugar by consumers.

(2) The Sugar Act up until December of 1973 served to maintain high U.S. prices relative to the world price of raw sugar. (The specific data on these prices is found in Appendix 2 of our statement, reproduced from the USDA's *Sugar Report* of January, 1974.)

In an attempt to lower the price of domestic sugar by increasing supplies, the U.S. sugar quota was raised by 700,000 tons to a total of 12.5 million tons for the 1974 calendar year. This decision, however, had an effect opposite to its intention. The result was that the U.S. moved into the world market, an action that may have had a bullish psychological effect conducive to speculation and price increases. (The sugar prices quoted in Appendix III attest to this fact.)

With this background, we are now in a position to return to our original question—the extent to which the sugar industry manipulated the already high raw sugar price to their own advantage. The available evidence of price manipulation is provided in Appendix IV. The quoted wholesale price for a 100 pound bag of refined sugar (as mentioned in the *Sugar Reports* on September 20, 1974), is identical in five regions and a penny off in another. The same is true of the quoted price for October, 1974. The wholesale prices became identical only after the Sugar Act was repealed. Whether that is purely coincidence or cause and effect, we leave up to the Council to determine. The ability of large sugar companies to manipulate prices at will, irrespective of supply and demand is highlighted in an article in the *Wall Street Journal* of November 11, 1974. (Appendix V).

The amazing aspect of all these statistics is in regard to the price of refined beet sugar, which accounts for approximately 30 percent of the sugar consumed in the U.S. If the *Washington Post* of November 11, 1974, can be believed, the United States imports no beet sugar. This fact, plus the fact that sugarbeets require only one step (as opposed to two for cane sugar), would logically indicate that beet sugar should cost less than cane sugar. As Appendix II shows, historically this has been the case. However (as revealed by Appendix III), the price of beet sugar during 1974 has exactly paralleled the dramatic jump in cane sugar. It comes as no surprise that Robert T. Quittmeyer, (President of Amstar, the nation's largest refiner), when questioned about his company's 250 percent rise in net income and 59 percent advance in sales, answered in the *New York Times* of November 1, 1974—

* * * more than 50 percent of it (profits) came from higher prices of beet-sugar, which competes with cane sugar for the same market.

What Mr. Quittmeyer neglected to mention is that the Spreckels Division of Amstar controls about one-sixth of the beet sugar market, and thus effectively negates competition. Again, it comes as no surprise that the same *New York Times* article states that Amstar and Holly Co. believe that they and other processors will be indicted by a San Francisco grand jury for beet-sugar price fixing.

³ *Economic Behavior in the United States Sugar Market*, University of California, Bulletin 859, Division of Agricultural Sciences, October, 1972.

High prices incommensurate with increased costs lead us to suspect that abnormally high profits are being made.

The question we must answer for consumers is, where does their sugar dollar go? *Business Week* of November 9, 1974, gives a pretty good hint when it quotes Patrick McDonald, an analyst at Bosworth Sullivan & Co. in Denver—

Each 1 cent per lb. increase in the price of sugar adds more than \$2.6 million to Great Western United Corporation, the nation's largest beet sugar refiner, income.⁴

The average return on common equity for five of the largest sugar refiners in the twelve month period ending September 30, 1974, was 26.1 percent. The average for U.S. industries as a whole was only 14 to 15 percent.

Our analysis thus far has centered around the ability of sugar companies to manipulate prices to their own advantage. Sugar companies may not be alone in these price manipulations. Spiraling sugar prices have an essential impact on the price of many food items. The 5 lb. bag of sugar bought in the supermarket accounts for only 10 percent of our total sugar consumption, whereas the soft drink industry utilizes 35 percent of the supply. A 12 ounce can of Coca-Cola alone contains 1.26 ounces of sugar. Thus, increasing sugar costs in the soft drink industry are passed on to consumers in the form of higher prices. Although sugar content is the major explanation behind these prices, we question why the prices of diet soda have increased simultaneously. Pepsi, Diet Pepsi, Royal Crown Cola and Diet Royal Crown, are all selling for the same price.

With the next major industrial users, cereal and bakery products, sugar substitutes are being used, yet these prices are on the increase. Is there any way to determine whether or not these price rises reflect the true proportion of increased sugar costs that are incurred in the manufacturing process?

Similarly, the sugar substitute industry seems to be taking advantage of this scarcity of sugar. Because the demand for these substitutes has increase, so has the price. From September, 1973 through June, 1974 the price of substitutes had remained constant. In July, 1974, when sugar prices began to jump, Dextrose increased 44 percent and corn syrup 24 percent. The question here is whether or not these prices are justified or whether the consumer is paying exorbitantly higher prices to further increase the industry's profits.

It is essential to understand that consumers do expect world supply and demand forces to be reflected within domestic pricing; we are not advocating that sugar refineries operate at a loss. We are maintaining, however, that the consumer is being forced to accept price hikes of many food items in the disguise of "increased industrial sugar prices," and that we are unnecessarily overpaying for every supermarket item that can boast of any form of sweetener on the label.

Analyzing the structure, the degree of concentration, pricing policies, and the profits of the industry produces two major implications. First, current prices being paid by consumers are substantially higher than economic factors dictate they should be. Second, the price being paid by consumers *will continue* to be excessively high. Although it has been estimated that sugar prices should decline to approximately 20 cents per pound (which is still a 20 to 30 percent increase above last year), we feel that the industry's power will maintain them at a substantially higher level.

To remedy this situation, three things are essential.

(1) *Production must increase*, which at times is dubious since it falls prey to the whims of weather and dictate of the industry.

(2) *Demand must decrease*, which is presently occurring because of the ridiculous prices. However, this is the least desirable solution to an industry manipulated problem.

(3) The pricing power of the U.S. Sugar Industry must be dismantled.

A balanced look at the sugar problem must include an analysis of the frenzied international buying patterns as well as the structure of the domestic industry. We have chosen to emphasize the latter, not because the international situation is not important, but because discussions in the public forum have rarely mentioned industry structure as a major contributive factor.

We have presented the problems and some potential solutions to the present sugar pricing situation. It is up to the Council of Wage and Price Stability to initiate further steps to help control the future prices of sugar.

⁴ We have included as Appendix VI a summary of the profits.

APPENDIX I

EXTENT OF VERTICAL INTEGRATION

Examples of the extent of industrial concentration are presented in: "The Structure of the U.S. Sweetener Industry," U.S.D.A. Report 213.

State-wide, the control of sugar is extremely concentrated. In Louisiana, the companies with the five largest allotments supply 31% of the State's output. In addition to the considerable integration of cane growing and processing, there are three cases of an integrated raw sugar—refined sugar operation. The two companies with the largest cane processing capacity are controlled by larger corporations not otherwise engaged in the sugar business.

As of 1967, only eight companies were growing and processing sugarcane in Florida. One of these companies owned two mills and accounted for more than one-third of the State's output that year. It appears that a larger proportion of the cane grown in Florida is controlled by companies operating cane processing plants than is the case in Louisiana.

The cane sugar not directly grown by processors might as well be. Smaller growers do not have much freedom in selecting the mill to which they sell their product. Frequently, only one or two mills may be situated close enough to their farms to permit economical delivery. In any event prices offered are likely to be identical.

In 1969, the three largest refining plants in New Orleans received about three-fourths of the off-shore sugar unloaded at that port. Another 11 percent went to plants in St. Louis and Chicago, leaving only the remaining 14 percent for the three smaller refiners.

In this same year, sugar beets were processed in 59 plants in 19 states. These mills were owned and operated by twelve companies of which five had one mill each. The largest sugar beet processor had 17 mills.

All the mills in Washington, Oregon, Idaho, and Utah are owned by two companies. California has four mills. Arizona has only one mill; the company owning this mill produced 53% of the beet sugar manufactured in Arizona and California in 1969.

One large processing company that produces about 13 percent of the beet sugar manufactured in the United States is a subsidiary of the largest refiner of cane sugar.

In analyzing regional production: one-fourth of U.S. sugar was produced in the following western states: Arizona, California, Oregon, Washington, and Idaho. Almost two-thirds of this was beet sugar produced by five companies. The remaining third was cane sugar from Hawaii which was refined in California.

East of this area: Minnesota, Colorado, Montana, Wyoming, Nebraska, Kansas, Texas, and North Dakota, sugar processors produced about 13% of the U.S. supply in 1969. About one-half of this was manufactured by one processor.

One-fourth of the U.S. sugar supply came from the Southern States. The two largest producers provided about 40 percent of the areas total output.

For information on the Northeastern region refer to the main body of the testimony.

APPENDIX II
TABLE 14.—SUGAR PRICES
[Cents per pound]

Year and month	Raw cane sugar spot price			Refined beet sugar—quoted (wholesale gross) ⁴		
	Domestic ¹ sugar at New York (duty paid)	World sugar ²	Quota premium and discount ³	Eastern	Chicago- West	Pacific Coast
1968 to 1972 monthly average.....	8.19	4.21	+2.91	10.93	10.93	10.86
1971 monthly average.....	8.52	4.52	+2.87	11.59	11.59	11.87
1972 monthly average.....	9.09	7.43	+ .56	11.81	11.82	11.65
1973:						
January.....	9.38	9.40	-1.28	11.55	11.65	11.45
February.....	9.14	9.06	-1.20	11.55	11.65	11.45
March.....	9.45	8.89	-.75	11.55	11.55	11.69
April.....	9.65	9.06	-.72	11.75	11.75	11.85
May.....	10.06	9.67	-.93	11.87	11.87	11.94
June.....	10.25	9.77	-.88	11.95	11.95	12.10
July.....	10.25	² 9.81	-.96	11.95	11.95	12.10
August.....	10.75	9.09	+ .25	11.95	11.95	12.10
September.....	10.97	9.01	+ .53	12.99	12.99	13.01
October.....	11.15	9.56	+ .12	13.95	13.95	13.60
November.....	11.10	10.14	-.54	13.60	13.69	13.60
December.....	11.34	11.83	-2.01	13.64	13.64	13.64
Last 12-month average.....	10.29	9.61	- .70	12.36	12.38	12.38

¹ Spot prices are for bulk sugar under contract No. 10, duty paid or duty free, full duty rate 0.625 cents per pound.

² Spot prices are for bulk sugar under contract No. 11, which, beginning on Jan. 1, 1971, replaces contract No. 8. The terms of these contracts are f.o.b. and stowed at greater caribbean ports including Brazil.

³ The No. 10 domestic bulk contract has been adjusted by deducting duty (0.625 cent) computed freight from the greater caribbean ports (including Brazil), insurance and unloading charges before calculating the differential from the World contract spot prices.

⁴ These are basis prices in 100 lb paper bags, not delivered prices. To obtain delivered prices, add freight prepayments, and deduct discounts and allowances. For illustration see sugar reports No. 230, July 1971, pp. 6-23.

⁵ Revised.

[Cents per pound]

Year and month	Refined cane sugar—quoted wholesale (gross) ¹					
	Northeast	Southeast	Gulf	Chicago— West	Pacific Coast	Retail United States
1968-72 monthly average.....	11.96	11.53	11.14	10.93	10.86	13.01
1971 monthly average.....	12.48	12.07	11.57	11.59	11.37	13.61
1972 monthly average.....	13.09	12.74	12.14	11.82	11.65	13.91
1973:						
January.....	13.15	12.75	12.20	11.65	11.45	14.12
February.....	13.18	12.75	12.03	11.65	11.45	14.24
March.....	12.94	12.55	12.00	11.55	11.69	14.34
April.....	13.30	12.95	12.40	11.75	11.85	14.42
May.....	13.55	13.20	12.65	11.87	11.94	14.58
June.....	13.96	13.61	13.06	11.95	12.10	14.84
July.....	14.05	² 13.68	13.12	11.95	12.10	14.92
August.....	14.50	14.15	13.48	12.36	12.10	15.06
September.....	14.80	14.50	13.75	13.48	13.01	15.36
October.....	² 14.95	14.85	14.10	13.95	13.60	15.98
November.....	15.13	15.03	14.28	13.84	13.60	16.50
December.....	15.33	15.30	14.55	13.80	13.64	16.78
Last 12-month average.....	14.07	13.78	13.14	12.48	12.38	15.10

¹ These are basis prices in 100-lb. paper bags, not delivered prices. To obtain delivered prices, add freight prepayments and deduct discounts and allowances. For illustration see sugar reports No. 230, July 1971, pp. 6-23.

² Revised.

APPENDIX III

TABLE 14.—SUGAR PRICES

[Cents per pound]

Year and month	Raw cane sugar spot price			Refined beet sugar—quoted (wholesale gross) ⁴		
	Domestic ¹ sugar at New York (duty paid)	World sugar ²	Quota premium and discount ³	Eastern	Chicago— West	Pacific Coast
1969-73 monthly average.....	8.74	5.74	+1.86	11.41	11.42	11.27
1972 monthly average.....	9.09	7.43	+ .55	11.81	11.82	11.65
1973 monthly average.....	10.29	9.61	- .70	12.36	12.38	12.38
1973:						
October.....	11.15	9.56	+ .12	13.95	13.95	13.60
November.....	11.10	10.14	- .54	13.60	13.69	13.60
December.....	11.34	11.83	-2.01	13.64	13.64	13.64
1974:						
January.....	12.63	15.32	-4.24	14.51	14.64	14.79
February.....	17.09	21.28	-5.74	17.85	17.80	19.02
March.....	18.11	21.27	-4.75	20.30	20.18	22.23
April.....	19.25	21.77	-4.15	22.96	21.99	23.35
May.....	23.05	23.65	-2.35	25.65	26.65	26.78
June.....	26.30	23.67	+ .90	30.76	30.40	29.88
July.....	28.35	25.40	+1.29	32.20	32.15	30.10
August.....	32.60	31.45	- .48	35.02	33.93	33.15
September.....	33.71	34.35	-2.24	36.42	36.19	35.00
Last 12-mo. average.....	20.39	20.81	-2.02	23.07	22.93	22.93

Year and month	Refined cane sugar—quoted wholesale (gross) ⁴					
	Northeast	Southeast	Gulf	Chicago— West	Pacific Coast	Retail United States
1969-73 monthly average.....	12.61	12.17	11.68	11.44	11.27	13.60
1972 monthly average.....	13.09	12.74	12.14	11.82	11.65	13.91
1973 monthly average.....	14.07	13.78	13.14	12.48	12.38	15.10
1973:						
October.....	14.95	14.85	14.10	13.95	13.60	15.98
November.....	15.13	15.03	14.28	13.84	13.60	16.50
December.....	15.33	15.30	14.55	13.80	13.64	16.78
1974:						
January.....	15.65	15.55	14.80	14.87	14.81	16.96
February.....	18.49	18.49	18.09	18.09	19.06	17.76
March.....	20.90	20.90	20.50	22.12	22.51	20.80
April.....	23.78	23.78	23.38	23.73	23.80	22.96
May.....	27.61	27.27	27.12	27.00	27.56	24.84
June.....	31.04	31.16	31.16	31.16	20.01	28.32
July.....	32.50	32.40	32.40	32.25	30.65	32.14
August.....	36.83	36.83	36.83	36.30	33.15	34.88
September.....	40.74	40.74	40.74	40.74	35.00	37.16
Last 12-mo. average.....	24.41	24.36	24.00	23.99	23.12	20.66

¹ Spot prices are for bulk sugar under contract No. 10, duty paid or duty free, full duty rate 0.625 cent per pound.

² Spot prices are for bulk sugar under contract No. 11, which beginning on Jan. 1, 1971 replaced contract No. 8. The terms of these contracts are f.o.b. and stowed at greater caribbean ports including Brazil.

³ The No. 10 domestic bulk contract has been adjusted by deducting duty (0.625 cent) computed freight from the greater caribbean ports (including Brazil), insurance and unloading charges before calculating the differential from the world contract spot prices.

⁴ These are basis prices in 100-lb. paper bags, not delivered prices. To obtain delivered prices, add freight prepayments and deduct discounts and allowances. For illustration see sugar report No. 230, July 1971, pp. 6-23.

APPENDIX IV
WHOLESALE SPOT PRICE QUOTATIONS

Region	Hundreds weight bag-
Northeast.....	\$40.85
Mid-Central.....	40.84
Western Ohio-lower Michigan.....	40.85
Southeast.....	40.85
Gulf.....	40.85
Chicago—West.....	34.95/40.85
Intermountain Northwest.....	33.75
Pacific coast.....	35.00

NOTE: Price quotations on Sept. 20, 1974, for refined sugar sold at wholesale in 100-lb. bags.

PRICE QUOTATION IN CENTS PER POUND

Region	Hundred-weight bags	Bulk dry
Northeast.....	42.20	41.80
Mid-Central.....	42.20	41.80
Western Ohio-lower Michigan.....	42.20	41.80
Southeast.....	42.20	41.80
Gulf.....	42.20	41.80
Chicago—West.....	38.50/42.20	38.20/41.80
Intermountain Northwest.....	41.00	40.75
Pacific coast.....	41.00	40.65

NOTE: Price quotations on Oct. 15, 1974, for refined sugar sold at wholesale in 100-lb. bags.

APPENDIX V

SUGAR PRICES RAISED AGAIN AT WHOLESALE BY SUCREST, AMSTAR

(By a Wall Street Journal Staff Reporter)

NEW YORK.—Two Northeastern sugar refiners announced wholesale price increases on their industrial sugars.

Early Friday, SuCrest Corp. said it was raising the wholesale price of its industrial sugars in all territories by \$11 per 100 pounds. Later that afternoon, however, SuCrest backed off on the amount of its boost when a competitor, Amstar Corp., announced a \$3.35-per-100 pound increase on its industrial sugars.

Effective by the close of business Friday then, both Amstar and SuCrest had raised the price of their 100-pound bundle of extrafine granulated sugar to \$56.60 from \$53.25, and the price of their 100-pound bundle of bulk granulated and No. 2 liquid sugar to \$56.20 from \$52.85.

In addition, Amstar said it was increasing the wholesale price of its grocery sugars, effective at the close of business Friday. Amstar's new price raises a bundle of 12 five-pound bags to \$36.90 and the price on its six 10-pound bundles to \$36.84 from \$34.14.

An Amstar spokesman said the boosts reflect part of the increased price of raw sugar. "We're going as slowly on the increases as we can," the spokesman said. "But we're carefully watching the raw market and still studying the matter."

Other sugar refiners, CPC International Inc.'s industrial division and National Sugar Refining Co., said they were studying the situation. National said its refinery workers were still on strike, so that it wasn't in a position to respond immediately.

Amstar's and SuCrest's latest price move follows a \$3.35-per-100-pound price increase on industrial sugars announced Oct. 29 and Oct. 30. Amstar's price boost on its grocery products is the second such move within a week; on Nov. 4, it raised prices \$3.96 a bundle.

APPENDIX VI
U.S. SUGAR COMPANIES: SALES, PROFIT EARNINGS

Company	Sales			Profits			Return common equity 12 mos. ending Sept. 30	12-month earnings per share		
	3d quarter 1974 (millions)	Changed from 1973 (percent)	9 mo. 1974 (millions)	Changed from 1973 (percent)	3d quarter 1974 (millions)	Changed from 1973 (percent)			9 mo. 1974 (millions)	Changed from 1973 (percent)
Amstar	\$544.4	146	\$1,171.9	110.0	16.7	228	37.8	186	25.1	\$10.81
Brewer (C)	91.0	85	207.7	56.0	11.7	571	18.9	209	20.4	4.77
CPC International ¹	665.4	36	1,842.0	39.0	20.3	17	59.3	18	15.6	3.58
Great Western United	122.9	74	252.8	31.0	14.3	(²)	19.7	(²)	30.4	8.22
Southern Industries	100.0	94	233.6	76.0	3.1	232	7.1	205	30.0	5.56
Average for sugar industry	-----	87	-----	62.4	-----	262	-----	153.5	26.1	6.58
Average for all U.S. industry	-----	29	-----	26.0	-----	24	-----	21	14.7	3.55

¹ Note: CPC is not strictly a sugar company; they are engaged in several areas of food processing.

² Not meaningful.

Source: Business Week, Nov. 9, 1974.

OTHER SUGAR COMPANIES—SALES AND PROFITS

[Data based on different time period than in preceding table]

Company	Sales (dollars in millions)			Profits (after tax)					
	2d quarter 1974	Percent change over 2d quarter 1973	6 mo. 1974	Percent change over 6 mo. 1973	2d quarter 1974	Percent change over 2d quarter 1973	Percent change over 6 mo. 1973		
								100.5	95	188.6	73	0.7	17
Savannah Foods	(¹)	-----	121.3	36	(¹)	-----	11.1	1.5	18
Amalgamated Sugar	(¹)	-----	96.2	86	(¹)	-----	25.4	11.1	138
U.S. Sugar ²	(¹)	-----	143.7	24	(¹)	-----	1.6	25.4	155
Sucrest ³	(¹)	-----	-----	-----	(¹)	-----	-----	1.6	322

¹ Not available.

² Figures represent 9-month period ending July 31, 1974.

³ Figures represent 9-month period ending Mar. 31, 1974.

Source: Business Week magazine and Wall Street Journal Digest of Earnings Reports.

Mr. VIGORITO. Thank you very much, Congressman, for your testimony. Does anyone wish to ask any questions?

Mr. FINDLEY. Mr. Peyser, you make a serious allegation against the Russian and Arab nations, and I wish you could be more specific. Could you tell us which Arab nations you have in mind, and what they have done to cause financial problems with the poor countries?

Mr. PEYSER. Yes; Congressman, I appreciate the opportunity. If you would look, and I will try to get the figures for you of the purchases, and I will submit them for the record, showing sugar production and consumption of Arab countries, and that deals with Algeria, Egypt, Iran, Iraq, Jordan, Kuwait, and a number of others; and that is in the latter part of 1973 where we begin to see the import rising in effect above their consumption.

Let me give you an example. The consumption, we will say, of Algeria was 280,000 tons; their production is 25,000 tons; they are importing 278,000 tons. So, you have an increase there of some 20,000 tons over consumption that they are importing. Now, that has not been happening in the past. In other words, in the past we find they are staying very close to just their level.

Now, the reports that we have been getting from a number of sources, particularly the London market, indicates that the Arab nations, in some cases through Swiss bank accounts, are purchasing large amounts of sugar. And this, unfortunately, trying to give names to that is something that's impossible. However, I would refer for more detailed comment on that to the article in last week's New York Times that outlines in some detail the Arab nations purchasing that they could identify, being far in excess—and their future buying—being far in excess of their needs.

Mr. VIGORITO. Mr. Johnson?

Mr. JOHNSON. Mr. Peyser, I am curious about your idea on the last page. You say steps should be taken by the administration to encourage farmers to substantially increase American's production of sugar.

The cost of production has just risen tremendously, as you know. In the northern areas of Colorado they raise as many sugar beets as anywhere in the country; the equipment, specialized equipment, has gone up enormously; fertilizer is higher priced; land is higher priced; the water to irrigate with is higher priced.

If we don't have something like the Sugar Act—not necessarily the old Sugar Act—but something like the Sugar Act to provide some protection for the farmer against dumping of sugar in the domestic market, what makes you think you are going to be able to get farmers to produce; what steps can you take? You already have a 28-percent decline of production over the last several years. In my area acreage has gone down about 28 percent in the last several years because it hasn't been profitable for the farmer to raise sugar. And you mentioned in your statement the Great Western Sugar—and by the way, I don't own a share and never have owned a share of Great Western Sugar—nevertheless, I see the refineries that they have in my area getting older, run down; they have passed their dividends on the preferred, I think, 6 years. They haven't paid a common stock dividend in God knows when. And so, this year they have made an enormous increase. I think the paper said on Sunday that they had a 3,000-

percent increase this year over last year. But when you have 3,000 percent of nothing, you still haven't got very much.

Now, what steps are you talking about that should be taken to make this situation profitable for the company? You have to have the refiners right along with the farmers because you can't raise sugar if you don't have a place to refine it.

Mr. PEYSER. I would like to refer you, when you mentioned Great Western, Great Western showed net income earnings, after taxes, according to the report which I have right in front of me, in 1973 of \$1,170,000. In the first 9 months of this year they show net income after taxes of \$14,320,000. So, I'm just saying that it's a highly profitable business.

Mr. JOHNSON. You are saying it's highly profitable this year, but you are ignoring the last 5 or 10 years.

Mr. PEYSER. No; I am saying last year it was \$1,170,000, that isn't \$14 million, but that still means they operated at a profit after all their salaries and everything else was paid. I'm for profit.

Mr. JOHNSON. How about the dividend, and how about refurbishing their equipment. If you go out there and look at their plants, they closed many of them down.

Mr. PEYSER. Well, the dividend, incidentally in 1973—and you are very close to correct—the dividend was 1 cent a share. In 1974 in the first 9 months they paid \$6.64 cents a share.

Mr. JOHNSON. Isn't that on the preferred?

Mr. PEYSER. It does not say that.

Mr. JOHNSON. I think you'd better check, I think that is the arrearage on the preferred.

Mr. PEYSER. Well, whether it's arrears on the preferred or not, it's a \$6.64 dividend, as compared with the 1 cent a share dividend. All I'm trying to say, it seems to me unreasonable that companies should be able to move in a crisis situation where they are obviously taking advantage of this situation.

Mr. JOHNSON. Well, I'm not disagreeing with you, if a company is obviously profiting at an enormous rate. But you are not looking at the last 5 or 10 years. What I'm saying is that you are not giving us a full and complete examination.

Now, would you go back to your steps that you think will have to be taken to encourage—

Mr. PEYSER. OK. What I think we should do to encourage is in the first place making more money available to build refineries. I heard this morning mentioned the need and the potential of being able to build new refineries. Now, you say your production has dropped, and yet the reports from the Agriculture Department are that we will have more sugar produced by nearly 1 million tons this coming year than we had this year.

Mr. JOHNSON. Is that sugar beet production?

Mr. PEYSER. It's sugar all told, I don't know if it's sugar beet or sugar cane. But I think you heard the Minnesota area and other areas saying it's good, they are concerned about what the future is going to be, the uncertainty, if you will.

I think if you look at the world sugar market today and the world consumption is that we can be growing sugar for the next 10 to 20 years and not have any problems in being able to get reasonable prices and reasonable profits in the sugar industry. I think the demand is

that great. And there are nations all over the world who are just beginning to get into it.

So, to me, I wouldn't have any hesitancy in investing in the future of sugar, if I had any money to invest because I think it's the kind of commodity today that there is a world demand for. So, I would just be positive on this issue.

But I think the one thing that would kill it would be the re-institution of that Sugar bill that in fact has to set the kinds of controls that we set, and that's the kind of payment to the farmers that we set; and I don't think they need that.

Mr. JOHNSON. You can't have it both ways. You can't say our companies are making too much money and you have to give them money to build new refineries.

Mr. PEYSER. You asked what to do to encourage them. And I am saying make available through FHA programs money on long-term loans, low-interest money, to encourage the building. I also believe that some of the \$90 million a year that we are putting into subsidies in the sugar industry we can direct to research and to improved methods of both producing and refining. I want to help the farmer and help him do these things.

Mr. JOHNSON. Have you looked at the cost of production versus the net profit per acre?

Mr. PEYSER. Well, if you want to look today, you will find—

Mr. JOHNSON. I don't want to look at this year, looking over the last 5 or 10 years.

Mr. PEYSER. I think what's happening, what the problem is, that we are relating the Sugar bill to times when there were sugar surpluses and the demand for sugar was not there, really, anything comparable to where it is today.

But what you have today is a situation of not only increased population, but an increased awareness of sugar, a desire for sugar, and upward use, and that's what we are facing.

So, I have no argument with the sugar bill in the 1930's and perhaps the 1940's, and all the years where we had world surpluses it served a purpose. But when it no longer serves that purpose, maybe the target price idea is the concept.

Mr. VIGORITO. The gentleman from Colorado's time has expired. I am afraid we are going to have to limit debate on this. Thank you very much, Congressman Peyser, for your testimony.

Mr. PEYSER. Thank you, Mr. Chairman.

Mr. VIGORITO. Let me very briefly say, I don't want to discuss the pros and cons of the Sugar bill, I want to get down to the meat of why the prices have gone up 500 or 600 percent in the last 6 months. We will have ample opportunity to discuss the pros and cons of the Sugar Act, an extension of the Sugar Act if it comes to the floor of the House. Let's not repeat what we had in June here, nor repeat today what we are going to have next week.

Mr. BERGLAND. Mr. Chairman, I have a brand new—

Mr. VIGORITO. All right, a brand new thing.

Mr. BERGLAND. Mr. Peyser, United Press International, dateline New Mexico, November 28, and I read in part:

Led by Mexico 20 Latin American nations, including Cuba, have agreed on establishing a cartel to set the price of sugar on the world market, according to

the executive secretary of Mexico's Sugar Industry Division. Initial plans call for the sale of 15 million tons of sugar for \$24 billion.

Does that sound like a free enterprise to you, and can you tell me whether this has had an impact on the recent price rise in sugar?

Mr. PEYSER. Of course that doesn't sound like free enterprise to me, any more than the actions of the Arab nations with oil are free enterprise. But I don't think our counter to that is to establish a quota program, and subsidy program in this country. I don't think that's a counter.

I think a counter is for us to produce as much sugar as we can produce. And there are many nations in the world who do want to trade with the United States, and this is where I think we have to work. Obviously the answer to your question is, no, that is not free enterprise.

Mr. BERGLAND. Do you think that has had an effect on the world market price?

Mr. PEYSER. I think any time producing nations get together and decide to blackmail other nations in the world, they can control the price, sure.

Mr. BERGLAND. Is there anything we can do about that cartel?

Mr. PEYSER. I think what we can do about it, as I said, is to produce as much sugar in our own country as we can, just the same as we are trying to overcome the energy crisis by going ahead in as many areas of energy as we can, and to deal with people who are willing to deal with us at reasonable prices. I don't have any magic answer to that. But what I'm saying, I don't think the answer is going back to a quota system.

Mr. VIGORITO. Mr. Denholm?

Mr. DENHOLM. Were you present this morning when the representative of the Department of Agriculture testified.

Mr. PEYSER. I was.

Mr. DENHOLM. Was there an increase of \$4.2 billion in retail sales—did you hear that?

Mr. PEYSER. That the industry had made an increase?

Mr. DENHOLM. Was there an increase of approximately \$4.2 billion in retail sales?

Mr. PEYSER. I don't recall that someone said that, but maybe I didn't hear it. I wouldn't be surprised if we are talking about that, I think the profits have been tremendous.

Mr. DENHOLM. Well, what can you contribute concerning the alleged excess profits, or what you refer to as windfall profits?

Mr. PEYSER. Well, in a sense, I think what is causing it is the companies, the refineries, the corporations desire to capitalize on a situation in the world market today where for years your American sugar cost more than world sugar, our sugar producers did all right, and they were subsidized at the same time by the taxpayers.

And now we have the corporations saying, well, we are going to stay right up with that top world price because after all, we can go out and sell our sugar in any country in the world, why shouldn't we get as much from the American people. And I think one reason they shouldn't get as much—and in good conscience this year I don't see how in the devil they have taken it—is the fact that our growers are being subsidized this year, as you know. That bill is still going on, and I think the estimate that I got is \$90 million being paid out this year,

and we have already voted \$85 million to close out the thing, going into June of next year. And to me, to take that money and to make these profits is just unreasonable.

Mr. DENHOLM. I am asking for evidence? Do you have documentation?

Mr. PEYSER. The only evidence I have is the Standard Fohrs report, showing what the earnings are.

Mr. DENHOLM. Well, can you relate that data? They are not meaningful unless related to net margins of prior years. Now, if net margins were 1 cent per share for prior years and increased 100 percent to 2 cents a share—would that be excessive?

Are we to conclude from your testimony that a 14-times profit is excessive, and if so, what does that 14 times profit relate to; is it based on return on investments, or return on sales?

Mr. PEYSER. Well, what we are dealing with are net earnings here. I mean, the figures I am quoting are net earnings, after all expenses and all taxes; these are the net earnings.

Mr. DENHOLM. Do you know whether they invested \$20 million in equipment and refineries to result in multiplied net margins?

Mr. PEYSER. Well, I assume that if they did that, and they have payments to make on that investment, they paid those payments. And then, after these payments were made, these were still the net earnings.

Mr. DENHOLM. Is capital investment a deduction against net margins?

Mr. PEYSER. Anything that is reflected in the earnings statement. The only figure I am dealing with is the net earnings because if you were to apply this—and we had discussions on one of the oil companies on windfall profits, how would you determine what is a windfall profit in an oil company?

Mr. DENHOLM. If I understand you correctly, the industry needs more capacity for refining sugar in the United States for this country to become self-sufficient. If there is no net profit, they have to borrow it; if they borrow it, they have to pay it. Now, the question is, the net margins are significant that you have given and it appears they might be excessive. But, do you know whether they are excessive?

Mr. PEYSER. I guess it all depends on who defines what is excessive. I just feel that in a time such as this, that the doubling, tripling, and quadrupling, even, of dividend payments to stockholders is excessive today in the economic situation we are faced with.

Mr. DENHOLM. It seems to me that your argument is that the Sugar Act kept prices so low it didn't generate enough capital and profit to improve and expand refineries to meet the current demand. You are not arguing that, are you?

Mr. PEYSER. I think the Sugar Act made sugar prices basically—in many years, if we figure out what we were paying in taxes to the sugar growers, made the sugar cost high.

Mr. DENHOLM. Now, I respect the concern of consumers very much. I have no producers of sugar beets or sugarcane in my State and I don't think you have any, either, but we both have consumers. I am opposed to the prices that consumers are now paying for sugar, and I want to know what this committee can do—and I know the chairman wants to know—what it is that's causing the price increases and if

there is something that we can do to correct such market circumstances that press prices upward without cause or reason?

Mr. PEYSER. Well, it may not be within the power and jurisdiction of the Agriculture Committee to have some action in Congress taken that affects the price of sugar. I think you are very right there. I think the Judiciary Committee is where actions may be taken.

Mr. DENHOLM. You and others were successful in defeating the extension of the Sugar Act this summer. If the Sugar Act is not extended, then the old law becomes operative which provides for direct subsidies to producers at 90 percent of parity; however, it may not result in net profit margins of sufficient borrowing capacity that Mr. Bergland referred to for a line of credit to provide the added refining capacity to meet future demand. Therefore, consumer prices will continue to increase.

Mr. PEYSER. Well, I think the only thing I can say to that, you did hear testimony this morning by the gentleman from the Agriculture Department who seemed to think the absolute reverse was true, that the sugar prices will go down at the expiration of this bill, and by late next year, in 1975, there will be a substantial reduction in sugar. Now, that was their testimony, based on people who I believe are dealing with this problem also, and who frankly know far more about it than I do.

Mr. DENHOLM. That is the problem. Market instability discourages the expansion of production required for self-sufficiency in supply. Therefore, your argument is wanting. If you are arguing for the consumer, ultimately and unfortunately higher prices to consumers will result when supply is less than demand.

Mr. PEYSER. There is a point of disagreement on the result there, I—

Mr. DENHOLM. Now, if you and the consumers resist a subsidy, you have to pay it in price on the grocery shelf, and that is not an acceptable alternative. The alternative is not easy to administer or control. That is true not only on sugar, but on all commodities. If we don't use our national resources in food subsidy payments for a sufficient supply, the demand will ultimately exceed supply and influence upward the consumer cost beyond an acceptable price; that's the problem.

Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you very much.

Mr. GOODLING. I realize the time is running short, but since we have the gentleman here, Mr. Chairman, I would like to ask a few questions.

I assume, Mr. Peyser, we have to classify you as a consumer advocate; but by the same token, I think I'm a producer advocate.

Mr. PEYSER. I would like to think that both of us are on both sides of the fence.

Mr. GOODLING. I respect your views, but quite frankly, I don't always agree with them. I think it's very, very unfortunate, and I think I'm correct, when I say you have no concept of the problem facing the producer today. You say, we've got to raise more sugar, we've got to raise more sugar; and we are not going to raise any more sugar so long as we have the present price of feed grain, corn, and wheat, the farmer is going to produce that which nets the greatest profit. Now, you can change over from 1 year to the next in producing beets. You are going to build more refineries and have the Government

pay for them, but where are they going to get the beets to supply the refineries? You can't operate a sugar refinery unless you have beets.

Mr. PEYSER. I understand, Mr. Goodling, that in California itself right now there is a major new program already under way in sugar, beet sugar, a tremendous new program of planting; and I think that is going to happen many places in the country.

Mr. GOODLING. Well, I don't agree if prices are where they are today in other farm commodities. You say we should do with 35 percent less sugar. You are telling the consumer to cut down on sugar by 35 percent.

Mr. PEYSER. I tell you, I don't even have to tell our consumers that—ours and mine—because I believe right now they are doing it out of necessity, they simply can't pay the prices, and they are doing it. Now, frankly, I think this statement was about a month late on that 35 percent because I think the production and the sale of sugar is dropping; that is, household sugar.

Mr. GOODLING. I don't want to delay this but I want to touch on one more thing that was brought up by my friend from Colorado. We agree in our thinking. You keep talking about excess profit this year—this year, this year. Come into Pennsylvania, I'll show you my farm books. I had a heck of a good year this year, and then go back 3, 4, 5 years, and see what happened to me. You forget that farmers are pretty largely at the mercy of the weather. We had a good year this year because a lot of my friends didn't have apples and peaches. I happened to have been fortunate to have them.

Don't come in here and give us figures for 1 year because they mean absolutely nothing. You have to average them over a long period of time.

Mr. PEYSER. I would agree with the gentleman, but I think the one difference is that we are talking about the world situation today that isn't going to change next year, or the year after, or the year after that. There is not going to be a dropping in the demand of sugar. Every indication from Congress and the people who are involved in this on a worldwide basis say that we are in a period where sugar demand is going to be ever-increasing.

Mr. GOODLING. You are absolutely correct, and that is why our production has not kept pace with consumption.

Mr. PEYSER. That's right. So, I am saying, if this is the fact, we are not going to be faced with the kind of situation.

Mr. GOODLING. That's all I have.

Mr. DENHOLM. Will the gentleman yield?

Mr. GOODLING. I yield the floor.

Mr. DENHOLM. The evidence indicates that production has decreased slightly while prices have increased substantially.

If I understand it correctly and I think the chairman—

Mr. GOODLING. Production is not down, but consumption is.

Mr. DENHOLM. Consumption must have increased—but what has caused the price to increase 400 or 500 percent?

Mr. GOODLING. That's what I'm saying, consumption increased, but production did not.

Mr. DENHOLM. A 3-million-ton shortfall is not of such significance to justify a 600-percent price increase.

Mr. VIGORITO. If I may add here, you have a little of both, consumption increased while production has gone down, worldwide.

Mr. DENHOLM. Mr. Chairman, some price increase may be justified. However, the evidence is not convincing that a 600-percent increase in price is justified.

Mr. VIGORITO. All right, thank you very much.

Mr. PEYSER. Thank you, Mr. Chairman.

Mr. VIGORITO. Our next witness is Mr. Thomas O. Murphy, from McLean, Va., former administrator of the sugar program, U.S. Department of Agriculture.

I mentioned this morning, everyone has to take an oath, I hope you don't mind. Mr. Murphy, do you solemnly swear that the testimony you are about to give to this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MURPHY. I do.

Mr. VIGORITO. Let the record show the witness is sworn in. Will you proceed, Mr. Murphy?

STATEMENT OF THOMAS O. MURPHY, PRESIDENT, UNITED STATES BEET SUGAR ASSOCIATION

Mr. MURPHY. Mr. Chairman and members of the subcommittee, my name is Tom Murphy and since the first of last year until I retire at the end of this year, I have been and am president of the U.S. Beet Sugar Association.

But I appear here today as former Director of USDA's Sugar Division. I served in that capacity from mid-1963 until June 30, 1972. The lapse between the time I left the Government and the time I joined the beet sugar industry is not an accident. Like Mr. Findley, in 1972 I felt it would be a good idea to allow a 6-month lapse between leaving a policy-influencing job in the Government and accepting one in industry.

As I understand it, the prime interests of the subcommittee are to determine why sugar prices in this country are now so high, and then to determine what can be done to bring them back toward the level—allowing for the declining purchasing power of the dollar—which we considered normal for so many years. The real price of sugar by the way, actually declined over the years until, of course, this year, as shown on exhibit 1 attached to this statement. To the extent I can, I will try to be helpful to the subcommittee.

By the way, on that statement the retail price of sugar is shown to be 5½ cents in 1934; 5.7 cents in 1935, and 15.1 cents in 1973. By that time the Consumer Price Index which was a hundred in 1935 had gone up 316.5 percent. So, if you express the retail price average for last year in terms of 1935 dollars, the price was 4.8 cents a pound, about a penny a pound less than it was 40 years before, which says something rather good, I think, about the technology and productivity record of the sugar industry. It wasn't entirely, though, the productivity and technology that made that possible, profits were very, very modest throughout the whole period, and even more so toward the end.

But now, turning back toward the cause of present high prices, it should not go unnoticed that consumers pay 60 to 70 cents per pound

for refined sugar in Japan, Canada and the United States, and some other smaller consumer countries. Prices in numerous exporting countries and in Western Europe and England are much less, ranking from 8 to 25 cents per pound. Prices in the U.S.S.R. and some other Communist countries are more than 25 cents per pound, but have been so for many years. Japan and Canada have acquired sugar in the residual or so-called world market for years, but until this year, the United States had an effective arrangement to assure supplies and stabilize price, namely the Sugar Act.

More on that later, but please note: One, that our present prices are so high for so long because about three-quarters of the world's consumers are not paying them; and two, that really free trade does not exist in the sugar industry of the world; if it did, prices would be nearly the same everywhere save for distribution cost differentials. And yet a few academicians, officials of the U.S. Department of Agriculture, and even a majority of the Members of the House of Representatives opposed and caused to be defeated the Sugar Act, presumably on the assumption that the United States acting alone could bring free trade into existence. Members of this subcommittee and of the parent Agriculture Committee had no such illusion. After exhaustive hearings last spring, the committee voted 30 to 5 to recommend to the House a 5-year extension of the Sugar Act.

In fairness to the producers and processors of domestic sugar beets and sugarcane and the cane sugar refineries—in short, the entire domestic sugar industry—it should also be noted that their representative at the hearings recommended to the committee that the act be extended.

Aside from general inflation which probably would have increased prices this year about 12 percent under any circumstances, there were, I think, three major causes why retail sugar prices are now about four times as high as the 16.5-cent-per-pound level at the end of 1973. First, sugar was becoming scarcer throughout the world. According to F. O. Licht, the well-known sugar statistician, during the 1970-71 crop year supply equaled 126.5 percent of consumption, which is regarded by most observers to be an adequate balance; after continually dropping, that ratio equaled 120.1 percent in 1972-73, and 118.8 in 1973-74.

Second, domestic sugar production declined somewhat in 1973, and again in 1974, partly because of weather and partly because farmers were more attracted to other crops than to sugar beets which, unlike other crops, remained subject to price control during lengthy periods while the authority for those controls existed.

Of course, if the farmers could have read the future, they would have produced all the sugar beets which the factories could handle.

Third, the Sugar Act became largely ineffective early this year even before the House voted down its extension. This, I think, was by far the most significant of the three major causes because that legislation was designed to overcome problems such as those arising from the other two causes. I can best support this opinion by describing my perception of the world sugar economy.

The demand for sugar among the people of the world, once a taste for it develops, is very insistent and price inelastic. So, depending on the adequacy of supply, the price would have a tendency to fluctuate from quite low to quite high even in a classical and hypothetical free

trade situation. This is compounded by the fact that supply is also price inelastic because most of the world's sugar supply is obtained from sugarcane which is a perennial crop; land preparation and planting constitute such a substantial proportion of the total cost of sugarcane production that when once planted cane will be harvested for several successive years even if sugar prices become quite low.

Further, and unlike most crops, sugarcane and sugar beets, both of which are too bulky to economically ship long distances, are worthless (except for feeding) until processed into sugar in very costly mills and factories. Construction of these facilities is not undertaken lightly, simply because sugar prices are expected to be high for 1 or 2, or 3 years.

Because so long a time is required for price to restore the supply-demand balance and because sugar is an essential ingredient in so many food products, we, in the past, guarded our supply sources just as most other countries have done and are doing. The nine European Common Market countries produce almost all of their own sugar needs through a support program and have a preference arrangement with the Commonwealth sugar-exporting countries for additional supplies. The European Economic Community and the U.S.S.R. thus are able to and do re-export any sugar which they don't need, and only what they don't need.

By the way, the U.S.S.R. has an arrangement with Cuba for any additional supplies it needs beyond its at-home very large production; it is the largest producing nation.

Sugar exporting countries assure their own needs by limiting exports. These arrangements stabilize supply and prices for producers and consumers in the countries involved, but inescapably accentuate instability for others. Now that the Sugar Act has become inoperative, we in the United States have joined the "others" and must compete with them for leftover supplies. As would be expected, these leftover supplies sometimes have been much too large and sometimes much too small; hence the widely fluctuating "world market" price.

The United States consumes far more sugar than it produces. But the price stability provided by the Sugar Act enabled us to produce more than half of our requirements and, until this year, to obtain the balance at a reasonable price from other countries by assuring each of them a long-term market at a fair price.

The United States could, of course, have produced all of the sugar it needs. But it would have cost somewhat more—say, a penny a pound—than sugar did cost prior to the time that prices rose so dramatically this year. The national policy as embodied in the Sugar Act for the last 40 years had been to support domestic production sufficiently to provide for the most essential of our requirements and to assure ourselves the first call on the exportable supplies of a number of countries for the balance of our needs.

The act was first passed in 1934 and reenacted from time to time until this year. The essence of the legislation is that the supply which may be marketed each year is established in relation to demand at a level calculated to yield a price which would result in domestic production equal to 55 or 60 percent of consumption. Each domestic area and supplying country is assigned a marketing quota and in those

years when it becomes necessary, production in the domestic areas is limited. That hasn't been necessary for some time.

We have had first call on the sugar available for exportation from the quota countries—about 30 in recent years—because producers there react the same way as our own, they value an assured market of predictable size at a fair price. This enables them to plan, finance, and invest in their farming and factory operations, something that sole dependence on the erratic world market for their export outlets would not do nearly so well.

The price in the U.S. domestic market has usually been higher than the world market price, but occasionally lower than it was in 1963, part of 1964, part of 1972, almost all of 1973, and again this year. In those exceptional years, foreign countries shipped their sugar to the United States at a price less than they could have obtained elsewhere because they realized it was in their long-term best interest to protect their permanent places in the huge U.S. market—places they could easily lose if they sold sugar to other destinations while failing to fill their U.S. quotas.

But beginning November 1, 1973, when officials in the Government department charged with administering the sugar program first suggested abandoning the Sugar Act, our supplying countries had to face up to the possibility that they might not have a preference market in the United States after December 31, 1974, the expiration date for the current term of the Sugar Act. At that point, the Sugar Act began to lose its effectiveness. The countries had a legal and certainly a moral commitment to supply their usual quantity this year, even if the act were to be discontinued at the end of the year. In fact, they were expected to use all of their exportable supplies to furnish up to 115 percent of their previous year's quota if that much was requested of them. But owing to an amendment in the last prior extension of the act, they had all of 1974 to accomplish this, and they knew it. So it was entirely natural for some of them to ship near-term sugar to other much more attractively priced markets while planning to catch up on their shipments to us at some time before the end of 1974.

As foreign raw sugar arrivals here slowed up in relation to our refiners' needs, the Secretary of Agriculture responded on January 11, 1974 by increasing U.S. total quotas for 1974 by a hefty half million tons to 12.5 million tons. Although knowledgeable market people must have known that we would consume only about 11.7 million tons, they could not rule out the possibility that the Secretary feared that our people would stockpile three-quarters of a million tons in addition to normal use. A possible temporary increase in world demand of that magnitude had to be a tremendous market factor in the situation of scarce supplies, which did exist. The world price really took off and pulled the U.S. price up, although it should be noted not to the same level.

This was the situation until June 5 when our supplying countries had their worst fears confirmed—the House of Representatives voted to let the Sugar Act expire at the end of this year. Thereupon the act became almost totally ineffective and the U.S. price rose to about parity with the international price. The quota countries will supply our needs this year, but naturally under current circumstances only at about the same price they could obtain elsewhere. It should be noted, though,

that some quota countries have nevertheless cooperated very well as to scheduling shipments either because they appreciated the past relationship, or hoped for its renewal.

The course of U.S. sugar prices as these events unfolded is interesting. In the 40-year history of the Sugar Act, the price of raw sugar delivered and duty paid or duty free at New York had never exceeded 13.2 cents per pound until last November. And the act's price objective is even now less than 13 cents. The actual price was 11.2 cents on November 1, 1972; 12.1 cents on January 11, and by June 5 had risen to 24.5 cents. As of December 4, 1974, the price was 48 cents. Even so, during the first 5 months of 1974 our price averaged 4.2 cents per pound less than the so-called "world market" price. That difference on the quantity of sugar consumed this year before June 1 amounted to \$392 million—sugar is fungible and so the price for needed imports also governs the price of domestically produced sugar.

Although our supplying countries early this year feared that they might not have a future in the U.S. market and so not only were reaching for the higher prices in the "world market," but also were alert to establish our increase ties in other nations, almost all of them at the hearings held by this committee last spring requested that their quotas be continued under a 5-year extension of the Sugar Act, and many of them requested increased quotas despite the opportunities in other areas. This is a further indication that because of the nature of the sugar economy, producers prefer a long-term assured outlet at a fair price rather than a market which occasionally yields them very large returns.

The timing of the U.S. decision to move unilaterally toward free trade in sugar could hardly have been worse.

During 3 of the last 4 years, world sugar consumption exceeded production even though production itself also increased in 3 of those 4 years; inventories are at low levels and world market prices have risen steadily and this year sharply. At some time in the future at some price level, this situation will reverse itself and then the world market (for the marginal excess supplies) will fall far below the then current cost of production, as was the case in the 4-year period, 1965-78. One day it will be the situation again.

In the absence of the Sugar Act, this possibility will deter investment in domestic production and processing facilities even in the face of the current high prices. A beet sugar factory costs now about \$50 or \$60 million and must be amortized over many years. I heard the figure of \$40 million today, but I don't think that can be done at this time. Similarly, in the absence of an assured long-term market at a fair price under the Sugar Act, investment will be retarded in the countries which have shipped sugar to us. Thus, the beneficial impact on supplies which one might expect from the current high prices is watered down.

The reason why both the high- and low-price phases in the world sugar cycle are so protracted, as mentioned earlier, is twofold: Only a small proportion of the world's production moves at that price and sugar supply and demand is relatively price inelastic. Within 2 years after the start of the next low price (well below cost) phase of the sugar cycle, and assuming we have no national sugar policy at that time, a number of sugar factories in this country would have no choice

but to cease production. Once closed for as much as 2 years, they would not likely be reopened. Without factories, sugarcane and sugar beets are practically worthless and so are not planted. Then, in the following period of tight supplies with a substantial portion of the now existing U.S. production missing from the world's total production, prices in the leftover market would really take off and we as consumers would be fair game for the exporters, our only source for the bulk of our needs.

The argument used against the Sugar Act, late last year and this year, rests on the principle of free trade. If in fact the world operated on that principle and there were reasonable assurance that it always would, there would be much less need for the Sugar Act; all sugar producers around the world would sell domestically and export to any destination indiscriminately for the best available price. Governments would never tax exports or imports.

In that case, the international price would not fluctuate nearly so widely since it would reflect the balance between total worldwide supply and demand. In my view, the average cost of production in this country may not be higher than the worldwide average at which foreign sugar could be delivered to consuming destinations in this country, and so, despite price fluctuations much greater than they have been accustomed to, many domestic producers could compete for a share of the U.S. market. Those that couldn't survive during the low-price phase of the cycle would simply have to liquidate their investment for what they could get and devote their efforts to some other enterprise. For them, that would create real hardship, but the sugar consumers of this country would not need so much domestic production if they could be reasonably sure of getting replacement supplies from abroad. The price would fluctuate much more than consumers were accustomed to prior to this year, but certainly not as extremely as it is now doing, and would do in the future if the United States does not protect its supply sources as most of the other nations do. Consumers could get by.

But, unfortunately, that is not the way the world operates. We have never been able to do away with wars. Even in peacetime, countries have always conducted their commerce in what they perceived to be their own best interests, and still do. This has meant a variety of trade restrictions. This fact is so obvious it hardly needs further comment.

Production itself is, of course, not always unrestricted. The few diamond mines have for years limited production to obtain optimum returns. The dozen or so oil-exporting countries are now conducting their national affairs in a similar manner. Bauxite-exporting countries and countries that export other minerals are taking a hard look at their situations. Rising demand for these commodities in many countries, not just the United States, enables or would enable the exporting countries, to tax exports heavily. The United States has to compete with the growing demand of others for the essential products we must import—to a much greater extent than in years gone by—and we may be confronted with effective producers' cartels not just for petroleum but for some other minerals too.

But one may say farm commodities differ from minerals. For one thing, production occurs in practically all countries. For another, it can be increased in a single crop year, or so it would seem; it need

not wait on further exploration and development. True enough, to the extent that unused developed arable land, the infrastructure, know-how, the other factors of production, and processing facilities are available. But we seem to have reached the point where despite strong incentive, worldwide food production expands barely as fast as population. Production beyond that rate requires land clearing and development. And land and water resources themselves have limits.

Fortunately, the United States produces more of most agricultural products than it consumes, and so is an exporter. For these commodities our only concern is to obtain access to markets; we need not worry about access to raw materials. Aside from tropical products which can't be grown here, sugar is the only significant exception. It seems unlikely that a producers' cartel could control sugar in the same manner as the petroleum producers control oil, and yet 20 sugar-exporting countries, most of them suppliers to us, are considering giving it a go.

As to actions that might be taken to bring sugar prices back toward the level customary in this country before this year, I believe the best policy would be one which would encourage on a continuing and dependable basis domestic production for more than half of our requirements and imports for the balance. There is nothing we can do about the weather. The regulations of the Cost of Living Council which helped to make sugar beets an unpopular crop were terminated with that Council. Hopefully, future regulations along similar lines, if any, would not have that impact.

What is most needed to encourage production here and abroad is a national policy similar but not identical with the Sugar Act. For instance, the excise tax now paid by manufacturers of refined beet and cane sugar should be eliminated and the Government payments—financed by that tax—which have been made to domestic producers of sugar beets and sugarcane should not be continued. Although these taxes and payments are largely in the nature of transfer payments, they have contributed almost as much to the general misunderstanding of our former sugar policy as the belief that free trade in sugar could be conjured up simply by abandoning the Sugar Act.

However, it should not be thought that reinstitution of a program along the lines of the Sugar Act would immediately, or even soon, bring prices back to the level we had been accustomed to. Our quota countries have been committing supplies to other importing countries, sometimes for long terms. Although our domestic producing capacity is sufficient to take up part of the slack it may not be sufficient to take up all of it during the time when the quota countries try to increase production to the point where both the United States and their other outlets can be fully satisfied. It is also possible that some of the quota countries may be disgruntled, but this should be only temporary if it is a factor at all. Further, a price objective somewhat higher than the one in the present Sugar Act will probably be required permanently. Cost structures on domestic farms and in mills and factories even beyond what might be expected as a result of price increases for fuel, fertilizers, insecticides, interest, et cetera, have become distorted this year while the prices for crops which compete with sugar beets for acreage are now more attractive in relation to the Sugar Act's price objective than was the case through 1972.

To conclude—I haven't checked it—but it is my understanding that sugar accounts for about one-sixth of the calories consumed by the world's people. It is the most efficient plant converter of the Sun's energy. Aside from the fact that it tastes good, it is essential because of its other characteristics in the preparation of numerous foods and beverages. I think it is so important a commodity that the United States should not rely on leftover supplies for its import. Rather than do that, it would be better to aim at self-sufficiency, but better still, I suspect, would be an arrangement that assures our total supplies, mostly from domestic production but partly from dependable supplying countries—better, not only because we could not for some years produce enough but also because numerous sources can be called upon for expansion of production and thus more of that expansion can be obtained gradually by improved utilization of existing apparatus and less accordingly will be required from very expensive development and construction.

Thank you, Mr. Chairman.

[The exhibit referred to follows:]

EXHIBIT I

RETAIL PRICES OF REFINED SUGAR IN TERMS OF BOTH CURRENT AND CONSTANT DOLLARS

[In terms of dollars of constant purchasing power, consumers paid less for refined sugar during the sixties and early seventies through 1973 than they had in the thirties, forties, and fifties]

Year	Retail price of refined sugar (cents per pound)	Consumer Price Index (1935=100)	Retail price of refined expressed in 1935 dollars ¹ (cents per pound)
1934	5.5		
1935	5.7	100.0	5.7
1940	5.2	102.1	5.1
1945	6.7	131.1	5.1
1950	9.7	175.3	5.5
1955	10.4	195.2	5.3
1960	11.6	215.9	5.4
1965	11.8	230.0	5.1
1966	12.0	236.6	5.0
1967	12.2	243.4	5.0
1968	12.2	253.6	4.8
1969	12.4	267.2	4.6
1970	13.0	283.3	4.6
1971	13.6	295.2	4.6
1972	13.9	304.8	4.6
1973	15.1	316.5	4.8
1974 ²	26.2	354.6	7.4

¹ Based on actual price deflated by the Consumers Price Index.

² First 9-month average.

Mr. VIGORITO. Thank you very much, Mr. Murphy, for the very well presented statement. I appreciate your expert testimony. Do you really believe we could become self-sufficient and supply 100 percent of our sugar needs?

Mr. MURPHY. I think we could, but I really don't think it's a good thing to aim for. We would have to build many, many factories, and they are very, very expensive. I don't think we should try to be self-sufficient as long as our resources can be better utilized by assuring ourselves of a nucleus of our supplies, and getting the other on a dependable basis.

If the day ever comes when we can't do that, then I think, yes, build the factories.

Mr. VIGORITO. What would that do to the price of sugar on the retail level. If we use resources not as economical as worldwide trade, then prices are going to have a tendency of going up because we are using more expensive resources. Do you have any idea what the price of sugar would be in this country if we reached a point of providing all our sugar needs; has any study been made of that?

Mr. MURPHY. Not really, Mr. Chairman. There have been some impressions in years gone by that if production were increased on a gradual, normal basis, by the time we hit the total, the cost would be a higher price than what we are paying, but not by much more than a penny. Of course, now it would be much more. And again, I want to restate that that would be on a gradual basis, reaching self-sufficiency.

Mr. VIGORITO. Mr. Denholm?

Mr. DENHOLM. Thank you, Mr. Chairman.

Mr. Murphy, I want to join with the chairman in commending you. I am impressed with your statement and your expressed knowledge of the economics of this issue before the committee.

Mr. MURPHY. Thank you.

Mr. DENHOLM. May I refer you to your testimony? You well recall what you have prepared for the committee at that point in your testimony.

Did I understand you to say that you thought the Sugar Act in its present form should not be considered? I don't understand your suggested alternatives. Will you recapitulate that for us?

Mr. MURPHY. Yes. I realize one of the big misunderstandings of the Sugar Act came about because of the payment to farmers. So, in view of that, rather than continue to try to get the story across and accept it, why not do away with the payment and let it completely out of the market, although on a controlled basis.

Mr. DENHOLM. What assurance, then, could be given to our producers in the long run to make the necessary capital investment at the primary production level, and at the refinery requirements for essential capacity to provide an ample supply of sugar for the consumer market; do you have a suggestion how that can be accomplished?

Mr. MURPHY. Congressman, I have this in mind, the main importance of the Sugar Act would be maintained in some fashion, that would mean supply management would be in effect. In other words, a Government entity would establish the supply in relation to the demand, and would bring about a desired price, just as it did for many years, and that is what the farmer and the processor would depend on. He would depend on that price being assured within various small areas of risk.

Mr. DENHOLM. Well, this includes the argument and debate on the Sugar Act itself rather than what we are seeking here. I am interested in your proposal and I wanted you to elaborate on it briefly.

Again, what we are primarily concerned about is the available supply, and meeting the current demand; and the consequences of the price changes in the recent 12-month period. Do you have any evidence to indicate that the retail price is excessive relative to supply and demand, both in the world market and the domestic market?

Mr. MURPHY. Certainly I would agree with the statement that Congressman Peysers' made, that we've got the worst of two worlds, the worst of controls and the worst of free enterprise. We are paying the price, the Canadians are paying it, and the Japanese are paying it because of the internal tax; and some other smaller countries. But we can't do any more with the price of 60 cents than the whole world can do with a price of 20 cents toward bringing about production; the rest of the world is paying much less. If we don't have the benefit of free enterprise, free trade system, and we certainly don't have the benefit of the Sugar Act.

Mr. DENHOLM. Well, the fact is, Mr. Murphy, that the corporate citizen of America has a responsibility in pricing. Just recently I noted that A & P and Safeway have established self-serving price agreements. Have you read those articles? I believe Giant was to freeze prices in the Washington, D.C., area. Does that include sugar?

Mr. MURPHY. I believe they were going to freeze prices for a period of—was it a month, or something?

Mr. DENHOLM. I think it is proposed through the holidays, at least.

Mr. MURPHY. I don't know whether that includes sugar, or not; but I would assume they would try to make it all inclusive.

Mr. DENHOLM. Well, it seems to me if they have the ability to freeze prices, they have the ability to fix prices, do they not?

Mr. MURPHY. Well, it depends on how you use the word "fix," that is, within their own stores, within their own units.

Mr. DENHOLM. This prompts the question of whether we can have a free market on sugar, or any other commodity in our free enterprising system. I'm somewhat concerned as to whether we can have free elections in this country. The free enterprise system is on trial as much so as our political system.

I am concerned that when an extension of the Sugar Act failed—in some form, that other sugar-producing countries may enter into an agreement or compact that will not be advantageous to America. Do you agree?

Mr. MURPHY. Yes, Congressman, I would agree with that. I think what you are saying, we are in a situation in sugar where we can be the victims of a cartel.

Mr. DENHOLM. Right. And I am hopeful that Fidel Castro doesn't dictate policy and price to the consumers of America.

Mr. MURPHY. I hope he isn't the executive director of the cartel.

Mr. DENHOLM. Well, if we have no input to that proposal and no proposal of our own, we will have no control of the outcome—will we?

Mr. MURPHY. No, we wouldn't.

Mr. DENHOLM. And if we don't do anything, we are leaving the fences down and the gates open, aren't we?

Mr. MURPHY. I couldn't agree more.

Mr. DENHOLM. Thank you very much for your excellent statements and testimony.

Mr. VIGORITO. Mr. Goodling?

Mr. GOODLING. Very briefly, Mr. Murphy, you said we should aim for self-sufficiency. Did you tell the chairman—I was reading when you answered that question—that we can become self-sufficient in your opinion?

Mr. MURPHY. Mr. Goodling, we certainly can become self-sufficient, but I certainly wasn't recommending we do that; I was recommending this as our second alternative. The best alternative, I think, would be to produce as much as we can at a reasonable price, and have assured sources for the balance. Second best, if we can't do that, is to have 100 percent self-sufficiency. Now, we certainly can do it; it's only a matter of deciding whether we want to support the price of sugar at a level that will bring that about. It would take time. We couldn't do it, as you well know the building of factories takes a lot of time.

Mr. GOODLING. If we come up with sufficient money to build the refineries, what do you propose to use for raw material?

Mr. MURPHY. Well, if you support the price high enough for sugar beets and sugarcane, you get the raw material.

Mr. GOODLING. Well, traditionally I oppose farm subsidies.

Mr. MURPHY. Well, you can support it through the market, not Government payment.

Mr. GOODLING. The same difference, isn't it? The taxpayer is going to pay for it.

Mr. MURPHY. Well, Congressman, I don't think we differ on that, but here is my view. If the world really had free trade, there would be no need for support from the market, or from the Government for a commodity like sugar. But free trade really doesn't exist. So, then the next thing is to protect yourself in clinches, it seems to me.

Mr. GOODLING. I said this several times. As long as other farm commodities are going to pay better, the farmer isn't going to grow sugar beets.

Mr. MURPHY. I agree, the price would have to be attractive to him.

Mr. VIGORITO. Mr. Johnson?

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. Murphy, you mentioned that the cost of living price controls that were set back in the early 1970's had some relationship with the price of sugar today. I have been reading the testimony before the Cost of Living Council, and I agree; but I think for the record it should be made a little bit more clear than just that final statement.

What is the relationship between those price controls that we had in the early 1970's with the price of sugar today; what caused that?

Mr. MURPHY. Well, Congressman, as you remarked, the production of sugar beets is down. The record crop was in 1972 when beet sugar production was about 3,650,000. Now, this year we will be very lucky if we get 3 million; more likely it's going to be 219 million. So, that is down 20 percent countrywide. One reason, we had a wet spring, summer, and fall, at least the weather wasn't perfect.

The other reason, it seems to me, the completion—the very point that Mr. Goodling was referring to—from other crops in preference to sugar. Not that they did away with sugar beets entirely, but they cut production on sugar beets and grew something else.

Now, part of the reason—not all, but part of the reason—because of the nature of sugar beet product, after the freeze period of 1971 went off, the freeze went on in August and went off a couple months later, when it went off, other farm commodities were exempt. Sugar beets because they are priced in line with the net returns in the sale of beet sugar, didn't really have a raw material.

Mr. JOHNSON. Actually, the price was on refined sugar and not on the sugar beet itself, wasn't it?

Mr. MURPHY. That's correct, the price control on refined sugar carried through to the sugar beets.

Mr. JOHNSON. Because of its relationship between the producer and the refiner and the unique marketing process we have in the sugar industry, the price freeze at the upper level reflected all the way down and resulted in lower production of sugar beets.

Mr. MURPHY. Exactly. Now, that situation was corrected. But then, when phase IV came in, in the beginning of 1973, it was reimposed and existed.

Mr. JOHNSON. Thank you very much.

Mr. VIGORITO. Mr. Zwach?

Mr. ZWACH. Thank you, Mr. Chairman.

Mr. Murphy, it's interesting to listen to all these discussions today. I would like to say that our good colleagues Congressmen Peyser and Johnson feel that if we eliminate the Sugar Act, that would bring free trade and equal prices throughout the world. And yet you say that our present prices are so high for so long because about three-quarters of the world's consumers are not paying these prices. Would you elaborate on that briefly?

Mr. MURPHY. Yes. It's actually more than three-quarters. About 70 percent of the sugar is actually consumed in the country where it's produced. And typically these countries, unlike the United States—we pay in the United States the same price as we get for export—but this is not customary in sugar. Countries of production will export only what they have left over, after they have taken care of the domestic consumption.

Mr. ZWACH. Do they subsidize the local consumption?

Mr. MURPHY. In some cases they do. In some cases, in Mexico that happens where the price is, I think, 8 cents. Now, they are going to keep enough sugar in Mexico to keep that price about 8 cents. Any sugar they have left over they export. That situation exists practically in all export countries. A few don't, India, in order to get foreign exchange they cut down on domestic consumption, but that is the exception.

Now, in addition to that, of what sugar does move on the market, about half of it, under the Sugar Act, was under premium arrangement, preference arrangement, and the other half was so-called world market sugar. Now, we have joined the so-called world market sugar, and the sugar that goes from Cuba to the U.S.S.R. doesn't pay this price. The sugar that goes to the Commonwealth from the sugar-producing countries, exporting countries, doesn't go at that price.

Mr. ZWACH. Mr. Murphy, you have been administering this act. There are charges here today of tremendous profits in the sugar industry in 1974. Now, over the years that you have administered, were the refineries, were the producers making huge profits?

Mr. MURPHY. Well, that is available. The First National Bank of New York has a long series, getting back to 1929, showing the profit by the industry. Typically the manufacturing industries earn about 10 to 13, or 14 percent on net worth. Typically the sugar industry earned a little bit more than that.

Mr. ZWACH. There were not many new refineries developed while you were administering the program, were there?

Mr. MURPHY. Well, there were a number of beet sugar factories, I suppose about six; there were one, or two, or three small cane refineries, and that's about it.

Mr. ZWACH. Now, you know, in my congressional district 304 farmers are now in the process of building a \$45 to \$50 million refinery. They started with \$35 million, it went to \$45, and it's now in the area of \$50 million. I sat in when they borrowed their money, these 304 farmers. And the New York bankers, Chicago bankers, Minneapolis bankers were there. And one of the reasons they finally put up the funds was because of the stability of the Sugar Act, not the big returns, but the stability. I think they wouldn't get this money today without the Sugar Act. Do you think that is a correct assumption?

Mr. MURPHY. I think it certainly is. In other words, in financing something, it has to be amortized over a very long period of time.

Mr. ZWACH. It is amortized over many years.

Mr. MURPHY. Yes. And you have no idea what the prices will be 3 years from now, or 4 years from now.

Mr. ZWACH. Now, Mr. Murphy, we can't control world sugar prices. Under our sugar law we had a governmental agency that tried to regulate it for consumers and producers, and keep stability. It seems to me what we are going to substitute is international cartels, blackmailers, who are going to be setting the price of commodities. Does that seem like a fairly sensible assessment?

Mr. MURPHY. We certainly won't be in the driver's seat.

Mr. ZWACH. And I have a quotation from Mexico, at least 20 countries are going to form a cartel; and undoubtedly the cartels that are already in existence tried to kill the Sugar Act, and that is what happened, isn't it; cartels under a number of people have been trying to kill the Sugar Act because they thought they could do that at the expense of, I think, the producer and the consumer. That's the way it looks to me.

Mr. MURPHY. Well, Congressman, on that score, if I recall, when you were having the hearings all of these countries, including practically all of these 20 you referred to, did come in here and ask for a continuation of the quotas. Did they not?

Mr. ZWACH. Yes, they did. All the countries didn't want any part in the effort to kill it because they saw it as acceptable.

Mr. MURPHY. So now, of course, everybody looks at their own interests and I guess they are going to give it a try. Whether they can make the cartel work, of course, is a question.

Mr. ZWACH. Thank you, Mr. Chairman.

Mr. VIGORITO. That's all, I believe. Are there any other questions? Thank you, Mr. Murphy, very much for your testimony and being here today.

Our next witness will be Mr. Lawrence Myers, from Washington, D.C., former Administrator, sugar program, U.S. Department of Agriculture. Nice to see you again, Mr. Myers.

Mr. MYERS. Thank you, Mr. Chairman.

Mr. VIGORITO. Be seated, Mr. Myers. Mr. Myers, do you solemnly swear that the testimony that you are about to give to this subcommit-

tee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MYERS. I do.

Mr. VIGORITO. Let the record show the witness has been sworn in.

STATEMENT OF LAWRENCE MYERS, FORMER DIRECTOR OF THE SUGAR DIVISION, U.S. DEPARTMENT OF AGRICULTURE

Mr. MYERS. Mr. Chairman and members of the subcommittee, I appreciate your invitation to testify at these hearings on the sugar legislation.

My name is Lawrence Myers. I was Director of the Sugar Division of the Department of Agriculture from 1948 until June 30, 1963, when I retired from Government on completing 36 years of service.

For the record, I also want to add that I act as a consultant in agricultural economics and have an office at 1001 Connecticut Avenue. I am an economic adviser to the Philippine Sugar Institute. I am also vice president of ManExec, a management consulting service, with headquarters in Colorado Springs, Colo. The Red River Valley Cooperative, Inc., which has a beet sugar factory at Hillsboro, N. Dak., is a client of ManExec.

Since Mr. Findley was so concerned about my association with the Philippine Sugar Institute I want the record to show that I became associated with the institute on September 1, 1973, 10 years and 2 months after I left Government. I also want to say, since he is so critical of people going into Government, and out of Government, if this is back and forth, that some of the finest men that I have ever known in Government came directly from business; and I would hope that you would not let those of us who are retired from Government starve to death.

I wish to emphasize that I am here purely in my personal capacity as a former Director of the Sugar Division. I am not authorized to speak for anyone else, and I shall not attempt to do so.

The basic causes of the present high sugar prices are well known. Little purpose could be served in presenting statistics that you will get directly from the Department of Agriculture. For several years, world sugar production has not been keeping pace with world sugar consumption. World stocks became low. During the past year, poor crops have made the shortage acute.

Attention has been called to the fact that a poor crop in the Soviet Union has caused that country to increase its purchases from the world market. Also, Arab countries now have sufficient purchasing power to continue to buy sugar at high prices. These are current details of the total picture.

We are confronted with a classic example of short supply and strong demand. Nevertheless, we must question whether the actions of our own Government, the legislative and the executive branches alike, did not add to the aggressiveness of world buying and of speculative activities.

The developing world sugar problem became evident 2 years ago. By the beginning of 1973, the world price of sugar was above the domestic price and it was clear that great care would be needed to obtain our import requirement without causing unfortunate price repercussions.

Nevertheless, the Department chose 1973 to discredit the Sugar Act and to impair its effectiveness. During the fall of 1973, the Director of the Sugar Division made speeches urging that the Sugar Act be terminated and that American farmers turn to the production of other crops. During the same period, the Department took certain administrative action that was confusing and self-defeating.

The Sugar Act requires that quotas be reallocated promptly from areas and countries that cannot fill them, to countries that can fill them. The purpose of reallocating deficits is to obtain needed supplies. However, the Department's actions on reallocations were delayed and incorporated provisions that had the effect of restricting imports.

On January 11, 1974, the Department of Agriculture announced its famous determination that 12,500,000 STRV would be needed to meet the 1974 requirements of the United States. It also provided that 413,334 tons would be allocated to foreign countries on a first-come, first-served basis.

The first effect of the January 11 action was to make the Department of Agriculture, to the extent that it was taken seriously, a hoarder of 800,000 tons of sugar. The second effect was that, in large part, it constituted a scrapping of the quota system.

Surprisingly, during the first 4 months of 1974, while the House Committee on Agriculture was working on an extension of the Sugar Act, the domestic price averaged 4.7 cents per pound below a parity with the world price.

The rather obvious explanation on the price behavior last spring is that foreign suppliers were making a record on which to base their claims for future import quotas. Their testimony before the House Agriculture Committee made it clear that the major suppliers wanted to continue to sell this country sugar under an extension of the U.S. sugar program.

On June 5, 1974, the House of Representative delivered the ultimate blow to the sugar program when it voted to defeat the sugar bill.

Finally, and unequivocally, foreign suppliers were told to look elsewhere for markets. Domestic consumers were told to fight for supplies in the world market. The quota program that had provided a system of orderly marketing under which this country had obtained sugar for 40 years, was scrapped by Congress, as well as by the Department of Agriculture.

I cannot tell you, and I doubt that anyone else can tell you, to what extent the resulting fight for supplies and associated speculative activity, caused prices to rise above the level that normally would equate the current supply and demand for sugar. We all know, however, that prices from day to day are affected by temporary psychological conditions, as well as by fundamental factors. Prices tend to overreact, both on the upside and on the downside. They did so this year. The declines in the past 2 weeks are a welcome reaction from the excessive price rise previously generated.

To complete this review, let me recall an additional action that should, perhaps, be treated lightly. On September 25, 1974, after letting it be known that quotas should be abolished, the Department reallocated 60,000 tons of domestic deficits to foreign countries. It would be more accurate to say that the Department assigned such deficits, because it disregarded information from exporting countries

that they could not supply the sugar. One is inclined to ask why the Department wished, at that late date, to maintain that this country needed 12.5 million tons of sugar this year when its own distribution figures proved that it did not. If the answer is that the Department wanted to reduce domestic prices, the question becomes, what would have happened to world prices if 800,000 tons of sugar had been taken out of the world market? Possibly the most appropriate thing to say is that the September 25 reallocation constituted the *reductio ad absurdum* of deficit reallocations.

For the immediate future, probably nothing can be done. The toothpaste is out of the tube. It may be best to leave the immediate problem to the marketplace.

The most constructive possibilities are in dealing with the longtime fundamentals. Possible alternatives are as follows:

Alternative 1—do nothing. This would be the easy course. It would have the support of some economists and sugar traders. I think we can brush aside those in industry who want protection for themselves but free trade for agriculture. Moreover, I think experience has discredited those who argued that the defeat of the Sugar Act would assure lower prices to domestic consumers.

Economists need to acquaint themselves with the sugar policies of foreign countries and developments since World War II in world sugar production. With few exceptions, the major sugar-consuming countries of the world have their own program to supply sugar. These programs started in Europe under Napoleon. From experience in negotiating at international sugar conferences, I can assure you that European countries have no intention of giving up their supply programs and adopting a free trade policy for sugar.

On the other hand, colonialism, which accounted for a major part of the world's supplies of tropical sugar before World War II, is now at an end. Some of the new governments such as Indonesia, now have other priorities. In a number of countries, governmental policies, such as the nationalization of their sugar industries, are having the effect of restricting investments needed for expanding sugar production. In deciding sugar policy for the future, the United States cannot count upon the availability of unlimited tropical supplies at extremely low prices or the existence of a huge and stable world sugar market.

If the U.S. Government should decide to do away with the sugar program permanently, it must be prepared to accept widely fluctuating sugar prices, with a longtime average level well above the average of past prices.

In periods of low world prices, our domestic producing industry would be hurt, and much of it would be destroyed. Capital investment would be curtailed. Production would fall. It is not possible for domestic consumers to enjoy the benefits of low priced world sugar during surplus periods and have sufficient domestic supplies to meet requirements when world supplies are short.

Alternative 2—extend the present act, temporarily or permanently.

If new legislation is to be enacted quickly, there would seem to be no alternative to extending the old act.

When considering the longer period, Congress should not brush aside the old sugar legislation just because it has served this country well for the past 40 years. Only to the very young do 40 years seem

so long. Many things, including some people, improve with maturity. The fact is that the Sugar Act has been updated every few years; the present legislation is only 3 years old. Moreover, let us not forget, the old act has a rather enviable record of increasing foreign production, as well as domestic production. In dealing with any extension of the old act, Congress must recognize the credibility gap that now exists.

Alternative 3—write new legislation.

If new legislation is to be written, it should be directed toward the problem of obtaining adequate supplies for the United States. A number of provisions of the present legislation were directed toward problems of the past, such as child labor. I see no more reason for incorporating wage provisions in sugar legislation that I do in legislation for the benefit of other agricultural commodities, or in tariff legislation for the benefit of industry.

Similarly, consideration should be given to eliminating the payment provisions. These were a fundamental part of the New Deal agricultural legislation. Many good reasons can be cited in support of the payment provisions. The fact remains, however, that in today's environment they are unpopular. Accordingly, the cost of obtaining necessary supplies should be passed on directly to consumers, rather than channeled through the Federal Treasury.

Let me add a word of caution at this point. Suggestions have been made for establishing a target price system under which domestic producers would be compensated in the event actual prices fall below the target price. At first blush, this may seem like the best of both worlds. Moreover, the program would cost nothing when prices are high. If it were ever put into practice when prices were low, the cost would be politically prohibitive. It is hard to believe that such proposals are made seriously.

If the Congress decides to do something to solve the sugar problem, then it will be confronted with several fundamental facts:

(1) The expansion of production, either in the United States or abroad, involves the investment of many millions of dollars in factories and agricultural equipment, and several years in construction and agricultural development. In most cases it will require 20 to 30 years to pay off the indebtedness.

In the 1971 extension of the Sugar Act, Congress, very wisely in my opinion, provided incentives for the development of a new sugar cane industry in South Texas and the construction of new sugar beet factories. That provision caused work to start immediately on the development of new projects. The new cane factory in Texas and two new sugar beet factories in the Red River Valley are now in operation. A third beet factory, being constructed in Minnesota, will not be able to start operating until next fall. Farmer members of the two cooperatives in the Red River Valley obligated themselves for over \$30 million for each factory, to be repaid over a period of 30 years, for the construction of each of the new plants, in addition to the tens of thousands of dollars each farmer invested in specialized machinery for producing and hauling beets. Naturally, these commitments were made in the expectation that the Sugar Act would not be continued. And let me say that the only reason those factories cost as little as \$30 million a piece is that they were contracted for several years ago.

As Congressman Zwach has indicated, the Minnesota factory, still under construction, will probably cost \$50 million, or maybe more.

Similarly, foreign countries expanded their sugar production in confidence that the Sugar Act would be extended.

When Congress defeated the Sugar Bill, it created a credibility gap as to the dependability of the sugar program and of its implied commitments. And let me emphasize that when Congress enacted the provision in the 1971 Act, entreating farmers to go into the new sugar production project, it certainly carried with it a moral commitment that they would not be dumped the moment the factories got into operation.

If Congress wishes to induce new investments in sugar-producing enterprises, at home or abroad, it must be prepared to undertake a program for a minimum of 5 years, and preferably 10 years. And I will say at that point, I do not know why the Sugar Act has not been continuing legislation. You don't write tariff acts on a term basis. It seems to me sensible to write the Sugar Act on a continuing basis.

(2) In the current legislation, the price guide is based on the parity price index and the wholesale price index. These indices were selected in an effort to be fair to both farmers and industrial users. From the standpoint of fairness the use of these indices has merit. From the standpoint of obtaining production, especially of sugar beets, provision should be made also for giving consideration to the price of alternative crops. There is little use in a "fair" price that will not provide adequate supplies.

(3) For the future, consideration must be given to the share of our requirements that the United States wishes to obtain from domestic sources. Present legislation was developed in an era of surpluses. It was assumed that every area would produce sugar if it were given modest protection. Since World War II, we have seen Puerto Rican production fall drastically and large areas of the continental United States have gone out of beet production. Moreover—and this is fundamental—Cuba, that always had vast quantities of sugar available, is no longer our working partner.

Future sugar quotas should be considered not only as privileges to sell, but as commitments to supply. I recognize that many, and perhaps most, foreign suppliers accepted quotas as supply responsibilities. We must keep in mind, however, that for the past year and a half, the U.S. Government has worked to destroy the significance and dependability. New legislation to restore their importance and dependability and the concept of supply responsibility.

In the future, when a country applies for a quota, attention should be centered on three points:

1. The country's ability to produce sugar.
2. Its commitment to fill its quota.
3. Its commitment to adjust its marketing to the seasonal requirements of the United States.

And I can't emphasize that third point too strongly. Performance records furnish a good basis for revising quotas from time to time, but the commitments should be worked out in advance for the quotas countries request.

We all know that agricultural production is subject to the hazards of weather conditions and, certainly, provisions must be made for dealing with conditions of force majeure.

The problem of sanctions always arises. Those now in the Sugar Act represent years of trial and effort. They are probably about as strong as can be applied in practice. If tied to quantitative commitments of foreign suppliers, they should be effective.

Mr. Chairman, the consumers of this country have paid a high price for the mistakes of the past 2 years. Writing legislation to deal with the current sugar situation may be difficult. However, the Committee on Agriculture of the House of Representatives has always been willing to undertake difficult tasks. I hope it will deal as quickly as possible with the sugar problem.

Thank you, sir.

Mr. VIGORITO. Thank you, Mr. Myers, for a well-directed statement, it shows you have drawn on many, many years of information that you have. You are right about 40 years not being very long. I can remember when I saw my first man who was 50 years old. I looked up to him, and I couldn't believe that anybody could live that long.

[Laughter.]

Mr. VIGORITO. And here I am, about to blush.

I don't have any questions for you, but before you leave, or before other members have questions, I have a little paragraph I would like to read into the record at this point, and it comes from the Sugar Trader, the author is Gerald Asher, and it is stated in the Sugar Journal of November 1974; it's a paragraph, so bear with me while I read it, I think it follows very nicely Mr. Myers' statement.

It appears most desirable, but highly unlikely at this point that the Sugar Act will be extended, and the United States refineries will be competing with everyone else when the quotas expire at the end of the year. Imports of at least six million short-tons will be required, and they are expected to be costly. Failure to properly implement the existing Sugar Act, combined with failure to extend the Act is costing the United States consumer over 20 cents per pound so far, or over two and a half billion dollars on six million tons, and going higher. This is equal to more than the entire subsidy paid to the domestic industry in the 37 years of the Sugar Act existence; it amounts to more than the difference between the world price and the United States price for sugar in the previous 37 years of the Act.

Modus of the Congress in rejecting a law which guarantees supplies during this period of scarcity, and which has raised costs to consumers far beyond even the level of inflation which we are currently experiencing is certainly open to question.

Mr. Denholm, do you have any questions for Mr. Myers?

Mr. MYERS. Mr. Chairman, I would just like to comment briefly on Mr. Asher's statement. As I pointed out, I do not care to undertake to say how much of this present price is the result of the few people crying "fire" and the problem of fear. We have certainly had a rush, a fight in the world market. And if Mr. Asher were writing his statement today on the present prices, it would be well over twice what he has said that the American consumer is paying above normal for the sugar today.

Mr. VIGORITO. Mr. Denholm?

Mr. DENHOLM. Mr. Chairman, may we go off the record for a moment?

[Discussion off the record.]

Mr. VIGORITO. Mr. Johnson.

Mr. JOHNSON. I have no questions.

Mr. VIGORITO. Thank you very much, Mr. Myers.

Mr. Julius Katz, please, Deputy Assistant Secretary for International Resources and Food Policy, U.S. Department of State.

Mr. Katz, do you solemnly swear that the testimony you are about to give to this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KATZ. Yes; I do.

Mr. VIGORITO. Thank you. Let the record show the witness is sworn in.

STATEMENT OF JULIUS L. KATZ, DEPUTY ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Mr. KATZ. As I point out in the statement, to understand the present situation we need some historical perspective, and some of that has come out in the course of the testimony earlier today. The low prices of the 1960's have certainly discouraged investment, and while production has grown fairly steadily through the past decade, it has not grown as fast as consumption.

Consumption is growing particularly rapidly in developing countries and in sugar-producing countries themselves. The situation we have now, is that in the last 5 years, and 6 out of 7 years, consumption did outpace production with a consequent drawdown in stocks. The result is that the market has become unusually sensitive to information about production decline. As I indicated in my statement, a number of situations in the world in the last few years have contributed to the rapid runup in prices.

On the question of how our imports have responded to that situation, we think quite well. Imports are running almost 14 percent ahead of imports a year ago, and we have not faced a shortage of sugar in this country. We had to pay high prices for our sugar, but there has been no shortage except for the occasional spot shortages at the retail level where some panic contributed to runs on the supply.

Over the next year or so we see at best a very close balance between production and consumption with little buildup of stocks, and in this situation the weather becomes a critical factor. Over the longer period ahead we think it likely that sugar investment will increase in the world, and with production catching up with consumption, there will be an opportunity to build up stocks. In the year ahead we think that our imports will remain high. The action the President took in continuing the low customs duty and announcing a quota of 7 million tons will certainly not be restrictive and will permit supplies to enter our market.

We think that our traditional suppliers and possibly some new suppliers will find the U.S. market attractive both because we pay the highest price available in the world, and because they will want to demonstrate their capacity to supply this market in the event that the quotas are restored at some later time.

I think that represents a fair summary of my statement, Mr. Chairman.

Mr. VIGORITO. Mr. Johnson, do you have any questions?

Mr. JOHNSON. Yes, Mr. Chairman, I do have a brief question of Mr. Katz.

What will the situation be, Mr. Katz, assuming the act expires and the world goes by quota—

Mr. KATZ. Yes, sir.

Mr. JOHNSON [continuing]. And then we resume relations with Cuba. What is the legal situation with respect to duty as far as Cuba is concerned, as it relates to other duties from other countries; is there a difference?

Mr. KATZ. Well, if relations are resumed, and the existing restrictions are removed—there are two distinct steps involved there—Cuba of course will be free to supply the market.

Mr. JOHNSON. Isn't there a difference in the duty requirement under the law?

Mr. KATZ. I'm not really clear in my mind, Mr. Johnson, whether the preferential duty still exists or not. I'm sorry, I would have to check that and supply it for the record.

Mr. JOHNSON. I think we ought to get that into the record. It is my understanding that there is a difference, that if we would go to the law on the 1st of January, there would be a preferential treatment.

Mr. KATZ. Or course, the duty is quite low in relation to the price, and the preference, I think, would not amount to very much. But I would be glad to supply that for the record.

Mr. JOHNSON. Thank you.

Mr. VIGORITO. It will be entered in the record at this point when the committee receives it.

[The requested information follows:]

TARIFF RATE APPLICABLE TO IMPORTS OF CUBAN SUGAR AFTER THE EXPIRATION OF CURRENT SUGAR ACT

Under the provisions of a treaty of 1902 between the United States and Cuba, a Cuban preference of 20 percent below the column 1 rate of duty on sugar was established (0.53¢ per lb. versus 0.6625¢ at 100 degrees polarization) Preferential treatment for Cuban products was reaffirmed in subsequent trade agreements. When Cuba and the United States became members of GATT, the 1902 treaty and subsequent agreements were suspended by an agreement and exchange of letters between the United States and Cuba at Geneva on October 30, 1947, which became operative January 1, 1948. The Agreement provides, inter alia, for the continuation of Cuban preferences. This obligation was superseded by Presidential Proclamation No. 3447 (February 6, 1962), (27 CFR, 1085), which embargoed all imports of Cuban origin.

The preference for Cuban sugar in the October 30, 1947 Agreement would come into effect automatically if Cuba were accorded MFN treatment again. MFN treatment could be accorded under title IV of the Trade Reform Act, if it is enacted, provided that Cuba can meet the relevant statutory criteria. Under this procedure Cuba would have to enter into a bilateral commercial agreement with the United States conforming with the terms of the Act, and Congress would have to concur in such an extension of MFN status to Cuba. Preference could also be granted by specific legislation for the purpose.

Any importation of Cuban sugar would require modification (by executive action) of the Cuban assets control regulations, which currently prohibit, inter alia, virtually any imports into the United States of Cuban Goods. These regulations are based on the Trading with the Enemy Act of 1917 rather than on Section 620(a)(1) of the Foreign Assistance Act (which authorizes an embargo on trade with Cuba); thus legislative action modifying that Section would not be required.

Should the United States revert to a system of country quotas for imports of sugar, the granting of a quota for imports of Cuban sugar would require the granting of a national interest waiver of Section 620(a)(2) of the Foreign Assistance Act.

Mr. VIGORITO. Mr. Denholm, do you have any questions?

Mr. DENHOLM. I have no questions of the witness, Mr. Chairman.

Mr. VIGORITO. I don't have any.

Mr. BERGLAND. Mr. Chairman?

Mr. VIGORITO. Mr. Bergland.

Mr. BERGLAND. Mr. Secretary, you are aware of the meeting in Mexico of 20 sugar-producing countries. They convened and reached some sort of understanding. What can you tell us about this?

Mr. KATZ. Well, we don't have a great deal of information about it. My understanding from information that I have received is that nothing conclusive was decided. Essentially, the meeting reviewed the world market situation, and agreed that they should continue in consultation and should hold a further meeting.

I am aware of the press reports distributed by at least one participant at the meeting, that they decided on defensive pricing measures, but we have no information to support that coming out of the meeting; and I am also aware of some denial of that statement.

Mr. BERGLAND. Do you have any idea of whether or not the pronouncement carried in the papers had any impact on world sugar pricing?

Mr. KATZ. I very much doubt it.

Mr. BERGLAND. Reference was made by the gentleman from New York, Mr. Peyser, to the extent to which the Arabs and Russians bought quantities of sugar. Would you care to comment on that statement and give us whatever it is you have from your records?

Mr. KATZ. Mr. Bergland, there was an interagency review of that question led by the Treasury Department, and the conclusion was that there was no evidence to support the conclusion that there was any unusual action. Now, obviously there has been an increase in imports by the Soviet Union as a result of shortages in production in the Soviet Union; and at the same time I think it is a fact that consumption is increasing, and imports are increasing into Arab countries. But there is nothing to suggest any collusive action to corner the world market, or to run up prices, or anything of that sort.

Mr. BERGLAND. It is your opinion, then, that these purchases represented a legitimate demand?

Mr. KATZ. Yes, sir; on the basis of all the evidence that I am aware of, I would say that it represents normal market behavior.

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

Mr. VIGORITO. Thank you, Mr. Secretary.

[The prepared statement of Julius L. Katz follows:]

STATEMENT OF JULIUS L. KATZ, DEPUTY ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Mr. Chairman, I appreciate this opportunity to appear before your subcommittee to discuss sugar marketing conditions since the defeat of the Sugar Act legislation in the House of Representatives last June. I propose in this statement to review recent developments concerning international trade in sugar.

But first, in order to understand the present situation, I think we need some historical perspective on sugar markets.

High prices in 1963-64, rising above 8 cents per pound, led to a considerable expansion of world sugar production from 52 million tons in 1963 to 64 million tons in 1965. This was followed by a period of severely depressed prices in the period 1965-68. World market prices hit a low of 1.86 cents per pound in 1966.

Although there was a moderate price recovery in 1969-70, until late 1971, many sugar producers feared a return to surplus conditions and lower prices.

While there has been a steady growth in world production, averaging 2.4 percent over the past 5 years, the increase has failed to keep pace with consumption.

During this period, consumption of sugar throughout the world increased 3.0 percent per year. The greatest growth in consumption took place in developing countries. While consumption in North America increased at an annual rate of 1.38 percent and European consumption at a rate of 2.5 percent, consumption in South America rose by 4.95 percent; Asian consumption by 5.0 percent and consumption in Africa by 6.15 percent.

Growth of domestic consumption in some of the major producing countries is striking. In the same 1969-1973 period, for example, Philippine consumption grew by 4.6 percent per year, Mexican by 4.5 percent, Brazilian by 5.1 percent and the Dominican Republic 6.6 percent.

In each of the past five years and six of the past seven years, world consumption has exceeded production with a consequent reduction in stocks. Based on the best information we have, it appears that world stocks as a percentage of consumption are now at their lowest level in the past twenty years. By August 31, 1974, world stocks were estimated at 18.8 percent of anticipated annual consumption. In absolute terms, in the past five years, stocks have been drawn down about 7 million tons, or 47 percent.

Developments in 1974

Against this background, it is easy to see why the market is sensitive to reports of production failures or downward revisions of crop estimates.

In 1974, we had an unusually large number of negative production situations which led to the spectacular developments we have been reflected in world market prices.

U.S. domestic production for the 1973/74 crop had declined by over 700,000 tons from the previous year and has remained low in 1974/75.

Plant pests and a dry spring resulted in a downward projection of 900,000 tons for the 1973/74 European crop and lower projections for the 1974/75 crop. The latest Licht estimate for the 1974/75 crop is 25.1 million metric tons, well below the 1973/74 figure of 27.1 million tons.

The Commonwealth Sugar Agreement began to break down and forced the United Kingdom on to the world market for a portion of its supplies.

Heavy rains throughout the USSR, Western and Eastern Europe from late September through mid-November made harvesting conditions unusually difficult and further reduced crop estimates.

Poland, the world's fifth largest sugar beet producer, banned further sugar exports on November 5 1974 affecting delivery of roughly 125-150,000 metric tons.

On November 8, 1974, President Marcos of the Philippines declared an embargo on sugar exports until typhoon damage could be assessed. This embargo lasted only two weeks, but it resulted in a shipping backup with over 20 vessels still waiting to load sugar at Philippine ports.

Apparently, greater than anticipated production shortfalls in the Soviet Union caused it to enter the world market.

These developments led to greatly heightened concerns on the part of importing countries as to where they could assure adequate supplies. These concerns were reflected in the world price of raw sugar which rose from 14 cents per pound in January 1974 to over 65 cents per pound in November. The U.S. domestic price has paralleled the world price, increasing from 12.63 cents per pound in January to 65.50 cents on November 20. Since then, both world and U.S. prices have declined to a level of about 50 cents per pound.

How have our imports responded to this world situation of short supply and high prices? They have increased substantially. Imports from our foreign suppliers as of November 30, 1974 are running 13.6 percent ahead of the same date last year. We have already received 5.3 million tons of sugar from abroad and expect 500-700,000 tons more in December. Most of our traditional foreign quota suppliers have responded very well to our needs for sugar in 1974. We have experienced no shortages.

I might contrast our situation to that of the United Kingdom. The U.K. preferential system attempts to fix prices to producers over an extended period of time. This year, the fixed price was initially established at 69 pounds sterling per metric ton and later raised to 83 pounds per ton. At the same time, the

world market price rose from just over 100 pounds per ton to over 600. What happened? Commonwealth suppliers simply refused to ship or delayed shipments to the U.K. and sugar disappeared from the grocery shelves. By September, the situation was so critical that the U.K. was forced to renegotiate prices with some suppliers and reach an agreement with the European Community to subsidize the importation of up to 700,000 tons of sugar from the world market, with an initial purchase of 200,000 tons already confirmed.

The Outlook

Over the next year or two, we see, at best, a very close balance between production and consumption with little accumulation of stocks above present low levels. For example, the latest Department of Agriculture estimate on world sugar production for the 1974/75 cycle is 80.9 million metric tons, while consumption is estimated at 81.0 million tons. At such a close balance, as we have seen in 1974, weather is a critical factor in the final performance of the market.

Over the longer period ahead, one would expect that present and prospective prices would provide the incentives to expand planting, milling and refining capacities. However, expansion will take time and money. Costs of sugar plants and equipment have shared in the general world inflation. The cost of a new project to produce 100,000 metric tons of cane sugar annually, is estimated at \$50 million or more. The investment incentive of high prices is reduced in those countries which control the producers' price for either domestic or export sales. Another factor is that the decision to expand sugar production will be made in the light of relative returns offered by other investment opportunities. As we have seen in the U.S., when the price of other crops reached record levels, beef sugar production dropped.

Imports in the Year Ahead

On November 18, President Ford announced a global import quota of 7 million tons in connection with action to maintain current, lower tariff rates in effect after the expiration of the Sugar Act. This global quota is open to any country which wants to ship to the U.S. market except Cuba.

I believe the U.S. market will continue to be very attractive to our traditional suppliers. Some of those who are now in a position to do so, will attempt to improve their market share. The incentives to ship to us remain high. We pay no less than the world market price for sugar.

The present uncertainty over the possible renewal of sugar legislation increases, rather than decreases, the attractiveness of our market in the short term. Countries who have in the past complained about our quota ceilings now have the opportunity to ship more and improve their record. We have informed our traditional foreign suppliers of the likelihood that their performance during this period would probably be taken into account by the Congress in quota allocations if the Congress should decide to introduce new sugar legislation at some future date.

The present market situation is the result of product and consumption trends which have been at work for many years. It is not a situation that can be changed overnight. Substantial new investment is required throughout the world to increase production to meet growing consumption and to restore stock levels. I believe that the shock of recent price developments has made this point clear to sugar producers as well as consumers, and we are beginning to see signs of increased interest in expanding production in a number of exporting countries.

Thank you, Mr. Chairman.

Mr. VIGORITO. Those are two bells, and I believe we are going to start a series of votes in the House. And we have one remaining witness. According to those bells, what that means, our first vote is 15 minutes duration, and succeeding votes will be in 5-minute intervals. So, that means the committee has to recess now until 10 o'clock tomorrow morning.

And either at 10 o'clock tomorrow, or at 2 o'clock Wednesday afternoon, we could have Mrs. Rohrbaugh back here for her statement. Is she here?

Mrs. ROHRBAUGH. Yes.

Mr. VIGORITO. Would that be satisfactory to you?

Mrs. ROHRBAUGH. Yes.

Mr. VIGORITO. You want to come tomorrow morning at 10?

Mrs. ROHRBAUGH. That will be fine.

Mr. VIGORITO. You will be the first witness. Thank you very much.

Mr. RAINBOLT. Mr. Chairman, we received from the Department a copy, upon our request for statistical information, and with your permission we can include that in the record.

Mr. VIGORITO. That will be included in lieu of the previous statement that we received.

The subcommittee is recessed until 10 a.m. tomorrow morning.

[Whereupon, at 4:20 p.m., the subcommittee adjourned, to reconvene at 10 a.m. Tuesday, December 10, 1974.]

[The following statement was submitted to the subcommittee:]

STATEMENT OF JOHN C. DATT, DIRECTOR, CONGRESSIONAL RELATIONS, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation appreciates this opportunity to comment on sugar prices. Farm Bureau's membership of 2.3 million families in 49 states and Puerto Rico includes sugarbeet and sugarcane producers in all domestic producing areas.

U.S. and world sugar prices reflect a number of complex factors not the least of which is inflation both domestically and worldwide. Unless this fundamental problem is corrected, more hearings of this kind will be held and symptoms will be treated while the economic well-being of farmers and consumers alike will continue to be eroded.

The highlights of the present sugar situation can be summarized as follows:

U.S. sugarbeet production for 1974 is forecast at 22.4 million tons, 9 percent below the 1973 and 21 percent below the 1972 record output. The reduction is attributable to acreage decreases and lower yields in key sugarbeet states. U.S. sugarcane production for 1974 is forecast at 25.3 million tons, 2 percent below the 1973 level. This reduction is attributable to yield reductions due to dry weather and the adverse effects of hurricane Carmen.

The United States produces about one-half of the sugar it consumes. The other half is supplied by friendly foreign countries. During the period 1948-1973, U.S. sugar prices exceeded world sugar prices in all but three years. In recent months, however, the world sugar supply-demand situation has changed, reversing the historical U.S.-world sugar price relationship. In effect, the U.S. is now on the world market for sugar.

U.S. demand for sugar is being buoyed by increased affluence and increases in the portion of the population that is 35 years and under in age. This group provides a very strong market for candy and soft drinks. Restricted use of artificial sweeteners has increased the demand for sugar for use in beverages which accounts for approximately one-third of all industrial sugar used. Additionally, the Food Stamp Program allows many families to purchase sugar-coated cereals and candy items not formerly available through the welfare programs.

World demand for sugar continues to increase as population, incomes, and living standards improve in developing countries. World sugar output has not kept pace with demand which has been estimated by some to be growing at a 3 percent annual rate. During the years 1971 and 1972, world output failed to increase and stocks were depleted in the face of rising demand. World prices have increased accordingly since that time. Furthermore, world sugarbeet production faces sharp competition from wheat and feed grains—in a protein-short world.

Other factors are perhaps even more fundamental than the foregoing to the current worldwide sugar supply-price situation. Most sugar is consumed in the countries where it is produced or in a preferential foreign market, with growers and processors normally receiving prices that are much higher than the world market price. Countries not self-sufficient in sugar, e.g., the United States, generally provide for the payment of minimum prices to growers of sugarcane and sugarbeets and impose some form of restrictions on imported sugar for the protection of their domestic growers and processors. This is done to encourage home production and thereby assure at least a portion of their requirements of this sensitive commodity regardless of international complications.

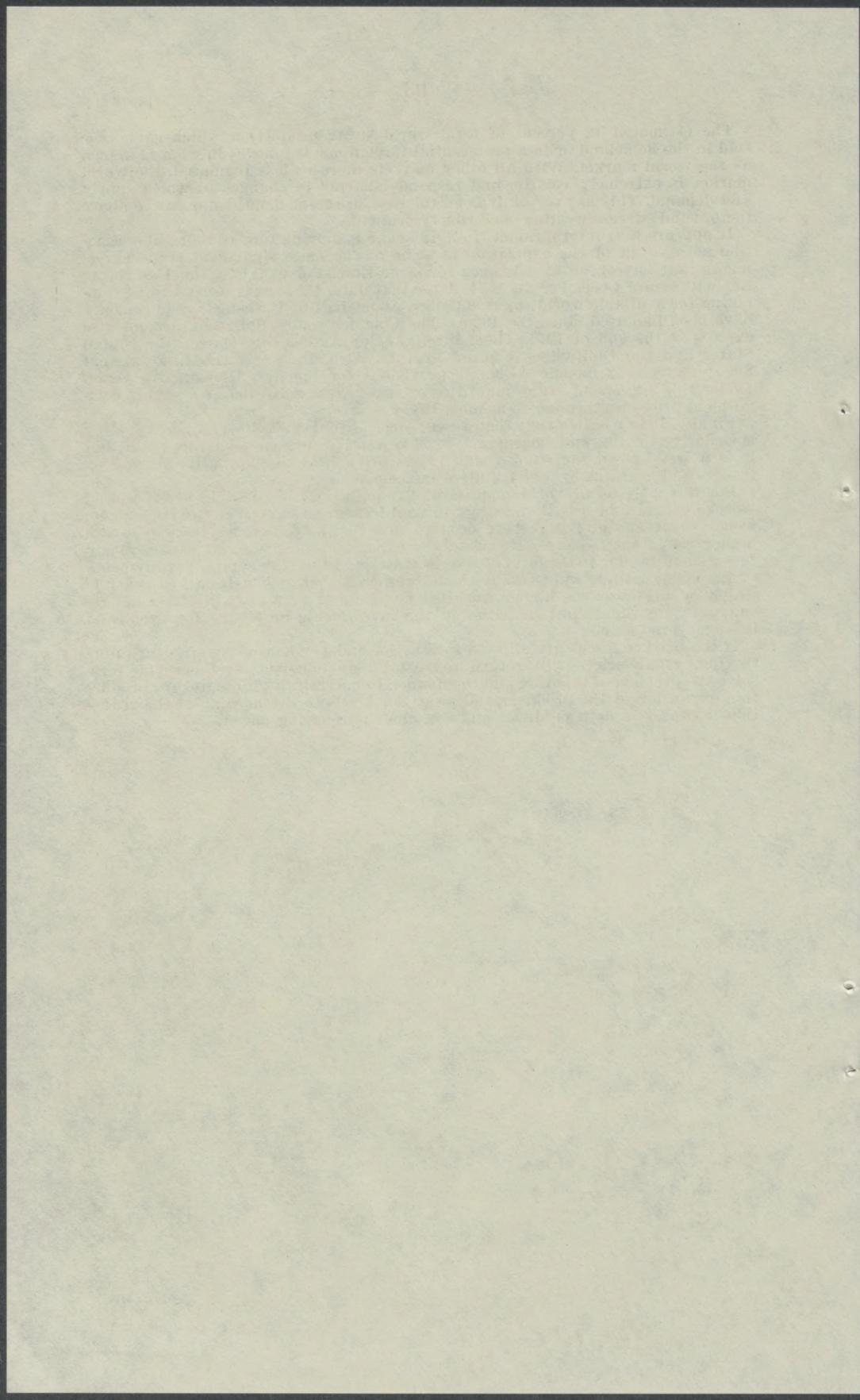
The estimated 12 percent of total world sugar production which cannot be sold in the homeland or in a preferential foreign market moves in what is known as the world market. With all other markets more or less regulated, the world market is extremely volatile and responds sharply to changes in world supply and demand. This has certainly been the case in recent months due to the above factors and adverse weather conditions worldwide.

It appears that international trade in sugar is moving toward more liberalization as a result of the expiration of some of the more significant trade agreements that have been in existence for some time. For example, the U.S. Sugar Act will expire December 31, 1974. After that date, U.S. sugar users will be competing for available world sugar supplies. About half of U.S. sugar requirements have been imported since the 1930's. The Commonwealth Sugar Agreement also expires at the end of 1974. The Laurel-Langley Agreement between the United States and the Philippines expired in July. Also, this year the International Sugar Agreement has no economic provisions for the first time in five years. Under this agreement large quantities of sugar were delivered at a supply commitment price on a member-to-member basis.

Finally, it is possible that the present sugar situation has been aggravated by speculative buying and hoarding. We have no firm evidence on this point, but it is a well-known fact that rising prices often lead to speculative buying by traders and hoarding by both handlers and consumers.

For the short term, world supplies will remain tight in the light of expanding world demand and less than adequate world sugar stocks. Over the longer run, world sugarcane and sugarbeet production will likely increase in response to higher world sugar prices. However, the expansion of sugar mill capacity may face difficulties due to the level of interest rates and the high capital requirements of the sugar milling industry. It should be noted that although mill capacity is presently adequate, the higher world sugar prices of 1972 and 1973 have not resulted in any significant increases in the investments necessary for expansion in sugar production.

If the market forces are allowed to function independent of government intervention, sugar prices will return to sustainable long-run levels provided we solve the problem of inflation and the financial uncertainties it creates for production expansion at the producer and processor levels to say nothing of the reduction it causes in both producer and consumer purchasing power.



EXAMINATION OF SUGAR MARKETING CONDITIONS SINCE DEFEAT OF SUGAR BILL

TUESDAY, DECEMBER 10, 1974

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

The subcommittee met, pursuant to recess, at 10:18 a.m., in room 1301, Longworth House Office Building, Hon. Joseph P. Vigorito (chairman of the subcommittee) presiding.

Present: Representatives Vigorito, Sisk, Denholm, Goodling, Findley, Symms, and Johnson.

Also present: Representatives Poage, de la Garza, Bergland, Zwach, Price, and Gunter.

Staff present: John O'Neal, general counsel; John Rainbolt, associate counsel; Hyde H. Murray, associate counsel; L. T. Easley, press assistant; Steve Allen, staff consultant; Perry Shaw, staff assistant; and Steve Pringle, staff consultant.

Mr. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations is now in session and we will proceed with hearing additional witnesses.

The first witness we have for today is carried over from yesterday because of lack of time. Mrs. Helen Rohrbaugh, Head of the Quota Section, Special Operations Branch of the Office of Operations of the U.S. Customs Service, Washington, D.C.

Mrs. Rohrbaugh, would you mind standing and taking the oath. I mentioned yesterday that everyone is going to be required to take this oath and I am not going to pick on any one individual, but to make it easier, why I think that everyone should. And would you raise your right hand, please.

Do you solemnly swear that the testimony that you are about to give to this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mrs. ROHRBAUGH. I do.

Mr. VIGORITO. Let the record show the witness is sworn in.

Thank you very much, and you may proceed.

**STATEMENT OF HELEN C. ROHRBAUGH, HEAD, QUOTA SECTION,
SPECIAL OPERATIONS BRANCH, OFFICE OF OPERATIONS, U.S.
CUSTOMS SERVICE, TREASURY DEPARTMENT, ACCOMPANIED BY
JOHN E. ELKINS, OFFICE OF CHIEF COUNSEL**

Mrs. ROHRBAUGH. I would like to say that accompanying me is John Elkins of our Chief Counsel's office.

Mr. Chairman, I appreciate the opportunity to appear before your subcommittee to explain customs administration of import quotas and the operational problems arising out of the absolute quota imposed on sugars, syrups, and molasses by Presidential Proclamation No. 4334.

The quota section of which I am head has a total of six employees and a computer, an IBM 1130 system. Data on all quotas is maintained in the computer. When a new quota is established, the files on the computer must be updated to accept it and thereafter reports of importations to be charged against that quota are fed into the computer. This information on quota merchandise is obtained from ports of entry across the country where the importations are made. Although we look forward to the time when input of this information will be done automatically through terminals in field offices, at the present time, this information comes telephonically and consequently all file input and file maintenance is the responsibility of the six people in our section.

In fiscal year 1974 we administered 698 tariff-rate and absolute quotas. The absolute quotas cover such items as raw cotton, textiles and textile products, and dairy products. As you may be aware, when a tariff-rate quota is filled, the rate of duty increases on importations of the commodity. When an absolute quota is filled, further importations of the commodity are prohibited.

I would like to give you some background on how absolute quotas are administered. Part 132 of the Customs Regulations, 19 Code of Federal Regulations part 132, sets forth in detail the procedures pertaining to merchandise subject to quotas. However, when a new quota is established the Quota Section of Customs in Washington must determine, draft, and issue instructions for field offices so that there will be proper control and enforcement of the provisions establishing the quotas.

Instructions are sent to all 44 Customs districts and, in turn, the Customs district offices advise the ports of entry for which they are responsible. Customs ports of entry now total nearly 300.

Quotas are administered on a first-come, first-served basis. Under the regulations, the factor that determines the quota status of merchandise subject to an absolute quota is the time of presentation of the entry or withdrawal from warehouse for consumption, which includes the entry or withdrawal document, invoices, and other required documents, in proper form to our Customs field office. The data and time of presentation is noted on the entry.

In most cases, the duty cannot be accepted and the merchandise released from Customs custody to the importer or his agent on entries covering absolute quota merchandise prior to approval by the Quota Section in Washington. Therefore, the field office must report receipt of the entry, giving the Tariff Schedule of the United States annotated item number, the quantity, and the country of manufacture or production. This is usually done by telephone and until a quota is close to being filled, immediate approval is given for its release insofar as quota is concerned. When the quota is close to being filled, we put the entry in a hold status for up to 24 hours to insure that there are no other entries which preceded it on that day.

Monthly press releases are prepared by our section and sent out to the public by our Public Information Division, Office of Administra-

tion. These press releases give the preliminary status of our quotas.

Merchandise in excess of an absolute quota may be entered into a Customs bonded warehouse, placed in a foreign trade zone, or exported.

Presidential Proclamation No. 4334 provides for a yearly absolute quota effective January 1, 1975, of 7 million short tons, raw value on all merchandise entered or withdrawn from warehouse, for consumption classifiable under items 155.20 and 155.30 (TSUS), Tariff Schedules of the United States, a product of a foreign country. Therefore, there appears to be one large quota for the year for all foreign countries, and one would assume this to be simple to administer. In fact, an absolute quota based on raw value introduces problems beyond our present capabilities.

Raw value is to be determined in the following manner, and I quote from the proclamation :

(i) For sugar described in item 155.20, by multiplying the number of pounds thereof by the greater of 0.93, or 1.07 less 0.0175 for each degree of polarization under 100 degrees (and fractions of a degree in proportion).

(ii) For sugar described in item 155.30, by multiplying the number of pounds of the total sugars thereof (the sum of the sucrose and reducing or invert sugars) by 1.07.

I think it is obvious that it will be impossible at the time of entry to know the quantity to be charged to the quota. Before the raw value can be determined, the import specialist will require the inspector's report as well as the chemist's report. In many ports Customs chemists are not available. I would also point out that experience has shown that in the past similar reports have taken many months to prepare because of the large workload in our laboratories. Should imports appear to be reaching the 7 million ton, raw value, we would have no way to determine when the quota filled.

Another operational burden is that determining the quantity chargeable to the quota will be a special computation required for quota purposes only.

It appears our Quota Section could be working with two different figures for each entry, an estimate at the time of entry, followed up later by the actual quantity to be charged to the quota. This will require much additional work, and will be beyond the present programming of our computer and the capacity of our present staff.

Solutions to the problems I have recounted are under consideration. Our goal is to have instructions ready to send to our field offices and interested parties by December 18.

Thank you for your consideration. I will be pleased to answer any questions the committee may have.

Mr. VIGORITO. Thank you very much for your statement. You have brought my attention to a small group in Customs that I did not know existed. I was just wondering how long this information has been compiled. It seems to me that you are going to need some more help or a better way of feeding this information into your unit than merely by picking up the telephone and having 44 different offices call that in, or is it 300?

Mrs. ROHRBAUGH. It could be 300, but you must remember that most ports of entry only have certain commodities, so it will not be all ports of entry, sir.

Mr. VIGORITO. Now, do you handle all of the commodities that come into the country?

Mrs. ROHRBAUGH. Only those subject to the quotas that we administer. There are quotas administered by other Government agencies. For instance, you have sugar quotas, and that is administered by the Department of Agriculture this year and in previous years. We have not been involved in those quotas.

You might say how do we know which quotas we administer and which quotas other Government agencies administer. We tell this by the proclamation or by the legislation that is passed or comes to us. If there is no provision in there for licenses to be issued for authority for importation, then Customs assumes the responsibility.

Mr. VIGORITO. How many different types of quotas are there?

Mrs. ROHRBAUGH. There are just two types the way we put it, the tariff rate quota on which there is no limit on the quantity that enters the United States, but after it reaches a certain quantity the duty rate changes, and then there are the absolute quotas that are absolute, quantitative. After that quantity is reached, no more may enter. The bulk of our program now is under the textile program, and I do not know whether you are familiar with that or not. But I would say about 300 of our quotas—the 500 figure that I gave you represents what we call quantities that we need to administer.

Mr. VIGORITO. That makes a lot of items that you have to handle. Has your division requested additional funds to implement the complete automation of this information gathering?

Mrs. ROHRBAUGH. Sir, we are working on a more complete automated procedure right now. We are in the process of doing this.

Mr. VIGORITO. Suppose that there is a shipload of merchandise coming to the United States and before it leaves its port in Europe, we will say, the quota, the absolute quota has not been filled, but by the time it gets to New York the absolute quota is filled. Does that situation occur?

Mrs. ROHRBAUGH. It has occurred, yes, it has, and the merchandise may not enter until the opening of a quota period.

Mr. VIGORITO. What would they do in that situation, put it in a bonded warehouse?

Mrs. ROHRBAUGH. A customs bonded warehouse or a foreign trade zone or export it.

Mr. VIGORITO. Mr. Denholm, do you have any questions?

Mr. DENHOLM. Thank you, Mr. Chairman.

How long have you been associated with and employed by the Treasury Department?

Mrs. ROHRBAUGH. I have been in the Quota Section since 1961. I have headed the Section since 1965.

Mr. DENHOLM. Now, the Sugar Act was first enacted some 40 years ago or thereabouts, was it not?

Mrs. ROHRBAUGH. We do not administer the Sugar Act, sir.

Mr. DENHOLM. But you do administer imports, do you not?

Mrs. ROHRBAUGH. We only get involved in imports when it is subject to quotas that our section administers. Our section does not administer the sugar quota. Our field offices, excuse me, let me explain something here if I may, our field offices are involved in the sugar program, but this is directly at the ports of entry. And this is where

the Agriculture Department sends the authorization for release under the sugar quotas. I believe it is a form SU 3. This is sent directly to our ports of entry, but insofar as our Section here at headquarters, U.S. Customs Service is concerned, we are not involved in those importations.

Mr. DENHOLM. Well, the imports and quotas under the Sugar Act that are assigned foreign countries must enter through Customs, do they not?

Mrs. ROHRBAUGH. That is right, sir.

Mr. DENHOLM. Do you know what the experience has been as to whether those quotas have been reasonably fulfilled or have they been abused?

Mrs. ROHRBAUGH. Sir, we are not in the administration of the sugar quotas. This is the U.S. Department of Agriculture.

Mr. DENHOLM. Can you answer the question?

Mrs. ROHRBAUGH. I cannot answer the question. I'm sorry.

Mr. DENHOLM. Well, what is the purpose of your testimony? What are you attempting to do here today?

Mrs. ROHRBAUGH. I believe the reason I was asked to appear today was to explain how the quotas will be administered under the proclamation beginning January 1 of 1975.

Mr. DENHOLM. I am not clear as to what is going to be different, as to how they are going to be administered. They are still going to be entered through Customs, are they not?

Mrs. ROHRBAUGH. They will be, but there will be no form required for authorization.

Mr. DENHOLM. I don't understand.

Mrs. ROHRBAUGH. Under the Sugar Act, in order for anybody to bring sugar into the United States it must be authorized by the U.S. Department of Agriculture.

Mr. DENHOLM. I understand that.

Mrs. ROHRBAUGH. Beginning January 1, 1975, this authorization is no longer required. All that is necessary is for the sugar to arrive at the port of entry, and for them to make an entry for it, and it will be charged against this 7 million tons as provided for in the proclamation.

Mr. DENHOLM. I am having difficulty in hearing your response—perhaps you will speak into the microphone.

Mrs. ROHRBAUGH. Yes, sir.

Mr. DENHOLM. Well, pursuant to the proclamation there is to be a change in the control of imports of raw sugar after January 1 of 1975?

Mrs. ROHRBAUGH. Yes, sir. The U.S. Department of Agriculture, I understand, will no longer be involved in the administration of sugar quotas. There is no provision in the proclamation requiring that an authorization be issued by Agriculture for the administration of sugar in the United States and therefore, the U.S. Customs Service has the responsibility of administering the quota.

Mr. DENHOLM. Is it your testimony that you do not know how much sugar has been imported in the past?

Mrs. ROHRBAUGH. At the present time, no, we have no idea.

Mr. DENHOLM. Will you know in the future?

Mrs. ROHRBAUGH. In the future, beginning January 1, we will know how much comes in.

Mr. DENHOLM. Who knows how much has been imported in the past?

Mrs. ROHRBAUGH. I would think the U.S. Department of Agriculture since they have the responsibility for administering the quotas.

Mr. DENHOLM. Very well. Thank you, Mr. Chairman.

Mr. VIGORITO. Presidential Proclamation No. 4334, that deals only with sugar, sirups, and molasses?

Mrs. ROHRBAUGH. Only those commodities that are classifiable under 155.20 and 155.30, and they will be the ones that will be subject to the quota of 7 million.

Mr. VIGORITO. And that is the sugar products that I have just mentioned?

Mrs. ROHRBAUGH. That is right.

Mr. VIGORITO. Mr. Goodling?

Mr. GOODLING. No questions, Mr. Chairman.

Mr. VIGORITO. Mr. Findley?

Mr. FINDLEY. Mrs. Rohrbaugh, as I understand the President's motivation in setting the absolute quota where he did, he selected a figure very substantially above the amount that could be expected to be imported. Is that a fair statement?

Mrs. ROHRBAUGH. That is correct. That is what I understand, what has been told to me. I have also inquired, and I think testimony was also given here yesterday, that around 5.4 to 8 million have come in in the last couple of years.

Mr. FINDLEY. And so that 7 is so substantially above the absolute quota limit that your Section's problems are, therefore, reduced at least compared with what they would be if a quota had been set close to the expected import volume?

Mrs. ROHRBAUGH. You are correct. There would not be the urgency that would be needed otherwise.

Mr. FINDLEY. Would it be to your advantage to have the quota—the absolute quota figure—set even higher?

Mrs. ROHRBAUGH. We would probably know that by the middle of next year. At this point, I am not sure. We do not know what the trend will be in 1975.

Mr. FINDLEY. If there is some doubt in your mind, perhaps one service this subcommittee could render would be to recommend to the President that an amended quota proclamation be issued, if that is possible within the law, setting the absolute quota at a still higher figure. Do you have any comment on that? I realize that you are not in the position of giving advice to the President, but if you faced a serious administrative problem because the quota is too close to the expected level of imports, I wish you would tell us.

Mrs. ROHRBAUGH. Well, really I do not know what to expect next year. I do not know whether because the Sugar Act has not been extended, there will be an influx—whether there is even the sugar on the world market. I do not know, so I cannot tell you whether the 7 million should be higher. I am sorry, sir.

Mr. FINDLEY. But based on past experience, it would seem to be a sufficiently high amount to pose no administrative difficulties?

Mrs. ROHRBAUGH. Yes.

Mr. FINDLEY. Thank you, Mr. Chariman.

Mr. VIGORITO. Mr. Johnson?

Mr. JOHNSON. No questions, Mr. Chairman.

Mr. VIGORITO. Mr. Symms?

Mr. SYMMS. No questions, Mr. Chairman.

Mr. VIGORITO. Mr. Bergland, do you have questions?

Mr. BERGLAND. No.

Mr. VIGORITO. We wish to thank you very much for your statement. I have learned a little more. Every day I learn a little more. Thank you.

Mrs. ROHRBAUGH. Thank you.

Mr. VIGORITO. I wish to make the statement at this time that after the subcommittee gets a chance to digest some of this material that has been presented yesterday and will be presented today and in the future, I may call back some of the witnesses to explain some items in more detail, so do not be surprised if you get called.

We have two groups of witnesses for the balance of this morning. One is the sugarcane and then the sugar beet, and what I think I would like to do is to have Mr. Godfrey of the American Sugar Cane League and the Florida Sugar Cane League and Mr. Donald P. Falconer, the vice president of the C & H Sugar Co. They are all sugarcane. We will have all of the sugarcane people come first, and then the sugar beet growers. We will have you present your testimony first, and then we will ask questions on the sugarcane of it. So will the gentlemen that I called please come forward. And if you have anyone accompanying you, why they can come forward at the same time.

All right, will you gentlemen from the left, will you introduce yourselves and go right through.

Mr. GODFREY. I am Horace Godfrey.

Mr. FALCONER. I am Donald P. Falconer.

Mr. MORGAN. Francis S. Morgan.

Mr. SULLIVAN. Roger Sullivan.

Mr. JAEGER. Joseph Jaeger.

Mr. VIGORITO. Will you gentlemen be kind enough to raise your right hand? Do you solemnly swear that the testimony that you are about to give this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

[I do, from all]

Mr. VIGORITO. Let the record show the witnesses have been sworn in. Please be seated, gentlemen, and I assume the first statement is Mr. Godfrey, I believe. You have the first statement.

STATEMENT OF HORACE GODFREY, VICE PRESIDENT, AMERICAN SUGAR CANE LEAGUE AND FLORIDA SUGAR CANE LEAGUE

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

I am Horace D. Godfrey and I appear today on behalf of three organizations: (1) the American Sugar Cane League, which is an organization of Louisiana sugarcane growers and processors; (2) the Florida Sugar Cane League, an organization of Florida sugarcane growers and processors; and (3) the Rio Grande Valley Sugar Growers, Inc., of Texas. I do not speak on behalf of any sugarcane refiners.

Florida, Louisiana, and Texas are the only States that grow sugarcane for sugar in the mainland United States. Florida's normal production, under favorable conditions, would be 900,000 tons of raw

sugar. This year's production under some unfavorable conditions should be in the range of 840,000-860,000 tons. Louisiana's production under normal growing conditions would be approximately 700,000 tons, but this year, because of Hurricane Carmen and drought conditions, the production will be in the neighborhood of 750,000-585,000 tons of raw sugar.

If I may, Mr. Chairman, I would insert here that this may be reduced because of some recent freezes in the Louisiana area. Texas is producing its second crop, and if favorable harvesting conditions continue throughout the harvest, they should produce 100,000 tons of raw sugar.

Raw cane sugar produced in the United States does not establish the market price. The market price is established in New York by the spot market committee on a daily basis. The daily spot market price is generally established on the basis of prices paid for imported sugar. Raw sugar produced in the three States is sold under various pricing arrangements on the basis of the daily spot market price. We, as domestic producers, therefore, do not make the market, but follow the market.

Raw sugar is sold by processors under several contractual arrangements. For example, processors in Louisiana sell generally under five different pricing arrangements.

1. *Seasons average.*—Simple average of market price (daily spot prices) (1) from October 5, 1973, through April 11, 1974, for 1973 crop and (2) from October 4, 1974, through April 10, 1975, for 1974 crop.

2. *Weekly.*—Average of daily spot prices during week sugar was shipped or delivered.

3. *Delivered average.*—Weighted average price determined by weighting (1) average daily spot prices during October, November, and December by amount of sugar sold during that period and (2) average daily spot prices during January and February by amount of sugar sold in that period.

4. *Fixed or futures.*—A predetermined price through use of futures market or otherwise.

5. *Monthly.*—Average of daily spot prices during month of shipment.

For the 1973 Louisiana crop which was harvested during October, November, and December 1973, all except two processors, had completed the marketing of their sugar by April 1974. The other two processors, farmer co-ops, completed their marketing in August and September 1974. The average price received for sugar other than the two co-ops was approximately 12 cents per pound. For the two co-ops, the average price was around 22 cents per pound. Therefore, Louisiana growers and processors are not responsible for, nor have they benefited from, the increased price for sugar. Louisiana began its 1974 harvest in mid-October and data is not now available on average prices for the 1974 crop, and will not be available until the pricing period expires, which for some mills will be the first of April.

The 1973-1974 Florida crop was harvested during the period November 1973 to April 1974. The basis of pricing of most of Florida raws is the New York or New Orleans spot quotations for 96-degree sugar averaged over a period of time—usually the month of delivery.

However, some contracts contain what is known as a "call" provision which permits the buyer, at his option, to price a certain percentage of the sugar to be delivered in a given month on the basis of the spot. This removes the sugar that is "called" from the average pricing for the month.

The average price received for 1973-74 crop Florida sugar on which all deliveries were completed in October 1974 was 19.72 cents per pound. The harvesting of the 1974-75 crop of sugar in Florida began about 3 weeks ago and will continue until April 1975.

The Texas harvest was begun in December 1973 and completed in March 1974. Their pricing arrangement is an average of the daily spot prices for the week that delivery is made, and average price for their 1973 crop upon which delivery was completed in May was 19.19 cents per pound. The harvest of the 1974-75 crop for Texas began early last month and will continue into March or April 1975.

It can readily be seen from what I have stated that we are not market makers, but rather, follow the market.

I am sure the question arises in the minds of consumers as to why sugar prices have escalated. The Economic Research Service of the USDA stated in its quarterly publication for November of this year in response to the question, "Why are sugar prices so high?":

There are several reasons why both U.S. and world sugar prices are currently so high. The current world output estimate is about a million and a half tons less than an earlier forecast.

Carry-in sugar stocks were only about 19 percent of the 1973/74 crop, and appear likely to comprise only about a fifth of the 1974/75 crop, exerting considerable pressure in a tight market. To substantially decrease current price pressures, carry-in stocks would need to increase to about 25 to 30 percent of world production.

While it was earlier thought that some industrial users in the United States may have been stockpiling some sugar in anticipation of even higher sugar prices later, there is little if any evidence of industrial user stockpiling by larger industrial users, but there is some evidence of slightly larger inventories being carried by smaller industrial users. Household users may have been purchasing more sugar than usual. Some may have been purchased to build up household inventories in an attempt to partly offset anticipated higher food prices, higher than usual. It also appears that householders may be reacting by canning more sugar-containing fruits and preserves this year than usual.

The Department publication continues:

Aggressive purchases of sugar by certain Middle Eastern oil producing countries may have had some impact on keeping sugar prices high, but it is difficult to measure the exact impact. Speculation in the spot and futures market may also partly help explain current high sugar prices.

Another factor is that apparently rising U.S. sugar prices did not discourage U.S. sugar consumption significantly until about September 1.

From this analysis it is clear that a major part of the price increase is due in fact to a scarcity or an inadequate supply of sugar. Why then do we have an inadequate amount of sugar? Basically, production has not kept up with increased consumption because capital returns for the production of sugar have not, over a period of years been adequate to encourage expanded production. As Secretary Butz and others have said many times—the cure for high prices created by inadequate supplies is increased production. It must be pointed out that increases in production of cane sugar will require large investments. Investors are hesitant about making these tremendous investments under existing circumstances. Prospective investors in new facilities to handle ex-

panded production are not influenced as much by present prices as they are by price projections for a period of years beginning 3 years from now, because it takes that long to build a processing plant. An investor starting now would need 3 years to complete a sugar processing mill, and capital investment in excess of \$60 million. Such a mill could handle from 7,500 to 10,000 tons of cane per 24-hour day, which could produce approximately 100,000 tons of sugar per year.

In addition to cost involved in the construction of a processing mill, we must find ways to encourage the expansion of acreage by growers. This will be difficult since growers have been beset by many problems in the production of cane. Cost of production inputs as fertilizer, machinery, fuel, and herbicides have more than doubled in the last year, along with increased wage rates.

Additional expenditures are necessitated by requirements of the Federal Power Commission that existing Louisiana sugar mills install alternate fuel capabilities for their boiler fuel. In Florida, Louisiana, and Texas, plant changes to comply with clean air, water, and OSHA requirements are requiring enormous amounts of capital.

Currently the Louisiana crop is endangered by natural gas curtailments. Operators of processing mills have been turned down by the Federal Power Commission on a petition for extraordinary relief from a gas curtailment order. Unless permission is granted to continue to use natural gas for processing under emergency procedures, they will not be able to harvest as much as one-half of the crop of those mills affected, which results in one-fourth of the entire State crop. This would be disastrous and would further increase prices for sugar.

Furthermore, although Florida has suitable climate and soil to increase production, production increases are being impeded by attempts to remove sizable acreage by rezoning for questionable recreational purposes.

These are just a few examples of the obstacles facing Florida, Louisiana, and Texas growers. We must find ways to solve these if production is to increase.

Mr. Chairman, I will be glad to respond to your questions.

Mr. VIGORITO. As I mentioned, we will hear all of the evidence first, and then we will have our questions. so now Mr. Donald Falconer, please, vice president of C & H Sugar Co.

STATEMENT OF DONALD P. FALCONER, VICE PRESIDENT, SECRETARY, AND GENERAL COUNSEL, CALIFORNIA AND HAWAIIAN SUGAR CO., ACCOMPANIED BY FRANCIS S. MORGAN, PRESIDENT, HAWAIIAN SUGAR PLANTERS ASSOCIATION; ROGER H. SULLIVAN, VICE PRESIDENT, HAWAIIAN SUGAR PLANTERS ASSOCIATION; AND JOSEPH C. JAEGER, C & H CONTROLLER

Mr. FALCONER. Mr. Chairman, and members of the committee, my name is Donald Falconer. I am vice president, secretary, and general counsel of California & Hawaiian Sugar Co., usually called C & H. I am accompanied by Francis S. Morgan, president of the Hawaiian Sugar Planters' Association, Roger H. Sullivan, vice president of the Hawaiian Sugar Planters' Association and its Washington representative, and by Joseph C. Jaeger, C & H controller.

On November 25 of this year Mr. James H. Marshall, C & H's president, presented a statement dealing with the sugar situation to the Council on Wage and Price Stability. The present statement substantially reiterates Mr. Marshall's earlier remarks.

C and H is the agricultural marketing cooperative of the Hawaiian sugarcane growers. All of the raw sugar produced in Hawaii, approximately 1,100,000 tons per year, is delivered to C & H for marketing. C & H operates a major canesugar refinery at Crockett, Calif. Approximately 850,000 tons of Hawaii's raw sugar is delivered to our Crockett plant for refining and marketing as refined sugar. The balance of Hawaii's raw sugar is sold by C & H to canesugar refiners located along the gulf and east coasts of the United States. Because C & H is responsible for marketing Hawaiian's raw and refined sugar, and because our interests and those of the Hawaiian sugar growers are one and the same, I appear today as spokesman for the Hawaiian sugar growers.

I believe some background about the Hawaiian sugar industry is relevant to this hearing. Hawaii is this country's most important sugar-producing State. About 10 percent of all sugar consumed in the United States is grown in Hawaii. Hawaii is a natural and efficient producer of sugar. Its production of sugar per acre-year is among the highest in the world.

Sugar is Hawaii's most important export and one of the mainstays of its economy. Hawaii's sugar workers, both field and factory, work under union contract and union conditions. The workers in Hawaii's sugar fields are the highest paid in the world. They, unlike agricultural employees in many other parts of the country, have the opportunity to enjoy year-round employment. Largely because of the superior conditions enjoyed by Hawaii's sugar workers, the growing of sugar in Hawaii is highly capital intensive.

Although Hawaii has important advantages as a sugar producer, it is also subject to important disabilities. Being located more than 2,000 miles from the west coast, its sugar must bear a heavy transportation cost before reaching market. Although its natural market is the west coast of the mainland, the Western United States is where most of the country's beet sugar is grown, and is therefore an area of substantial surplus sugar production. We not only have to move our sugar from Hawaii to California for refining; we have to move much of it as far east as the Mississippi River in order to sell it.

To understand the pricing of sugar one must understand the relationship between the price of raw sugar and the price of refined sugar. It takes about 108 pounds of raw sugar to produce 100 pounds of refined sugar. Most of the value of refined sugar is contributed by the value of the raw sugar required for its production. In discussing the pricing of sugar it is most important, therefore, to understand the forces that determine the price of raw sugar.

Raw sugar is a commodity which is traded all over the world. In 4 of the last 5 years the world's consumption of sugar has outstripped its production. As the emerging nations have increased their aspirations, and as the population of the world has increased, so has the demand for sugar increased. The excess of consumption over production in recent years has resulted in a steady reduction of inventories, to the point where present inventory levels in the world, coupled with

present levels of production, are unable to maintain supplies at price levels which we are used to thinking of as normal.

The United States is not self-sufficient in sugar. Somewhat as with oil, we must depend on imports in order to meet our needs. In the case of sugar we must import more than 40 percent of our requirements. Our imports this year will be about 51 percent of our consumption. Until recently, because of the operations of the Sugar Act, the U.S. market for sugar was substantially insulated from the world market for sugar. But in late 1973 the administration proposed amendments to the Sugar Act to the end that our requirements for imported sugar would be bought on the world market and at world prices.

In June of this year the House of Representatives voted down a proposed extension of the Sugar Act and effectively committed this country to a policy of securing its sugar supplies on the world market. In my opinion, they couldn't have chosen a more inappropriate time to make such a decision. Although the distinguished chairman of the House Committee on Agriculture warned the House that its decision would mean 75-cent sugar, the decision was made to buy America's requirements of foreign sugar on a world market where sugar was in tight supply and at record prices.

C & H is an important seller of raw sugar. Our policy is to sell our sugar at market prices. But the market in which we sell is not a market in which we have any significant price influence. We take the market as we find it.

As I remarked before, Hawaii's policy for many years has been to sell the major part of its production as refined sugar. In marketing refined sugar a refiner has to recover his costs for raw sugar, his refining costs, his packaging costs, his inventory costs, the cost of transporting the refined sugar to market, and several other costs which I have probably overlooked. If the industry is to survive, the refiner's margin must cover these costs and provide a reasonable return on invested capital.

I have prepared, and there is attached to this statement, a tabulation which shows what has happened to the refiner's margin on the Pacific coast during the years 1960 through 1973. May I emphasize that this tabulation is based on data furnished by the Department of Agriculture.

Although the period from 1960 through 1973 was generally a period of inflation, and although the New York spot price for raw sugar almost doubled during this period, the refiner's margin remained almost level from beginning to end. In fact, from the refiners point of view, it was worse than that, it declined. The margin in 1960 was \$2.66 per hundred pounds; the margin in 1973 was \$2.09 per hundred pounds. If the refiner's margin is stated as a percentage of the wholesale refined price, the decline is even more striking. In 1960 the west coast refiner's margin amounted to 30 percent of the wholesale price; in 1973 the margin had declined to 17 percent.

What has happened in 1974? Although the refiner's margin showed some increase during the earlier months of the year, during the third quarter the margin declined to as low as 55 cents per hundredweight, and during the month of November the wholesale price of refined sugar on the Pacific coast has actually shown a negative margin of \$4.55 per hundredweight. In other words, we have been selling refined sugar for substantially less than the value of its raw material.

I can perhaps best dramatize the relationship between C & H's refined sugar experience during 1974 and raw sugar values by saying that we realized \$20,500,000 less on our refined sales during the first 9 months of 1974 than we would have realized had the sugar been sold as raw sugar.

We have accepted these lesser returns as a matter of policy because of our commitment to the refined sugar business. I think these relationships make clear, however, that the problems associated with the pricing of sugar are not to be found in any dissection of refined sugar pricing. The difficulties lie in the raw sugar market and in America's present dependence on a world raw sugar market in which demand is high and supplies are tight.

The Hawaiian sugar producers share with this committee an acute interest in seeing what can be done to restore sugar prices to normal levels. What is needed is increased production of sugar in the world. Those things which will contribute to increased production will contribute to the solution of the problem.

One thing which will promote increased production is to allow the market to work. In the San Francisco Chronicle of Friday, November 22, 1974, there appeared an Associated Press story reporting that California sugarbeet growers will increase their plantings of sugarbeets by 80,000 acres above their 1974 plantings of 230,000 acres. This is a direct response to high prices, and is the kind of a response which, if followed by other sugar producing areas, will bring about a correction.

I would note that the response of the California sugarbeet growers to the continuation of price controls on sugar into 1974 was to reduce the acreage planted to sugarbeets in that year over 50,000 acres. This recent experience should teach us that imposed controls are no cure, but rather make the problem more severe.

Another contribution toward an increased supply of sugar for the U.S. market, would be the reenactment of a Sugar Act on terms that would encourage the production of additional sugar for this market, both by foreign and domestic producers. The production of sugar requires heavy capital investment. Although present sugar prices are high, there is a widespread conviction in the industry that the world price for sugar is unreliable, volatile, and subject to precipitous change. This conviction discourages investment and prevents the expansion of production.

A Sugar Act extension for a term of not less than 5 years, with reasonable guarantees of access to the American market, with reasonable assurances as to price, and with clearly assigned supply responsibilities, could bring about a supply of sugar for this market which would permit our needs to be met at reasonable costs. It is my conviction that this would be an important contribution toward a solution. What we need is more sugar, and what we should be thinking about are ways to increase the supplies of sugar for this market. The Hawaiian sugar producers support the enactment of new sugar legislation meeting the standards just suggested.

Thank you for your attention.

PACIFIC COAST REFINERS' MARGIN

[Dollars per hundred pounds]

Year	Raw price ¹	Quoted wholesale price Pacific ²	Refiners' margin	
			Amount	Percent ³
1960.....	\$6.30	\$8.96	\$2.66	29.7
1961.....	6.30	8.84	2.54	28.7
1962.....	6.45	9.07	2.62	28.9
1963.....	8.18	10.71	2.53	23.6
1964.....	6.90	9.85	2.95	29.9
1965.....	6.75	9.24	2.49	26.9
1966.....	6.99	9.55	2.56	26.8
1967.....	7.28	10.11	2.83	28.0
1968.....	7.52	10.35	2.83	27.3
1969.....	7.75	10.14	2.39	23.6
1970.....	8.07	10.79	2.72	25.2
1971.....	8.52	11.37	2.85	25.1
1972.....	9.09	11.65	2.56	22.0
1973.....	10.29	12.38	2.09	16.9
1974:				
January.....	12.63	14.81	2.18	14.7
February.....	17.09	19.06	1.97	10.3
March.....	18.11	22.51	4.40	19.5
April.....	19.25	23.80	4.55	19.1
May.....	23.05	27.56	4.51	16.4
June.....	26.30	30.01	3.71	12.4
July.....	28.35	30.65	2.30	7.5
August.....	32.60	33.15	.55	1.7
September.....	33.71	35.00	1.29	3.7
October.....	38.83	41.61	2.78	6.7
November.....	57.30	452.75	(4.55)	(8.6)

¹ Spot prices, New York Coffee and Sugar Exchange. Includes cost, insurance, and freight to New York and duty of \$0.50 in 1969 and \$0.625 in other years.

² Basis price for cane sugar in 100-lb bags. Includes excise tax (\$0.535 until reduced to \$0.53 by Presidential proclamation on August 31, 1963).

³ Percentage of quoted wholesale price.

⁴ Estimated.

Source: U.S. Department of Agriculture, "Sugar Statistics and Sugar Reports"

[San Francisco Chronicle, Nov. 22, 1974]

SUGAR BEET PLANTING SURGE

FRESNO.—California growers, spurred by soaring prices, say they will plant as many sugar beets next year as available factories can process.

They will push plantings 80,000 acres above this year's 230,000 acres, but that is the maximum processors can handle, said Malcolm Young, executive manager of the California Beet Growers Association.

Factories have not expanded markedly in recently years because of low profits, and many growers converted acreage to cotton or beans when prices bottomed at 13 cents a pound last year, he explained at a news conference before a district association meeting here.

With the price now above 60 cents a pound and likely to continue up beyond 70 cents, those growers are expected to return to sugar beets in 1975, Young said.

"Companies have been offered more acres next year than they can take," he said.

But growers, like consumers, are "alarmed" at the surge in sugar prices because it will reduce purchases by housewives and hurt small bakers and confectioners, said Young and state president Robert Hart.

They said the price boosts are being caused by Congress' defeat of the Sugar Act, which turned foreign supplies to the world market because their U.S. market no longer was certain; depletion of reserves by one million tons each year with a projection of a 14 million-ton carryover this year; and blight and rain that damaged the European and Russian crops this fall.

"I think eventually world production will go up and prices down, but I don't look for lower prices immediately," Hart said.

Mr. VIGORITO. Mr. Falconer, just briefly go over the statement so that it brings to everybody's attention your refiners' margin, and point out some highlights in your four columns there.

Mr. FALCONER. Yes, sir. This is a tabulation of the refiners margin as reflected on the Pacific coast during the period 1960 and we extended it on into 1974. The price for raw sugar in 1960, and this is an average price, this spot prices as quoted on the New York Stock Exchange by the stock committee of that exchange was \$6.30 for 1960. The wholesale refined price on the Pacific coast was \$8.96. That was the average price for 1960. It showed a refiners' margin, that being the difference between those two prices of \$2.66. The magnitude of that difference, stated as a percentage of the wholesale price was 29.7 percent.

Mr. VIGORITO. That percentage has been constantly decreasing?

Mr. FALCONER. Yes. That absolute amount of that difference stayed substantially stable with a slight decline on through 1971, 1972, and then dropped somewhat into 1973 down to \$2.09, this during a period while the absolute level of the price was going up, and the absolute amount of the difference was staying constant.

The data showing the situation for November, which was the last I have, shows that our prices, the west coast refined wholesale price was at that time less than the quoted price for raw sugar, and I might make the point that this difference, this \$4.50 difference does not take into account the loss in refining.

This \$52.75 is the price for 100 pounds of refined sugar. The \$57.30 shows the price for raw sugar which is the price for 100 pounds of 96 degree raw sugar. It takes about 108 pounds of that kind of sugar to produce the 100 pounds of refined sugar. So the magnitude of the difference is substantially greater than indicated in this tabulation. That just computes the difference, not quoted prices, but they are prices on different things, and they do not wholly correspond to each other.

Mr. VIGORITO. Everyone keeps coming here and saying they do not have any influence on price. Who does have influence on the price, do you know?

Mr. FALCONER. Well, we are dealing with a fungible commodity first of all. I think that is basic to the answer. All producers of refined sugar are able to produce a good product. There are consumer preferences brand to brand and type to type, but substantially all of them meet the same specifications. You have almost a classical situation for pure competition. In the west coast, as I mentioned in my statement, there is a substantial increase, a substantial surplus of sugar produced in that area as against the sugar consumed in that area. The most attractive market for sellers of sugar is the market closest to home, and there is active price competition in that market to make deliveries in the home market.

Certainly in some sense all sellers and all buyers make the market. It is the conflux of all of those influences that my opinion is responsible for the market that is established.

Mr. VIGORITO. Do you think, and either one of you gentlemen can answer this, or both answer it, do you think any actions of the administration in the last 18 months have had any bearing on sugar prices?

Mr. GODFREY. Mr. Chairman, I very definitely think that the actions of the administration have had a serious impact on sugar prices. For the members of the committee who do not know my background, I might state, as Mr. Findley pointed out yesterday, I served as

Administrator of the ASCS, the position currently held by Mr. Frick for 8 years, and had the responsibility for the sugar program. Mr. Myers and Mr. Murphy both served under me in charge of the sugar division. Any time you have a commodity which is in tight supply, and you signal to the rest of the world that the United States, the biggest importer, and supposedly the richest country in the world is going to need more sugar, and is going to be in the market competing for those scarce supplies, it is bound to have a price reaction. And that is exactly what happened when they increased the consumption estimate in the neighborhood of 700,000 to 800,000 more tons than we are actually going to use.

Mr. VIGORITO. Would you know, how did they arrive at this 700,000- or 800,000-ton increase that they made?

Mr. GODFREY. No, sir. I was not in on these deliberations, and I merely would say that if I had been there they would not have been done that way.

Mr. VIGORITO. Mr. Falconer?

Mr. FALCONER. I agree with what has been said. I consider the actions of the administration taken in the latter part of 1973, in which there was an indication of a desire to abandon the system of country-by-country quotas, and buy foreign sugar on the basis of a global approach, made an important contribution toward higher prices. The thing about country-by-country quotas is that of interest to foreign suppliers is the assurance that it gives them a market at fair prices over a period of years. The administration's action tended to undercut the confidence in the availability of such a market. It tended to push it, in my opinion, on the world market so-called, which is where we are.

I might make the point, and it has been said, I guess, in testimony yesterday, that the world market represents about 15 percent of the sugar that is produced, produced and consumed. The remark was made that the approximately 80 million tons of sugar produced each year in the world, it is surprising that a relatively small decline would have such important price consequences. I think, what has to be realized is, that the reduction in the available supply of sugar in the world is translated almost ton-for-ton into the supply that is available on the world market.

That is the residual market. If there is a reduction in supply of 1 million tons out of the 80 million, it means that there is about an equivalent reduction, about a million ton reduction in the so-called world market. A 1 percent reduction in world supplies, in total world supplies, means that the sugar available on the so-called world market is reduced by something approaching 7 percent. So you get a translation effect where apparently a small change has a major impact on this small world market so-called.

Mr. GODFREY. Mr. Chairman, may I add one other comment in answer to your question.

Mr. VIGORITO. Yes.

Mr. GODFREY. I am not only basing the information on my experience, but basing my statement partly on what I call two of the sugar experts in the U.S. Senate. It so happened that Senator Long and Senator Bennett jointly wrote the President, after this last 500,000 ton increase, protesting the increase, and protesting the statements being made by the Department officials, to the effect that they wanted to

do away with the Sugar Act. That letter can be furnished for the record, if you would like a copy of it.

Mr. VIGORITO. Would you please give us that information, and it will be inserted in the record at this point.

And I would like for the reporter here, the clerk, to give me a daily transcript at the end of the day, if possible, so that I can go over it for the next session.

Mr. GOODLING. Mr. Chairman, before we get away from this table, I would like to have two words of clarification, and have them explain this to me. In March of this year the refiners' margin was 19.5. In October it was 6.7. I did not pay 60 cents a pound for sugar in March, but I think I am paying about 60 cents a pound for sugar today. Where is the spread? There is something radically wrong somewhere.

Mr. FALCONER. You are speaking of the refiners' margin. I think what has happened in the interval is that the prices have gone up to reflect increased raw values, the invested value of the raw sugar.

Mr. GOODLING. Prices to whom? I know the prices have gone up to the consumer.

Mr. FALCONER. The price of raw sugar to a refiner has gone up, the wholesale price to the refiner has gone up, and of course, on the grocery shelf the price has gone up.

Mr. GOODLING. What about the price to the producer?

Mr. FALCONER. In the case of the Hawaiian industry, the sugar is marketed on a cooperative basis, and we have no separate interests, we do not make a profit or a loss as a separate company. Any income of the cooperative is submitted to the patrons in proportion to their patronage, and it goes to the producers.

Mr. GOODLING. Well, to me these figures indicate exactly what this committee is attempting to find out, and I am not at all certain you answered my question why the refiners' margin was 19.5 in March, 6.7 in October and I am paying 60 cents a pound for sugar today. Why? Now, there must be a reason for that. What is the reason?

Mr. FALCONER. I thought I had. I think what you are quoting are percentages. Those are the refiners' margins stated as a percentage of the wholesale price, and what it shows is that the percentage is declining.

Mr. SISK. Would my colleague from Pennsylvania yield?

Mr. GOODLING. Yes; I will be glad to yield, if you can explain it.

Mr. SISK. I do not know if I can explain it, but the gentleman is using March 1974 in which the raw sugar price was \$18.11 as against October of this year at \$38.83. What happened to the \$20? In other words, the raw sugar per hundred weight went up \$20. Now, I think the question, and I am not saying this to be critical, the question that the gentleman seeks to know is, who got the \$20. Is that not right? That is the first question that we would be interested in: who got the \$20?

Mr. FALCONER. In the case of the Hawaiian industry, I think the straight answer is, that it went to the producers.

Mr. SISK. It went to the producers. I think the question that my colleague from Pennsylvania seeks is, who got the \$20? In this case apparently the producers got that, regardless of whether he was a Hawaiian producer or producing somewhere else, and that figure is basically a world price figure.

Mr. FALCONER. That is correct.

Mr. SISK. Not a Hawaiian figure necessarily.

Mr. GODFREY. This is true.

Mr. GOODLING. Did anyone along the line make an excess profit?

Mr. GODFREY. This was not true in the case of the Louisiana producers because they had sold their crop and delivered all of it before the price increases.

Mr. SISK. I realize this has not been reflected in many other areas, but of course, the point I am trying to get at, in line with the question of the gentleman from Pennsylvania, if we are paying that extra 20 cents, who's getting the 10 cents? I think that is the point.

Mr. GOODLING. Does anyone along the line make an excess profit?

Mr. FALCONER. I do not know what standard you have in mind in defining excess profit. It is perfectly true that the Hawaiian producers are getting higher levels of income this year than in the past. The Hawaiian industry for many years has been quite marginal. It has returned very modest returns on investment. We have had a number of producing units in Hawaii that have gone out of business within the last several years for lack of ability to maintain enough income to justify the investment. We do not look on income for 1 year as something that can be isolated. We have to look at it as something that is distributed over a period of years, and we have to look into the future as to what the requirements of the industry for investment must be. As was mentioned by Mr. Godfrey, our anticipated investment in the industry is extremely for the pollution control, replacement of plant, and other purposes. Judged by all of those requirements for funds, I do not consider that there is an excess profit being made.

Mr. VIGORITO. How many producers do you have in Hawaii?

Mr. FALCONER. We have 16 large producers.

Mr. VIGORITO. Sixteen?

Mr. FALCONER. Yes, and we also have about 525 independent farmers growing sugarcane.

Mr. VIGORITO. How many?

Mr. FALCONER. About 520 to 525 is the number that comes to mind.

Mr. VIGORITO. What is the big five, what is the percentage of the sugar that they producer?

Mr. FALCONER. Well, the big five so-called are companies which developed over a long period of years as a representative, the business representatives of producing companies.

Mr. VIGORITO. What percentage of the sugar do the big five put out. do you know?

Mr. FALCONER. In one sense, with one exception. I guess it is each one of these 16 producing companies that I suppose have some affiliation with one of the companies that we are used to calling as the agencies.

Mr. FINDLEY. Would you restate that? I did not understand what you said.

Mr. FALCONER. What I said was there are 16 producing companies except for one which is independently owned, and each of the 15 have a relationship, sometimes more and sometimes a little less direct with one or another of the so-called big five.

Mr. VIGORITO. The administration must have known that the world inventory of sugar was in short supply, and why in the world would

they want to tap it for an additional 800,000 tons? Does anybody know?

Mr. GODFREY. No, Sir, I couldn't answer that question. And I think yesterday the statement made by Mr. Murray, and also by Mr. Myers touched on those points and were very significant and factual.

Mr. VIGORITO. And that is one of the questions I hope to have answered before this series of hearings is over.

What can we do, what can the Congress do to increase and create the climate to increase investments in the sugar industry so we get more sugar in the years to come?

Mr. GODFREY. Mr. Chairman, I believe that this committee took affirmative action back earlier in the year to do something that would have created a climate for expansion of sugar production when they voted down an extension of the Sugar Act for 5 years. Producers, as I stated in my statement, are not interested in the price that they are going to receive today, next year or the following year, because the investments they make today for increased production, the returns will start 3 years from now. So therefore, you have to have more than a 3-year extension of the act in order to encourage these investments.

I think as Mr. Falconer stated in his statement, that an extension of a sugar bill of some kind, whether we call it a sugar act or something else, an extension of a sugar bill which would guarantee growers an adequate return for what they produce, and would guarantee the foreigners an assured market at a reasonable price would create an atmosphere in which expansion of sugar production would take place in this country and in foreign countries.

Mr. GOODLING. In other words, you are asking for subsidies for sugar producers?

Mr. GODFREY. No, Sr. We are not asking for any subsidies whatsoever.

Mr. GOODLING. How can you encourage the producers —

Mr. GODFREY. You can encourage him by guaranteeing him a market at a price for his commodity, and he will not be at the mercy of sugar produced worldwide in times when sugar is in surplus, produced with low-cost labor and other inputs.

Mr. GOODLING. How can you guarantee him a market unless you provide a subsidy?

Mr. GODFREY. Very easily, Mr. Goodling. You can guarantee him a market by saying that the domestic producers can produce to the fullest extent possible, and that a price will be tied, as it was in the Sugar Act, to some definite period in relation to his costs, and no subsidies, no payments.

Mr. GOODLING. I am afraid I cannot understand your thinking. To me if you guarantee a price, you are giving a subsidy.

Mr. GODFREY. If you guarantee a minimum wage I do not consider that a subsidy, and this is similar to guaranteeing the minimum wage. No difference.

Mr. VIGORITO. I would say to the gentleman from Pennsylvania, my colleague, maybe I could clarify that. In order to guarantee a price, a subsidy to come into play, if that price fell below a target price, then —

Mr. GODFREY. We are not in favor of a target price, Mr. Chairman.

Mr. VIGORITO. What is that?

Mr. GODFREY. We said that you can guarantee that price by controlling the inflow of foreign sugar into the United States. That is all you have to do.

Mr. VIGORITO. If you are going to consume 12 million tons, we will say 7 million tons will be produced domestically and the other 5 will be imported?

Mr. GODFREY. That is right, and you do not let more than 5 million come in, and that in turn will establish your price.

Mr. VIGORITO. Could we simplify the Sugar Act by throwing out all sorts of taxes and rebates?

Mr. GODFREY. Yes, sir. It could be simplified very easily by throwing out taxes, by throwing out the payments, by throwing out the labor provisions.

Mr. VIGORITO. And just have an act that guaranteed the 12 million tons or whatever the figure happened to be, and this can be a figure that would change from year to year so that the domestic market will be sure of a certain percentage of the consumption of sugar in that particular area?

Mr. GODFREY. I would suggest the domestic market be assured of whatever they can produce, and the remainder come from foreign sources. But, I have definite quotas for the foreign countries so that they would know how to plan also over a period of 5 years. They are not going to make the investment unless you give them a quota over a long period of time.

Mr. VIGORITO. What other steps, other than having a sugar act of some kind to guarantee the quota for domestic producers and foreign suppliers, what over action could we take to help this along? Tax incentives like investment tax incentives?

Mr. GODFREY. Just what you are doing now, Mr. Chairman, oversight and review actions that have been taken. I think the Congress needs to continue an oversight review of the administrative actions taken in the executive branch.

Mr. VIGORITO. Providing you have someone in the executive branch that is for the program.

Mr. GODFREY. That is right, sir.

Mr. VIGORITO. Otherwise, you have a wrecking crew there, and there is no point in having them look it over.

Mr. Sisk.

Mr. SISK. Well, Mr. Chairman, as one who very strongly supported the extension of the Sugar Act, it seems to me that everything the witnesses have said this morning indicate that when we threw out the Sugar Act we threw out the baby with the bath water. In other words, there is no assurance, not only for our producers, but for world producers of any stability in connection with sales, and therefore, we lose any stability in connection with price. Is that not a fact?

Mr. GODFREY. That is a fact, and Mr. Sisk, you were not here yesterday, but the statement was made several times yesterday that the Sugar Act has not worked this year. Well, I for the life of me cannot understand why it has not worked, even though they tried to tear it down a year ago, when we have been getting sugar cheaper than the world market price. Something has been working.

Mr. SISK. I appreciate the comments that have been made. I have one further comment on the discussion that my friend from Pennsylvania and I had a little bit earlier about the increase in raw sugar prices. Of course, the information basically came out that the increase of say \$20 a hundred in the cost of sugar is basically going to the producer. I think that we do not wish or want to overlook the fact though of the impact of inflation on that producer, and it does not necessarily mean that the profit margins of that producer have become exorbitant necessarily. I mean because he has suffered from the same kind of experiences that we are having in all other areas. As one who basically was very much interested in the producer incentives, incentives to producers to get them to produce, I think that we would be willing to keep that in mind.

I personally, Mr. Chairman, think that it seems to me that the evidence that I have seen here this morning simply indicates exactly the rightness of the position that many of us took on this committee before, and the fallacy of the position that was taken in opposition to it. It is just that simple to me. I think very frankly, and I have said before in this committee, in our last meeting that regardless of any attempt to duck the responsibility, those who defeated the Sugar Act in this country, and I am talking about a lot of large industrial users and others who came in here and torpedoed this, they are solely to blame. I think that the American consumer should put the blame right where it should lie for having destroyed the stability in the price of sugar, and those who went along with them are solely and completely responsible for the fiasco that we are experiencing today. I think the American consumer should know it. Thank you.

Mr. VIGORITO. Mr. Goodling, did you have any additional questions?

Mr. GOODLING. Just in line with what Mr. Sisk just said, I think the general public should also know that instead of a sugar bill being on the floor of the House it became a labor bill and that went a long way to defeating the Sugar Act. I sat through hours, and hours and hours on the Ad Hoc Sugar Committee and we thought we had presented a pretty good bill to the House. But the entire picture was changed on the floor of the House, and labor has got to share some responsibility for defeating the sugar bill in my opinion. That is all, Mr. Chairman.

Mr. VIGORITO. Mr. Findley.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. Godfrey, does your association recommend that the Sugar Act be resurrected at this time?

Mr. GODFREY. We do not recommend an extension of the existing act. We could not live under the extension of the present act. It would not increase production whatsoever because the price guarantees in that act are inadequate at the present time because the costs have increased for production.

Mr. FINDLEY. Do you share in the recommendation of Mr. Murphy that the payments be eliminated?

Mr. GODFREY. Yes, sir. Very definitely.

Mr. FINDLEY. Mr. Falconer, you mentioned that there is a relationship between 15 of the producers in Hawaii and the so-called Big Five?

Mr. FALCONER. That is correct.

Mr. FINDLEY. Which firm is the exception, the one independent of the Big five?

Mr. FALCONER. I had in mind what is known as Gay and Robinson.

Mr. FINDLEY. And what portion of the Hawaiian production does that firm produce?

Mr. FALCONER. Fairly small. Just a second. I am advised they produce about 17,000 tons of sugar per year, which we have about 1,100,000 total production. Say we have about 1,100,000 annual total production and Gay and Robinson produces annually about 17,000 tons.

Mr. FINDLEY. So it is about 2 percent?

Mr. FALCONER. About that or a little less.

Mr. FINDLEY. It is a minor factor in the total Hawaiian sugar production?

Mr. FALCONER. That is correct. In addition to Gay and Robinson, of course, there are also these 520 independent growers which I mentioned, and in the aggregate the produce something on the order of about 6 percent. I think that is about correct. Just a second.

Mr. FINDLEY. But there are 500 independent growers who have no relationship whatsoever to the Big Five?

Mr. FALCONER. They have this kind of relationship, their agricultural activities are wholly independent, but they do not own sugar mills to process the sugar cane from the raw sugar, and that is the first commodity which is salable as an item in commerce, so they have contracts in most cases with the adjacent raw sugar mill which produces their sugar cane into raw sugar or molasses. That is true of about half of them. The others have organized into a cooperative, and they have an interest in a cooperative raw sugar mill, and I guess it would be true that in that case they have no substantial contact with any of the Big Five.

Mr. FINDLEY. You say in that case they would have no substantial contact with the Big Five?

Mr. FALCONER. No equity interests, no ownership, nothing of that sort.

Mr. FINDLEY. And what portion are in that category, what portion of the 520?

Mr. FALCONER. Well, I am speaking of a group which has formed itself into a cooperative, and I think it represents probably about half of the independent growers.

Mr. FINDLEY. And their production would be approximately what percent of the total Hawaiian production?

Mr. FALCONER. You are speaking now of the group that are in the cooperative?

Mr. FINDLEY. Yes.

Mr. FALCONER. I am forced to make a guess, and I would want it to be understood to be 1 percent, but I would guess it would be on the order of about 3 percent.

Mr. FINDLEY. And so the producers who have a direct relationship with the Big Five account for would you say at least 90 percent of the sugar production in Hawaii?

Mr. FALCONER. That is correct. Yes.

Mr. FINDLEY. Will you provide for the record, if you do not have the information in hand, the names of the 12 individuals who have the largest interest in each of these Big Five organizations?

Mr. FALCONER. I do not have the information at hand. I can provide it for the record and determine how available it is.

Mr. FINDLEY. You are the vice president?

Mr. FALCONER. Mr. Findley, just a second. To clarify the nature of your question, these are all corporates entities, you are speaking of the five biggest stockholders in effect of them?

Mr. FINDLEY. Of the 12 biggest stockholders in each corporation.

Mr. FALCONER. All right. I think we understand the question.

Mr. FINDLEY. C. & H. Refinery is a cooperative?

Mr. FALCONER. That is correct.

Mr. FINDLEY. C. & H. Refinery is a cooperative?

Mr. FALCONER. The firms which own the cooperative are the producing companies in Hawaii whose sugar we produce.

Mr. FINDLEY. And these are the Big Five?

Mr. FALCONER. No, these are the 16 member companies of C. & H.

Mr. FINDLEY. And do they own equal percentages of C. & H.?

Mr. FALCONER. No, they do not. Each of them owns an interest in C. & H. substantially proportionate to their production.

Mr. FINDLEY. And which is the largest owner of interest in C. & H.?

Mr. FALCONER. The largest plantation in Hawaii, the largest producing unit and, therefore, the largest owner in C. & H. would be Hawaiian Commercial & Sugar Co.

Mr. FINDLEY. Is C. Brewer & Co. an owner of an interest of C. & H.?

Mr. FALCONER. They do not have a direct interest in C. & H., but they have interests in some of the producing companies, which in turn have an interest in C. & H.

Mr. FINDLEY. Does C. Brewer & Co. effectively control the producing companies?

Mr. FALCONER. I think that is a fair observation

Mr. FINDLEY. And the producing companies which are controlled by C. Brewer & Co. would control what portion of C. & H.?

Mr. FALCONER. Their patronage, their proportionate production in Hawaii is about 25 percent, and their representation and their control of C. & H. would reflect that.

Mr. FINDLEY. But would this be the dominant interest in the ownership of C. & H.?

Mr. FALCONER. No, that is not correct.

Mr. FINDLEY. What is the dominant interest?

Mr. FALCONER. Well, if you are going to assign percentages to each of the so-called big five, the biggest group of affiliation would be AMFAC.

Mr. FINDLEY. Would be what?

Mr. FALCONER. AMFAC, A-M-F-A-C.

Mr. FINDLEY. Does AMFAC have other interests in the worldwide sugar industry?

Mr. FALCONER. None that I am aware of.

Mr. FINDLEY. Does C. Brewer and Co. have other interests in the worldwide sugar industry?

Mr. FALCONER. The only interest that C. Brewer has, that I am not wholly sure that it is a current interest, but I have not heard that it is not, is that they own a sugar producing unit in Florida.

Mr. FINDLEY. In Florida?

Mr. FALCONER. Florida.

Mr. FINDLEY. Is International Utilities Corp. a major stockholder in the C. Brewer and Co.?

Mr. FALCONER. I understand it is, "Yes."

Mr. FINDLEY. Is it in a position to exercise control of C. Brewer and Co.?

Mr. FALCONER. These are things about which I have only the knowledge that one has who reads the papers, but I understand that that is true.

Mr. FINDLEY. To your knowledge, does International Utilities have other interests in the worldwide sugar industry?

Mr. FALCONER. I just have no information about that.

Mr. FINDLEY. Does C and H have exemption as a cooperative under the Capper-Volstead Act?

Mr. FALCONER. We sincerely hope so and we believe so.

Mr. FINDLEY. Has there been a trend in Hawaiian sugar production that you could sight toward fewer producers or more producers?

Mr. FALCONER. In numbers of entities in the business?

Mr. FINDLEY. Yes.

Mr. FALCONER. There has been some tendency to reduce the numbers. That has not been accompanied by a withdrawal, a proportionate withdrawal of land from cultivation, nor has it been accompanied by any significant decline in total production, but there has been some consolidation, yes.

Mr. FINDLEY. Mr. Godfrey, out of your experience in the sugar industry, both as a public official and now in private work, do you feel that there is a monopolistic tendency in the worldwide sugar industry that should concern the Congress?

Mr. GODFREY. No, Sir. I do not.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Denholm.

Mr. DENHOLM. Thank you, Mr. Chairman.

Mr. Godfrey, did you testify that revised estimates for domestic use of sugar were published by the USDA in the amount of 700,000 or 800,000 tons sometime recently. Do you know approximately when the revised estimates were published?

Mr. GODFREY. They made several determinations last year. The last one I believe was on January 11, 1974. That was the 500,000 ton increase which took it to 12,500,000 tons. Yes, sir.

Mr. DENHOLM. What were the price levels of the world market at that time?

Mr. GODFREY. Well, I believe that the spot market price for last January was \$12.63, average for the month in January was \$12.63. The average for the month of February following that was \$17.09.

Mr. DENHOLM. Can you relate the averages for the next succeeding months?

Mr. GODFREY. Yes, sir. March went to \$18.11, April \$19.25, May \$23.05, June, when the Sugar Act was definitely killed, \$26.30, and then to July at \$28.35, August \$32.60, September \$33.71, October \$38.83, and November \$57.30.

Mr. DENHOLM. Did anything else happen in the course of events other than the fact that our effort to extend the Sugar Act failed in the summer of 1974?

Mr. GODFREY. Yes, sir. Yes, sir. One very serious action, in my opinion. I do not recall the exact date, but it was July or August the Department reallocated 600,000 tons of deficits to foreign countries.

Mr. DENHOLM. How much was that?

Mr. GODFREY. 600,000 tons. This was brought out in testimony yesterday, and the General Counsel asked a few questions about this I believe.

Mr. DENHOLM. Now, Mr. Godfrey, does the United States import raw or refined sugar under the quota system?

Mr. GODFREY. We import some of both, but most of it is raw, practically all of it is raw sugar.

Mr. DENHOLM. Who imports sugar, raw or refined?

Mr. GODFREY. Oh, the various refiners and brokers. Sometimes it is by brokers, and sometimes by refiners, individual refiners.

Mr. DENHOLM. Were you present in the hearing room yesterday morning when the first witness testified that he now holds a position that was formerly held by Mr. Murphy under your supervision in the year of your service with USDA?

Mr. GODFREY. Yes, sir.

Mr. DENHOLM. Were you head of the ASCS?

Mr. GODFREY. Yes, sir.

Mr. DENHOLM. Did you hear the name of the company that the gentleman was formerly employed by before beginning his present duty?

Mr. GODFREY. Yes, sir.

Mr. DENHOLM. Does that company import raw sugar?

Mr. GODFREY. I do not have exact knowledge on that, and I would not answer because I do not have exact knowledge. I think so, but I do not know.

I would like to make one other clarifying comment on that testimony. The question was asked yesterday whether or not the sugar division director has anything to do with decisions that are made on sugar. Unless the Department has changed considerably since I was there, the sugar division director makes all of the recommendations that pertain to sugar to the Administrator.

Mr. DENHOLM. That would be reasonable.

Mr. GODFREY. The Administrator then makes a recommendation to the Secretary of Agriculture, and generally that recommendation made by the Administrator is accepted by the Secretary of Agriculture. I know of only one instance in my 8 years that it was not.

Mr. DENHOLM. It is true, is it not, that we produce 55 percent of our total needs, and that we import 45 percent or thereabouts? Is that correct?

Mr. GODFREY. That is correct. And the imports during this period of ascending prices from January until the present, the imports are a greater percentage of our total consumption during that period than they were for the year as a whole.

Mr. DENHOLM. Mr. Findley, spoke yesterday about the cross pollenization and the financial fertilization of personnel between the private and public sector, which is not necessarily illegal or necessarily wrong unless we all pay for the folly thereof. I am not suggesting that knowledgeable people should be refused employment in the private sector because of public experience in Government service. Do you agree?

Mr. GODFREY. Yes, sir. I served for 34 years in the Department of Agriculture and I figure that that experience and the sacrifice in

salary I paid during that time was worth something when I got outside.

Mr. DENHOLM. That is correct, and provided that the knowledge is used in a fair and equitable way. I am concerned about the present circumstances in the Department of Agriculture and in the price levels of sugar initiated in the global market. When the world price of raw sugar increased \$20/100, just how much of that increase did the producers receive? Is there a manipulation of price levels after it is first sold by the producer and before it reaches the consumer?

Now, on page 2 of your testimony, Mr. Godfrey, you indicated, and also on page 5 that Secretary Butz and others have said that the cure for high prices created by inadequate supplies is increased production. Well, that is true, and that is a basic economic theory that one can scarcely argue with validity, except that it is not true in the meat industry, is it? If Mr. Butz was right, we ought to have ample meat at reasonable prices in this country.

Mr. GODFREY. Well, meat has a more elastic demand than sugar, and particularly in the case of a commodity, fungible commodity that has elastic demand and the increased production is necessary if you want to bring down prices.

Mr. DENHOLM. Basic principles of economics fail if manipulating of prices can be achieved by whatever method. I have searched for evidence as to the possible manipulation of prices and if it does exist, it is done in a very sophisticated manner and in such a way that the consumer pays the increased price, and too often the producers do not receive a fair share of those prices being paid by consumers, and you know that as well as I do, do you not, Mr. Godfrey?

Mr. GODFREY. Yes, sir.

Mr. DENHOLM. Now, you have been employed in the public sector as well as the private sector.

Mr. GODFREY. Right.

Mr. DENHOLM. The lack of confidence is reflected in the attitude of the American people in the whole system of government today. It is a very serious matter. We must seek men of good faith to administer public laws. Do you agree?

Mr. GODFREY. Yes, sir.

Mr. DENHOLM. That is the problem of our time. I am disturbed about it. It is unfortunate that we lost the extension of the Sugar Act in the summer of 1974. But beyond that, I can agree with you in the absolute that the Sugar Act in the present form is not the solution. I think Mr. Murphy, whom we did not have a chance to ask questions of yesterday was saying the same thing that you have said this morning, that the subsidies and the tariffs are not the answer to the problem and that there is another way. Mr. Goodling has overlooked a unique situation in the market with sugar in that we only produce 55 percent of our own needs, and when we control the imports of 45 percent of our domestic needs we can control those imports to a level in the market to protect our own producers, can we not?

Mr. GODFREY. That is right.

Mr. DENHOLM. Is that your contention?

Mr. GODFREY. That is my contention, yes.

Mr. DENHOLM. Mr. Chairman, may Mr. Murphy testify again if time permits? This may be an appropriate time to have him at the witness table.

Mr. VIGORITO. I mentioned before you came in, Congressman, that some of these witnesses will be called back as we digest the information presented to us.

Mr. DENHOLM. Very well. Thank you.

Mr. VIGORITO. Mr. Johnson?

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. Godfrey, what is the cost of building a cane sugar refinery in your part of the country now?

Mr. GODFREY. I am not familiar with the refineries, Mr. Johnson. I represent only the raw people, and a raw mill is about \$60 million now.

Mr. JOHNSON. \$60 million?

Mr. GODFREY. \$60 million, yes. That is for about 100,000 tons sugar per year capacity.

Mr. JOHNSON. Mr. Falconer, I would like to go through some of these figures with you if you don't mind, sir. I think I am beginning to see now where some of this stuff is coming from.

In 1973 we have these figures from the USDA and they say that the spot price of sugar averaged out at \$10.29, and that was your figure. Of course, you are giving the New York spot price. The wholesale refined sugar price in the northeastern part of the country was \$14.07. You said on the Pacific coast it was \$12.38. The difference in that would be transportation costs to New York?

Mr. FALCONER. I would not be prepared to assign that difference to the transportation expenses. I think it reflects different competitive conditions in the two markets.

Mr. JOHNSON. That is sugar primarily coming up from the southeastern States then to New York as opposed to your confining the process or going through the process in Crockett?

Mr. FALCONER. Well, what I was saying—

Mr. JOHNSON. The spot price is the same.

Mr. FALCONER. The spot price is the same.

Mr. JOHNSON. The wholesale price is about 1½ cents different.

Mr. FALCONER. That is correct.

Mr. JOHNSON. That is after the refining process. Now, the figure we are given here for the retail U.S. price average is then \$15.10, which would give the difference, the gross margin, the wholesale and retail using the Northeast prices at about 9 percent. Now, once again we are getting out of your area I guess?

Mr. FALCONER. You are.

Mr. JOHNSON. But would you estimate that that would be true across the country? Is that a rough figure of 9 percent margin which does not seem to me to be exorbitant after you take your refining process and get it marketed, the transportation and everything, and out and distributed to the user, and that is a 9-percent margin, gross margin.

Mr. FALCONER. Over the years I do not know the precise figure. I do know that over the years the retailers' margin on sugar, the price on the shelf as contrasted with the wholesale price he pays, that difference has been extremely minor.

Mr. JOHNSON. That is what it would seem to be at that kind of a level, if the gross is 9 percent, why by the time you got through taking all of your costs off that it seems to me it would be very slim.

Mr. FALCONER. That is right.

Mr. JOHNSON. In your case you give us your gross margin, but you do not give us your costs. Would you care to disclose what your net margin is on a yearly basis? You go down from 1960 through 1973, and you give us your gross margin, but you do not give us the cost of refining so we do not have any way of knowing what your net is. Your net margin.

Mr. FALCONER. Our basis problem in giving a margin figure is the fact that we are a cooperative. Our members supply the sugar under terms of a pooling contract. We do not have a price for sugar in the same sense that a commercial refiner would have a price for sugar. We do have an opportunity price. When we have sugar delivered to us, it is delivered as raw sugar, and it is open to us to sell that sugar as raw sugar, or alternatively refine it and sell it as refined sugar, and in our own analysis of the business situation we assign to the raw sugar that we take into our refineries for our purpose what can be called a cost equal to what we could have got for that sugar if we had sold it as raw sugar, and I did quite in my statement that with respect to the sales of refined sugar that have been made this year through the first 9 months, and contrasted to what we could have realized had we sold that same raw sugar as raw sugar, we have taken a loss of some difference, a reduction in income of some \$20,500,000.

Mr. JOHNSON. Yes; I saw those figures. But, you do not happen to have anything that would indicate, in other words, you have gone down from 29 percent in 1960 as your gross to in 1973, 16.9, and then it has been steadily declining in 1974 on a monthly basis, and you do not have anything that would indicate what your net margins are? You would talk about a reasonable rate of return in there, and frankly these figures indicate to me that, as I would understand, as I could conjecture what your costs might be, that you are not having an exorbitant profit in this thing. I would just like to have you supply some figures that would prove what I think I see here.

Mr. FALCONER. I have these figures that bear on this I think. The \$20,500,000 I quoted demonstrates I believe, that with respect to our refined operation this year we are not making any money at all, we are losing it. Charging raw on the same basis in 1973 we were losing money then as well. With respect to our refined sugar operations, this has been true for the last several years.

Mr. JOHNSON. You do not have any costs though as to the cost of raw, in other words, the raw costs for 1973 which was \$10.29, and your refinery, you sold it at \$12.38, and what was your margin? There was \$2.09, and now what would that cost you out of that \$2.09 to go through the refining process?

Mr. FALCONER. The refining process, and this would include a cost of refining, packaging, ocean freight, excise taxes and so on, in 1974 through November 30, it came to \$4.39 hundredweight.

Mr. JOHNSON. That would indicate a loss in the refining process.

Mr. FALCONER. That is right.

Mr. JOHNSON. A significant loss.

Mr. FALCONER. That is why it is a red figure.

Mr. JOHNSON. Right now if everybody in the process is losing money, if everybody in the process is losing money, who are we losing it to? Now, what is an operator?

Mr. FALCONER. I missed your question.

Mr. JOHNSON. I say what is an operator?

Mr. FALCONER. This is an aspect of the business that we are not involved in.

Mr. JOHNSON. I understand that, but do you know what an operator is?

Mr. FALCONER. I have a general understanding. It is somebody who is a buyer and seller of raw sugar.

Mr. JOHNSON. And are there several large operators in the world?

Mr. FALCONER. So I understand.

Mr. JOHNSON. And who would those be?

Mr. FALCONER. As I say, it is something that I really am not competent to testify to.

Mr. JOHNSON. Can you testify to hearsay? I understand you are under oath?

Mr. FALCONER. You hear names such as Lamborn, in years past Ollivaria, Czarankow Rionda, and those are names that come to mind. I think I had understood that Amrop was such a company, but again I do not have detailed information.

Mr. JOHNSON. And are operators individual organizations that would buy raw sugar and hold it off the world market until they chose to market?

Mr. FALCONER. Substantially that is what I understand to be going on, they take the risk position, and they negotiate contracts and are prepared to resell to refiners.

Mr. JOHNSON. You are not prepared to identify—

Mr. FALCONER. We just do not deal with them. Our sources of raw sugar are our own members, and we just do not have any reason to do business on that basis.

Mr. JOHNSON. Do you have any plans, without the reinstatement of the Sugar Act to market sugar in Japan next year rather than the mainland of the United States?

Mr. FALCONER. We have no plans, no.

Mr. JOHNSON. I have no further questions, Mr. Chairman. Thank you.

Mr. VIGORITO. Thank you, Mr. Johnson. Just what is the difference, I think I know, but for the benefit of the record and for the committee, what is the difference between the sugar broker and a sugar operator?

Mr. FALCONER. Well, I might take a crack at answering that. A sugar broker is an independent businessman who negotiates in one sense on behalf of both the buyer and the seller in the sale of sugar. Typically he is paid by commission, paid by the seller. He does not take a position, he does not become an owner of sugar, and he does not take a risk position. In my answer to Mr. Johnson I explained what I understood to be the operator, and substantially he does take a risk position.

Mr. VIGORITO. Here I would like to read into the record, and we may follow this up, I want to get these names, but the Wisconsin State Farmer and this is dated Friday, November 15, 1974, Mr. Don-

ald Cole, manager of Lamborn and Co., sugar producers, suggested a possible manipulation of the world market, and to quote from Mr. Cole:

I suppose if you got back in the past year you would find that the world supply has probably been very closely controlled by the half dozen largest operators in the world.

Is there anyone at the table who knows who are the six largest operators in the world?

Mr. GODFREY. I do not.

Mr. FALCONER. I do not have that information; no. From what it appears to me, from what I have just said, my previous tentative identification of Lamborn as an operator may have been wholly wrong, it may be wrong and it may be that they function solely as a broker.

Mr. VIGORITO. Any other questions?

Mr. BERGLAND. Mr. Chairman, may I ask a question?

Mr. VIGORITO. Mr. Bergland.

Mr. BERGLAND. Where can we find that information?

Mr. FALCONER. I would expect myself that the sugar refiners doing business in the New York market would be fully informed about that, the New York Sugar Exchange people should have that information.

Mr. VIGORITO. We will call Mr. Cole directly. He must know the facts to make a statement like that.

Mr. BERGLAND. Mr. Chairman, I have a couple of questions.

Mr. VIGORITO. Go ahead.

Mr. BERGLAND. Is there time? Gentlemen, it has been established that last year the world produced about 80 million tons of sugar of which about 24 million tons was exported beyond the border of the country in which it was produced; of that amount about 13 or 14 million tons was under the so-called free market and 10 to 11 million tons under sugar agreements. The United States is the largest sugar importer with 5 to 6 million tons imported under agreements. With the termination of the Sugar Act we will see a substantial increase in the amount of sugar traded in the so-called free market arrangement and a substantial reduction in sugar traded under these agreed markets. It has been established that the so-called free market is really very volatile, it rises and falls sharply. It is moved many times by simple rumor, not necessarily related in every instance to supply and demand.

As we go into the next year with a substantial increase in the quantity of sugar traded on a free market, do you expect that this will in any way diminish or make any contribution to the roller coaster pricing we have seen in the free market? Can anyone answer? Mr. Godfrey?

Mr. GODFREY. Mr. Bergland, it should definitely have an impact on the prices. From my understanding, I listened to a speech recently by a sugar expert, who is also a broker, in which he said to his knowledge every major importing country who has been depending upon free market supplies for their sugar has their supplies tied up for 1975, and that the United States is the only one that does not.

Mr. BERGLAND. It has been said that a 1 percent change in worldwide production or demand will affect prices by 7 percent.

Mr. GODFREY. Seven or eight percent, yes, sir.

Mr. BERGLAND. And so relatively minor changes in worldwide demand or supply conditions will have an enormous impact on the so-called free market, is that right?

Mr. GODFREY. That is right.

Mr. BERGLAND. It would be logical then to assume as long as we depend on a free market we are going to be subjected to this roller coaster pricing, at least based on your information?

Mr. GODFREY. That is exactly right.

Mr. FALCONER. And that is my opinion as well, and we think that that is one of the factors that discourages further production.

Mr. BERGLAND. I am familiar with the futures market and the way it operates, but I am not as familiar with the New York spot market. Can any of you in a couple of minutes describe the workings of that market?

Mr. FALCONER. In only a very general sort of a way. As I understand it, there is a committee, I think it is the committee of the Exchange, which is the Spot Committee, and which has the responsibility for making a judgment based on all of the information that they have within the day about sugar transactions that are in a so-called current or spot position.

Mr. BERGLAND. Is this an open competitive bidding process?

Mr. FALCONER. Well, I am not fully informed about that.

Mr. BERGLAND. I know that the Minneapolis Grain Exchange works that way, and I am familiar with the cash market operation there in which there is open bidding among buyers and sellers. Does the sugar spot market work the same way as far as you know?

Mr. FALCONER. I do not know the details, but I get the impression that it may not.

Mr. BERGLAND. Mr. Chairman, I think this is a very important point. Mr. Godfrey has stated clearly and accurately that the Louisiana or the cane industry, at least, and I am sure that this is true with the beet industry, follows the New York spot. They do not make that market, but they are certainly affected by it, and I think it is important to know whether that New York spot market is truly competitive and truly reflects the legitimate supply-demand values in the world. We should have someone testify to this committee, as to the workings of that market to see if, in fact, it is open and free, or if it is somehow manipulated.

Mr. VIGORITO. Well, they are on the schedule for later in the week.

Mr. BERGLAND. Thank you, Mr. Chairman. That is all I had.

Mr. VIGORITO. Does anyone else have anything?

Mr. FINDLEY. Mr. Chairman, on this Wisconsin State Farmer—

Mr. VIGORITO. I just read that.

Mr. FINDLEY. You did? I see.

May I ask the witnesses if they are aware of the Varsano firm as being an operator in world sugar circles?

Mr. GODFREY. I do not know.

Mr. FALCONER. I do not know the firm myself.

Mr. FINDLEY. How about the Czarnikow-Rionda?

Mr. GODFREY. The Czarnikow-Rionda, they do issue a trade publication periodically, and I am not sure whether they are operators or brokers.

Mr. FINDLEY. Do they have a relationship to C. Brewer and Company?

Mr. FALCONER. I understand at one time they did. My understanding is that that relationship has been severed for some time.

Mr. FINDLEY. Have you ever heard of Sucres et Denrees? Does that name ring a bell with either witness?

Mr. GODFREY. Yes. They also have a periodic trade letter. I do not know whether they are brokers or operators.

Mr. FINDLEY. Do either of you know the extent to which operators buy and sell for their own account, what portion of the world market they handle?

Mr. GODFREY. I do not know, but I imagine with the price of sugar being what it has been in recent months that less and less of them will take the risk of buying for their own account.

Mr. FINDLEY. It is my understanding that C and H Cooperative refines about 10 percent of the U.S. domestic production of sugar. Is that roughly correct?

Mr. FALCONER. I think that is overstated somewhat. I think the correct percentage would be closer to about 8½. We produce, and this is a round figure, about 10 percent of the raw sugar that is in the country, but we sell about 200,000 plus tons to other refiners.

Mr. FINDLEY. Does any refiner exceed your percentage of the U.S. market?

Mr. FALCONER. Yes. Amstar Corp., which markets under the Domino brand is substantially larger than we are.

Mr. FINDLEY. Is that somewhere around 40 percent?

Mr. FALCONER. Last time I took a look at the figure, and this was inclusive of their beet division, the percentage was something on the order of about 26 or 27 percent of national consumption. That is not a current figure, it is just a figure that comes to mind from several years past.

Mr. FINDLEY. Do you have information as to the number of refineries in the United States and the percentage of the U.S. market that each handles? Could you supply that in the record?

Mr. FALCONER. We would not have information about the percentage position of the refineries in the market. We would have some house guesses, but no information on that.

Mr. FINDLEY. Do either of you have an opinion as to the impact of operators on world prices?

Mr. GODFREY. I do not know.

Mr. FALCONER. I don't.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. If there is a tremendous increase in the price of sugar, why has not the retail price in foreign countries also increased the same magnitude as in this country?

Mr. GODFREY. Mr. Chairman, Mr. Murphy touched on that to some degree yesterday, and in some countries it has increased. In other words, the countries, the producing countries that also export, they have a controlled price such as in Mexico, and they have a controlled price for their own consumers, and then they export at a different price. Canada naturally is a big importer, and Japan, and their prices have accelerated in some degree too as ours have.

Mr. VIGORITO. Would you know offhand what the price of sugar in say Great Britain is? I do not believe Great Britain produces any sugar whatsoever.

Mr. GODFREY. Well, they have some agreements with their Commonwealth countries for the furnishing of sugar, and now since they are in the EEC they have an agreement with the EEC also in regard to maintaining a stable sugar price within the Common Market. According to newspaper reports, the price of sugar has increased but not as much as it has here, but it is difficult to find in Great Britain.

Mr. FALCONER. My understanding is that Britain does have a beet sugar industry, that in normal years produces something approaching 1 million tons a year. I understand their production this year is substantially down, and I understand also that although prices are lower than quoted here, the product is not readily available in the market.

Mr. FINDLEY. Could either of you gentlemen state whether operators in the sugar business must be licensed under either a State or Federal law?

Mr. GODFREY. I do not know, Congressman Findley.

Mr. FALCONER. I don't know of any regulatory program that applies to them.

Mr. FINDLEY. Under the new Commodity Exchange Act which takes effect I think the first of March such would be required to be licensed, but you do not know of such?

Mr. GODFREY. I think that is right.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. All right. We certainly want to thank you gentlemen. You have presented excellent testimony and answered the questions to my satisfaction, or at least most of them to my satisfaction.

The committee this afternoon will reconvene at 2 p.m. and we will have the sugar beet industry at that session.

Mr. GODFREY. Thank you, Mr. Chairman.

Mr. VIGORITO. The committee is recessed until 2 p.m.

[Whereupon, at 12:07 p.m., the hearing was recessed to reconvene at 2 p.m. this same day.]

AFTERNOON SESSION

Mr. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations is now resuming sessions, and our two witnesses—if you gentlemen would both come—Mr. Richard W. Blake, the National Sugarbeet Growers Corp. in Washington, and Mr. Malcolm Young, California Beet Growers, from Stockton, Calif. Would you both come?

You probably were here this morning, and I will give you the oath, so raise your right hands. Do you solemnly swear that the testimony which you are about to give to this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BLAKE. I do.

Mr. YOUNG. I do.

Mr. VIGORITO. Let the record show that the witnesses were sworn in. What we will do, as we did this morning—both of you gentlemen will give your testimony, and then we will have a panel discussion. All right, Mr. Blake. Will you proceed, please?

STATEMENT OF RICHARD W. BLAKE, EXECUTIVE VICE PRESIDENT, NATIONAL SUGARBEET GROWERS FEDERATION

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

Mr. Chairman, members of the committee, I am Richard W. Blake. I am executive vice president of the National Sugarbeet Growers Federation, with offices here in Washington and in Colorado. The membership of the federation is made up of sugarbeet grower associations in 12 States. A list of the member associations is attached to this statement.

Mr. Chairman, I am pleased to respond to your request to present the views of my organization on sugar prices to the Subcommittee on Domestic Marketing and Consumer Relations.

At the very outset let me state that sugarbeet growers make no apologies for the existing level of sugar prices. What has taken place in the sugar market since June of this year was not of our doing. We have fortunately benefited from the increase in price—increases which have been long overdue—and for the first time in a number of years there is a real desire to increase production. Increased production by the sugarbeet industry and by other segments of the domestic sugar industry is the best assurance this country has in providing adequate supplies of sugar to the American consumer and at prices which will be reasonable over the long term. For too many years the price of sugar has not provided the incentive to expand production, at least in the sugarbeet producing areas I represent.

Sugarbeets must compete for land, and price competition is weighed heavily by farmers when they establish their planting programs. Wheat, feed grains, corn, potatoes, dry beans, vegetable crops, and even alfalfa compete with sugarbeets for land usage. When prices of these competing crops began to increase in 1973 and 1974 in relation to prices received for sugarbeets, growers naturally turned to those crops. This latter fact can be borne out by the acreage reductions which took place in 1973 and again in 1974. The 1972 crop of sugarbeets produced 3,632,000 S.T.R.V., in 1973 production amounted to 3,209,000 tons and in 1973 estimates range from 2,900,000 to 3,000,000 tons.

Fortunately, as I have stated, sugarbeet growers have been able to participate in the increased prices which have occurred, due to the type of purchase contract we have with our processors, whereby growers receive a percentage of the yearly average net return from the sale of sugar. While the percentage share varies with company and area, growers on the average receive between 62 and 65 percent of the net returns. Because of participation by growers in the price of sugar, we expect production to increase in 1975 as a result of the improved price outlook. As compared to the estimated 1974 crop production, the sugarbeet industry has the processing capacity to produce an additional 800,000 to 1 million tons of sugar. I do not foresee, however, an increase to the full industry capacity in 1975, although significantly more beet sugar will be produced than is being produced from the 1974 crop. I must add, however, that the total amount of the increase will be predicated on early and satisfactory contract arrangements with our processors, and some positive assurance that sugarbeet prices will remain competitive with other crops.

The major portion of the sugar produced from the 1975 crop will not be sold until 1976, and growers, when making their decision to plant in April and May of 1975, must look 18 to 20 months in the future to what their final returns will be. We of course do not know what costs of production will be for that crop, but we do know what has happened in the last 2 years in the cost of fertilizers, machinery, fuel, and other inputs which go into the total cost of production.

With respect to what we consider to be the underlying reasons for the present level of sugar prices, which by the way as you know have come down from the high levels of just 2 weeks ago, there appear to be a number of contributing factors, the most important of which is the supply and demand ratio worldwide.

Consumption of sugar has exceeded production for the last 4 years, and according to some reports will again this year. This in turn has resulted in a serious drawdown of stocks normally held in reserve by the producing countries. In addition to the increased rate of consumption, some of the major producing countries, such as the EEC and more importantly the U.S.S.R., have had short crops due to unfavorable weather conditions, which forced them to go to an already thin world market in search of supplies. With respect to the lower production in the U.S. sugarbeet producing area, I mentioned competition from other crops which were financially more attractive, which we believe was due in large part to the price controls invoked on our industry in 1971 and were not lifted until April of 1974. While other crops were free of price controls, the prices of sugarbeets were effectively controlled by the actions of the Cost of Living Council, resulting in sugarbeet growers turning to crops which were free of controls.

A second factor which we believe to have contributed to the increased demand and upward price pressures for world sugar was the announcement by the U.S. Department of Agriculture that they were proposing to replace the Sugar Act with a far different type of program—one which would basically place the United States in a position of competing with all other importing countries for 40 to 50 percent of its sugar supplies. I believe it was only natural for the foreign countries who had supplied this market for a long period of time to look upon this proposed change in sugar policy with uncertainty in market continuity and price stability—one of the main objectives of the Sugar Act. With the defeat of the Sugar Act in June, for all intents and purposes, the United States was placed on the world market even though the quota provisions of the act would not expire until December 31 this year. As the world market is essentially a residual market, the fact that the United States is now and will be competing with other importing countries for supplies, placed, in our opinion, additional pressures on sugar values. There are no doubt other factors which played a part in the increase in prices such as inflation, high interest rates, apparent large purchases of sugar by oil producing countries, and simply the fact that up until just a few months ago, there was no real incentive to expand production, which under today's conditions comes at a very high cost in relation to just a few years ago.

In conclusion, Mr. Chairman, domestic sugar producers do not make the market. The market is established by imported raw cane sugar,

and while domestic producers have benefited from the increase in price, it is the result of following rather than that of establishing price.

I have just returned to Washington from the annual meeting of our organization which was held in Boise, Idaho, this past week. Growers realize the price of sugar is up, but so is the price of everything they use in the production of their crops. Sugarbeet farmers are having a good year—a good year which is long overdue, and I said at the beginning we make no apologies after so many marginal years profitwise. We do not believe it is in the interest of consumers to press for the unrealistically low sugar prices such as existed prior to June 1974. Those prices would deprive the growers of needed incentives to increase production and bring supplies up to the full capacity of the sugarbeet industry.

Thank you, Mr. Chairman, and members of the committee, for your kind attention.

MEMBERS OF THE NATIONAL SUGARBEET GROWERS FEDERATION

Ark Valley Beet Growers Association
 Big Horn Basin Beet Growers Association
 Central Nebraska Beet Growers Association
 Elwyhee Beet Growers Association
 Goshen County Cooperative Beet Growers Association
 Growers of Farmers & Manufacturers Beet Sugar Association¹
 Idaho Beet Growers Association
 Lower Snake River Beet Growers Association
 Montana-Wyoming Beet Growers Association
 Mountain States Beet Growers of Colorado & Kansas
 Mountain States Beet Growers of Montana
 Nebraska Non-Stock Cooperative Beet Growers Association
 Nyssa-Nampa Beet Growers Association
 Southern Colorado Beet Growers Association
 Utah Beet Growers Association
 Washington Beet Growers Association¹
 Western Colorado Beet Growers Association

Mr. VIGORITO. Mr. Young, you may proceed.

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

Mr. YOUNG. Yes, Mr. Chairman. I apologize for not having a written statement prepared ahead of time, but the notice reached me when I was out of State, and I have not had time to have that done. I do have a handwritten statement, with notes in it, I will read from.

Mr. VIGORITO. Proceed.

Mr. YOUNG. Mr. Chairman, members of the committee, I appreciate this opportunity to appear before you, and hope my testimony may be helpful. My name is Malcolm Young. I am executive manager of the California Beet Growers Association, Ltd., with headquarters at 2 West Swain Road, Stockton, Calif. The California Beet Growers Association is a statewide, farmer-owned and operated cooperative service organization, with approximately 2,500 sugar beet grower members, and it is supported by over 98 percent of California sugar beet growers. Activities include negotiation of beet purchase contracts with processors, research, public relations, many farmer and grower services, and legislative representation.

¹ Affiliated with Washington office only.

California is the Nation's leading beet sugar producing State, and is counted upon for an average of about 28 percent of the Nation's beet sugar production. California's 22 million bag annual refined sugar distribution makes it the second ranking consuming State in the Nation. Illinois ranks first, with 24 million hundredweight of annual distribution. Therefore, sugar beet production makes it an important contribution to keeping the States' consumers and gigantic food processing industry adequately supplied with sugar at competitive and stable prices.

California is a net sugar exporting State, with practically 100 percent of its sugar needs fulfilled by California-grown and processed beet sugar, and cane sugar from Hawaii, which is shipped to California in raw form and refined there. The California beet industry and its one cane refinery have a production potential of approximately 36 million hundredweight of refined sugar annually, as compared to a local market of about 22 million hundredweight. The balance of the sugar produced is shipped out of State at a high freight cost, to Midwest markets, and sold in competition with cane sugar from gulf refiners and beet sugar from other States.

The foregoing is an effort to acquaint you with the importance of California, both as the largest beet sugar producing state and as one of the major sugar marketing areas. We, too, are concerned about the present price of sugar, because of its possible impact on consumption and our future markets. The telegram and press release concerning this hearing indicated the committee's interest in finding the reasons for spiraling sugar prices, and in discussing legislation to correct the problem. I offer in the following comments, first, about United States sugar prices.

In my opinion, the escalation in sugar prices has been in two phases, and both of them need to be reviewed in order to place the present situation in proper perspective. The first phase deals with the period prior to the defeat of the sugar bill, and I think the actions that took place prior to June 4 had their own impact on our own present sugar price situation. The United States sugar program, as set forth in the Sugar Act, has been tremendously effective in limiting domestic production and maintaining a relatively stable price for sugar, from its inception until the late fall of 1973.

The November 1973 announcement of the USDA proposals to eliminate the controls on sugar, and use a free trade approach, was undoubtedly interpreted by some foreign suppliers and producers as a sign that the price stability and assured market would go out the window. This announcement came at a time when the world sugar production had been less than consumption every year since 1969 and 1970, and really heightened the interest of some foreign suppliers in taking whatever steps were necessary to protect their own interests by selling for an immediate high price to offset the price volatility that could result from a free trade policy, with the United States purchasing its sugar needs on the world market.

At that same time, the domestic beet sugar industry was continuing to suffer from Cost of Living Council price controls. While the Cost of Living Council regulations exempt raw agricultural products, including raw sugar, price controls were in effect on refined sugar starting in 1971. Sugar beet grower prices are based on the beet processors'

net return for refined sugar. The end result was that price controls on refined sugar prevented sugar beet prices from moving upwards sufficiently for the crop to be competitive with improved prices for other farm commodities, during the same time raw sugar prices continued their upward increase under Sugar Act guidelines. Our records indicate the following California acreage: In 1971, we planted 336,000 acres; in 1972, 338,000 acres; in 1973, we planted 279,000 acres. The 1973 drop was in some part attributable to poor planting weather in the spring, and partly because of price controls.

In 1974, our acreage declined to 238,000 acres, all because of the fact that in the fall of 1973, when 1974 cropping plans were being made, no one could assure sugar beet growers of any real increase in their price for sugar beets. Consequently, they opted for cotton, beans, root grains, wheat, tomato, and many other crops, since prices were better.

Another factor that was involved, prior to the defeat of the sugar bill, was the original 1974 consumption estimate of 12 million tons was on the high side, in view of probably an anticipated consumption of 11,800,000 tons, and could have been lower. The subsequent increase of 500,000 tons in January 1974 placed an added burden on the tight world sugar supply situation, and to this day has had an inflationary effect on world sugar prices, as well as our own. We believe that many pressures were the cause for raw sugar prices to rise from \$11.65 per hundredweight on January 2, 1974, to \$24.50 on June 4, 1974. These include, in their order of occurrence, a gradual decline in the carryover stockpile of sugar in the world from 21.3 million metric tons on August 31, 1970, to 15.8 million metric tons on August 31, 1973. This decline in inventory resulted from consumption exceeding production for the previous 3 years. I think it ought to be important to note that after the past 20 years, world per capita consumption of sugar has increased 50 percent from nearly 30 pounds per person to over 45 pounds per person in 1973, this mostly because of improved economic conditions in developing countries.

It should also be noted that the rapid rate of world population growth has increased the total consumption of sugar over the past 20 years. Another factor has been the inflated cost of capital and equipment, and low prices for sugar, have discouraged expansion of production worldwide in recent years. Another factor, that I have already mentioned, is the Cost of Living Council price controls that discouraged sugar beet production, and reduced sugar beet acreage in 1974. I might also add that the USDA's espousal of the free trade approach to sugar legislation, and its handling of the sugar quota program at a critical time, were other factors. Uncertainty about the U.S. sugar program probably caused some suppliers not to ship quota sugar to us in the first half of the year, when they could get a higher price in other markets.

Following all of this, the defeat of the sugar bill was a signal to some foreign suppliers that the United States was embarked on a free trade program. I believe some of them may have already made long-term agreements with other importing countries to sell sugar formerly marketed to us. The spiralling prices following the defeat of the Sugar Act were influenced by the following factors: Foreign suppliers lacked the assurance by our Government of a future market for their sugar at stable prices, as was the case since the Sugar Act;

(2) the world sugar supply situation further eroded, with the August 31, 1974, carryover stock estimated at 15.6 million metric tons; (3) the U.S. beet area, lacking any assurance of relief from price controls, fell short of its capability as farmers opted for crops such as wheat, cotton, tomato, beans, et cetera; (4) disaster struck the 1974-75 beet crop in northern Europe. Wet weather in the spring, drought in some places later in the season, and an outbreak of virus yellow all took their toll.

Because of these and other factors, a revised estimate of world sugar statistics recently released by F. Olick places the 1974-75 crop, world sugar production, at 79,925,000 metric tons—this is over 2 million tons less than earlier estimate. Some other forecasting authorities have come up with an estimate of 79 million metric tons.

The seventh point: World consumption for 1973-74 was 80.6 million metric tons of sugar, an increase of about $2\frac{1}{2}$ million tons on the previous year. On the assumption that higher prices may lessen sugar consumption, one could assume that the 1974-75 world consumption may only be 81 million tons. However, if this proves true, and estimates of production in the range of 80 million to 79 million tons are true, the August 31, 1975, carryover stock will be reduced to slightly over 14 million metric tons of sugar, or about a 65-day supply.

These factors highlight more than ever the need for the United States to encourage domestic sugar production as a safeguard from sugar shortages, now and in the future. The country depends on foreign suppliers for from 40 to 50 percent of its sugar. Under a free trade concept, there will not be price stability. We do not know what part speculation in the futures market has played in increasing sugar prices. Possibly the committee should have USDA develop an indepth analysis of 1974 futures trading, as was done in 1963, in an effort to find out the part speculation played in raising the price in May of 1963 to \$13.46 per hundredweight. Hindsight indicates that the expansion of imports by Russia and EEC countries, because of their poor beet crops, and reports of some reduction in estimates from the cane areas, were unforeseen factors that continued to force prices upward. High oil prices, and their effect on ocean transportation and refining costs, and the devaluation of the dollar, have been factors, as well as the inflationary spiral for the past year.

When one considers the inflation that has taken place in the cost of growing, transporting, and marketing a sugar crop anyplace in the world, it is evident to me that sugar prices may never return to levels comparable to those prior to June of 1974, and that it will be a long time indeed before they even get close to 25 cents. The best hope is that the price would get back down to 30 to 35 cent price range, as domestic beet and cane production increases. This might take a year or more.

California beet acreage will increase in 1975, unless the price outlook suddenly changes. We expect to plant between 310,000 and 315,000 acres of sugar beets in 1975. This is factory capacity. With a normal season, this acreage would produce in excess of 20 million hundredweights of refined sugar, or over 1 million tons of sugar, raw value. Commitment to this acreage was made with the full knowledge there would not be any Sugar Act controls for the 1975 crop, and that the world supply situation was sensitive. They hoped to realize a good, competitive price for the crop.

This completes my testimony. Thank you.

Mr. VIGORITO. Thank you, Mr. Young.

I think both of you gentlemen agree that the administration's action this past year of going in and asking for another 700,000 to 800,000 tons triggered and set off the round at price increases.

Mr. BLAKE. It certainly was a contributing factor, yes, sir.

Mr. VIGORITO. Probably the main one, as I can see it.

Would you say that the sugar beet industry right now, the processing capacity—you have an excess capacity of about 1 million tons?

Mr. BLAKE. As compared to the 1974 crop production estimate, Mr. Chairman, we feel that we have a capacity of about 4 million tons presently, with the new mills that will be coming on stream. In Mr. Bergland's area, came on—two of them this year, one next year, and so we feel very definitely we have that much capacity.

Mr. VIGORITO. And assuming that if the sugar prices stay where they are actually, you will be using that excess capacity?

Mr. BLAKE. Yes, sir.

Mr. VIGORITO. California, I think, is going to increase their acreage by approximately 30 percent.

Mr. YOUNG. About 80,000 acres. We have 230,000 this year, plus another 80—

Mr. VIGORITO. Almost 30 percent.

Mr. YOUNG. I might say this, too; not at present sugar prices, as far as California is concerned. We are talking about reasonable sugar prices of 30, 35 cents, and not the 50 and 60 and 70 cent prices that have prevailed here recently.

Mr. VIGORITO. Well, in January, the raw price was 12 or 13 cents.

Mr. YOUNG. Nobody plants any beets.

Mr. VIGORITO. What was that?

Mr. YOUNG. And nobody plants any beets.

Mr. VIGORITO. And then this past November, it was up to 60 cents, or pretty close to that, and Mr. Blake made the statement that he would not want to see the price go below June of this past year, and in June it was around 26 cents for raw sugar.

Is that correct?

Mr. BLAKE. Yes, sir. That would be very minimum. Looking at the costs of production that we are facing, and what we think we are facing in 1975.

Mr. VIGORITO. Okay.

You say, I think—both of you were saying that the housewife cannot expect 15 cent sugar anymore.

Mr. YOUNG. In my opinion, you certainly will not get a very large beet production at those levels, and what happens in the world I do not know. But I do know from a domestic producer's standpoint, from the area that I represent, sir, that the reduction would be drastic. That would also be true from California. Our competitive crop system out there is a very important part of this thing. Presently, you can contract 1975 wheat to buyers at \$150 to \$160 a ton. Barley prices are high, tomato prices will be \$60 a ton, and not only that, that is the competitive picture. But from the production cost standpoint, things have inflated so fast that you cannot even come up with a realistic cost study anymore. Every time you attend a meeting, you suddenly find that this item or that item has increased in price, and I do not know

where it ends. But as long as inflation continues, why, I would not see any hope of getting any beet sugar production of 15 cent sugar.

Mr. VIGORITO. Well, can beet producers—switch from beet to another crop, and back to beet very easily?

Mr. YOUNG. Yes, sir; at least in California. Our growers are all diversified farmers. The average sugar beet grower grows about 200 acres of beets.

Mr. VIGORITO. 200 acres?

Mr. YOUNG. 200, and he probably farms 500 to 700 acres on average, something like that, and he's got 20 percent or 25 percent of his acreage in beets. In addition to beets, why, depending on the area of the State he's in, he would grow wheat, cotton, safflower, beans, other feed grains. Part of the area, they grow corn. It is a very diversified agriculture out there, with many crop options.

Mr. VIGORITO. Optionally, how many tons of sugar beets can you get out a day?

Mr. YOUNG. We have a State average of approximately 25 tons.

Mr. VIGORITO. Twenty-five tons of sugar beets per acre in California. And out of that 25 tons, how many tons of raw sugar do you get? Do you know?

Mr. YOUNG. You get about 4 tons of sugar to the acre, gross; probably $3\frac{1}{2}$ tons of raw sugar, something like that.

Mr. VIGORITO. That's all I have. Mr. Goodling?

Mr. GOODLING. Thank you, Mr. Chairman.

Mr. Blake, I was grieved by one statement you made. "At the very outset, let me state that sugar beet growers make no apologies for the existing level of sugar prices." After 2 days of hearings, I have not heard anyone who was willing to apologize for 60 cent sugar, or isn't that an excessive price, in your opinion?

Mr. BLAKE. Well, let me say this, Mr. Goodling—and I thought quite a while before I made that statement. I certainly—

Mr. GOODLING. Would you pull the microphone a little closer, please?

Mr. BLAKE. I certainly agreed with what you said yesterday, that you have to look at it over a period of years. In 1969, for example, in the great western sugar area, growers were unable to get their crop out of the ground, and they lost \$30 million in just a small area, and it has taken them 3 or 4 or 5 years to even get back on their feet. A lot of them went bankrupt at the time, and I do not think you can look at it, at a price, in a very short period of time. I think we have to look at it over the long period of time, and we do not know what we are going to come up with in the way of price for our 1974 crop.

Now, we will not be paid on our 1974 crop until October 1975, and the crop that we are planting in 1975, we will not be paid for until 1976. So we think, basically, this is a strong reaction of my growers that was expressed at my meeting, that we should not apologize for the price of sugar, and this is why I state it.

Mr. GOODLING. In your opinion, if sugar sells at 60 cents a pound retail, isn't consumption going to decrease dramatically?

Mr. BLAKE. Yes, sir. I am personally concerned, if it stayed at that level, that it would have long term—or the effects over the long term would not be beneficial to the sugar-beet producer, or any sugar producer.

Mr. GOODLING. There are many people today who simply cannot afford to pay 60 cents for a pound of sugar.

Mr. BLAKE. I agree with you.

Mr. GOODLING. I am going to buy it as long as it is available, I hope. But I realize there are a lot of people who simply cannot. I've had people tell me already that they have cut way down on their consumption of sugar.

Mr. BLAKE. Yes, sir.

Mr. GOODLING. I was interested where you talk about what the growers received for return. You say, "While the percentage share varies with company and area, growers on the average receive between 62 and 65 percent of the net returns."

Could you clarify the statement? I'm not actually sure what you mean.

Mr. BLAKE. Yes, sir. The companies sell the sugar, and they receive a gross price—a wholesale price—for the sugar. From that figure, there is a deduction in sales cost, excise freight, et cetera—everything that goes into the cost of sales—and they come up with a net figure. And then, we divide that net figure between the grower and the processor on about this ratio.

Mr. GOODLING. If the processors lose money, do the growers share in the loss?

Mr. BLAKE. Yes. You see, we receive payments—we receive an initial payment in November of the crop year. Then, we normally receive two additional payments, one in the spring and one in the fall of the following year, and the processors have been very careful. As far as I know, only once, to my knowledge at least, they overpaid the growers, so that they have been very careful in their initial payment to the growers. And I would also add that certainly, we have to have a strong, viable processing industry, and we do not want to see them go broke, because this is our market.

Mr. GOODLING. How is this price established for beets? You say, "contract arrangements with our processors and some positive assurance that sugarbeet prices will remain competitive with other crops."

How is that price established?

Mr. BLAKE. Basically, the price in this country is established by raw sugar prices, imported raw sugar prices, and the domestic beet people follow those prices. But there is a differential, I think you'll find, between the price we were paying on the east coast and in the midwest, and in the west.

Mr. GOODLING. You also say that one of the underlying causes for the high price of sugar today is the supply and demand ratio worldwide. Would you say that the demand has increased as fast as the price of sugar has risen?

Mr. BLAKE. No. I would say that the consumption has risen faster than the production, sir—that is what I meant—in 4 of the last 5 years.

Mr. GOODLING. What we're trying to find out on this committee is, why prices have risen the way they have in the last few months.

Mr. BLAKE. Well, because there's been a drawdown on stocks, I think. Mr. Murhpy made an excellent statement yesterday, when he said that prices—I think if you have 125 percent of production, as compared with consumption, and 25 percent reserve stocks, you have

sort of a balance; and if it drops below the 25 percent figure, then the world prices start to move up, because this is a drawdown on stocks.

Mr. GOODLING. I do not have any figures to prove this—I suppose they are available—but I cannot think of any farm commodity that has risen as rapidly as the price of sugar has in the last few months.

Mr. BLAKE. It has been a very dramatic increase, no question.

Mr. GOODLING. We've had some crop failures on other farm commodities, but as I say, I do not recall any farm crop that has risen as rapidly as the price of sugar has, and there must be a reason for that. I will admit that we have not come upon that reason in the two days of hearings we have held here.

I am very much interested in this statement that you made and I hope you have a name to give me here:

A second factor which we believe to have contributed to the increased demand and upward price pressures for world sugar was the announcement by the U.S. Department of Agriculture that they were proposing to replace the Sugar Act with a far different type of program.

Who made that statement?

Mr. BLAKE. The industry first learned of this action at a meeting with officials of the Department of Agriculture, I believe, early in November of 1973; and then, the director of the Sugar Division made a speech in the Red River Valley in the first week of December, and one at our annual meeting in Nebraska following the so-called announcement of the—we called it in the industry a Frick float.

Mr. GOODLING. For the record, who made this statement? I want a name.

Mr. BLAKE. Mr. Calcagini.

Mr. GOODLING. Well, I think everybody in the Department of Agriculture should know; it's not the Department that writes the laws, it is the Congress of the United States. They can propose; we in the Congress must dispose.

Mr. BLAKE. Yes, sir.

Mr. GOODLING. In your opinion, did the defeat of the sugar bill in June have any effect on the market price of sugar?

Mr. BLAKE. In looking back, sir, all I can say is the price immediately rose 2 cents the next day, a hundred pounds. I do not know that I can put an actual figure to it, but I would think that if the Sugar Act had been extended, we probably would not have had as high a price in this country as we do today.

Mr. GOODLING. Would you favor a new act?

Mr. BLAKE. I favor a very simple act—our growers do—without tax and payments. One of just a simple supply management type thing, program.

Mr. GOODLING. That is all, Mr. Chairman.

Mr. VIGORITO. Mr. Findley.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. Young, you indicated the production level of your growers, up to 1973—or through 1974. Can you give us any estimate as to how the planting will be in 1975?

Mr. YOUNG. I think I covered that. We estimate that we will have a planting of 310 to 315,000 acres in 1975. And this is full factory capacity.

Mr. FINDLEY. Is that up?

Mr. YOUNG. Up from about 235, yes.

Mr. FINDLEY. So the present price situation, so far as your own experience is concerned, is bringing about increased production.

Mr. YOUNG. Yes, sir.

May I add to that and say that all of us, our growers included, general world supply of sugar, that sugar prices for the 1975 crop sugar. But they feel, in looking at the world inventory situation, the general world supply of sugar, that sugar prices for the 1975 crop will be strong. And our beets are paid for on the basis of the company's selling price for refined sugar.

The 1975 crop sales year starts July 1, 1975, and runs through June 30, 1976. And we receive a weighted average price for their refined sugar, which relates to the price per ton of beets.

Mr. FINDLEY. And you expect prices during that period to be strong.

How would you compare prices for that period with prices for the preceding period?

Mr. YOUNG. I would hope they would be comparable to what we'll get for our 1974 crop. I do not know as they will be.

Mr. FINDLEY. Let me put it another way.

Do you expect prices your producers receive to be substantially lower this time next year?

Mr. YOUNG. Not too much. As I look at—there is nobody who can be an expert in this sugar price forecasting. I have been trying to forecast our beet payment every month since the first of July, and all I have done has been wrong, because I always figure it is going to taper off out ahead, and all it has done is it has gone up. But it would appear to us that our 1974 crop payments will be based on something better than \$30 sugar. We do not know quite how much, but our sales year started back in July, at which time sugar was selling for about 30 cents.

Mr. FINDLEY. That would, of course, represent a substantial drop if it does materialize.

Mr. YOUNG. That is right.

Mr. FINDLEY. Now, in your statement, as I heard it, you indicated that some producing countries have been making long-term agreements—and I believe I have your words correctly—for sugar they formerly supplied to the United States. Is that a correct quotation?

Mr. YOUNG. That is what I said in essence. I believe this to be the case, and the reason is that in various sugar trade publications—in one item, for example, there has been a report of the Philippines making a barter arrangement with Red China, whereunder they are exchanging sugar, copper and some other things to Red China in exchange for oil. I have heard that Japan and South Korea both have made long-term commitments for Australian sugar. There have been reports of commitments on long-term for Brazilian sugar. So, I get the feeling that the other foreign countries, because they can operate and negotiate on a country to country basis, are securing their sugar supply while this country is sitting here doing nothing.

Mr. FINDLEY. Well, if you have heard rumors to that extent, you have surely heard also speculation about prices in these agreements. Could you tell us what speculation you have heard about the terms?

Mr. YOUNG. I have not heard any speculation about prices.

Mr. FINDLEY. They surely have not made long-term agreements at 75 cents a pound.

Mr. YOUNG. No, I would not think they would have. I would think they would be much lower than that.

Mr. FINDLEY. So if they are lower than that, then these producing countries are gambling on the price of sugar going down substantially.

Mr. YOUNG. Well, I would expect it to go down substantially, too, sir.

Mr. FINDLEY. Mr. Young, would you recommend that the Congress resurrect the act which was defeated last June and pass it before this month is over?

Mr. YOUNG. No, sir.

Mr. FINDLEY. Mr. Blake, would you recommend that the Congress do that?

Mr. BLAKE. No, sir.

Mr. FINDLEY. Do you oppose such action?

Mr. BLAKE. I think at this time, sir, I would have to say we would oppose it. We feel that it is a situation that should be studied in depth by the Congress next year.

Mr. FINDLEY. I am not sure which of you gentlemen used the phrase, but one of you kept referring to the prospective U.S. policy next year as one of free trade. Granted it would be in great contrast to the conditions that operated under the Sugar Act, but I would not like to leave the impression that I would interpret it as free trade. The President will have a considerable amount of Executive authority he can use, on marketing quotas, on import quotas, and on tariff levels. So I am sure you recognize that there is a considerable distinction between free trade in such conditions.

Mr. YOUNG. Well, I think my comments dealt with the Department of Agriculture's proposal on sugar, which I interpreted very directly as a free trade approach to the sugar situation. It was a no-quota approach, and this type of thing.

Mr. FINDLEY. The Department's proposal on sugar? Could you tell me what statements you refer to?

Mr. YOUNG. Well, I guess the first statements that were made, on November 2 of last year, I believe it was; when most of us were called back here to attend what was billed as an administration conference on sugar.

Mr. FINDLEY. Who was the spokesman for the Department at that time?

Mr. YOUNG. I think Mr. Frick was the one that spelled out this program.

Mr. FINDLEY. I have been somewhat in doubt as to what the administration's position is, so I am going to look that up. I will have to enlighten myself.

As I have sat here in these subcommittee hearings, I have pondered this question that the chairman keeps raising: Why has the price of sugar shot up so dramatically? And one factor or one possibility that I do not think has been dealt with so far is this one—and I would like to present it to you for any comment either of you may wish to make.

Under the U.S. Sugar Act, as administered by Mr. Murphy—and very ably administered by him—users in this country for the most part had no concern about price or supply fluctuation. Therefore, the

private sector dealing with sugar supplies had no need to stockpile as a hedge against price or supply fluctuations, as would almost every other part of the private sector. Then, with the prospective end of this tightly Government-controlled operation, those who use sugar and had need for it for whatever purpose saw a supply and a price problem, especially in light of the rise in prices that seemed to proceed week after week. Given the former condition, in which there was no need for any substantial inventories as a hedge against price and supply problems, the users would naturally try to get ahold of what supplies they could in this tight supply situation, which would tend to aggravate the pressure on prices far beyond what would occur if it were not such a tightly controlled commodity.

Now, would either of you comment on what speculation?

Mr. YOUNG. I would like to comment briefly.

We think, in the beet industry—or I do, and I think most people in the beet industry think in terms of refined sugar, because ours is a true process and we end up with refined sugar, we do not have raw sugar. And from a refined sugar standpoint, at least, I think—and maybe our processors who testify tomorrow may help you with this—I think the sugar trade is such that the stockpiling of refined sugar has to be pretty limited because of the fact that sugar is now handled in bulk; it is not handled in 10-pound bags.

Years ago, I can recall for example, that the canners used to contract and take delivery of sugar in the winter months, and as they shipped their canned goods out, they brought the bag sugar in and stored it for their use next year. Well, those things have all disappeared because they now take liquid sugar of different syrup grades and this kind of thing—special bulk granulated sugar and that type. And the industry is geared, the using industry, the big users, most of them on the refined end of it, I think are geared to operate pretty much on a hand-to-mouth basis. When the bottlers really start selling the bottled drinks, well, they have got a steady stream of sugar moving in and the bottled goods move out. And if there was any stockpiling, I would think it would be somebody that was making Wheaties or candy bars or something like that, that might have, here last April or May, made a little bit larger than normal inventory of that kind of stuff. But I cannot see how anybody can store an awful lot of refined sugar; there just are not that type of facilities—that is, for large quantities of liquid sugar or large quantities of bulk sugar.

In California, why our beet processors have some storage for liquid sugar—very limited; a lot of storage for bulk sugar. And they are expanding that storage all the time because that is the way sugar is marketed and handled these days. And it is a part of the service to the customer, I would say.

Mr. FINDLEY. Anything you would add, Mr. Blake?

Mr. BLAKE. No, except just to reiterate what you said, Mr. Findley. I think any stockpiles are at the big factories, rather than with the users.

Mr. FINDLEY. May I ask you both, gentlemen, this—and this is my last question, Mr. Chairman—is your industry concerned about the threat of corn products as a substitute for beet products, caused by excessively high prices of beet sugar?

Mr. BLAKE. I think we have to be aware of that possibility, yes, sir.

Mr. YOUNG. I would answer in the affirmative. Yes, corn sugar is a threat to the sucrose industry in some markets, and it probably will be a growing threat.

Our cost of production is going up. The cost of sugar is such that in some industries we may be phased out of the use of it and replaced by corn sugar.

Mr. FINDLEY. So you have a very real self-interest in trying to bring the price of sugar down. Is that a fair statement?

Mr. BLAKE. I would certainly state this, that at these prices we do have a great fear of the impact of corn sweeteners and nonsucrose sweeteners.

Mr. YOUNG. May I respond, too, sir? I would like to respond to that, too.

We do have an interest and hope that these prices will go much below their 60-cent level and down in the 30's. And there is one other thing—it may help a question that one of you asked Mr. Faulkner. There is a difference between refined sugar prices in the California market and in the Northeast, which is usually the refined market that is quoted by everybody. And just as a matter of information to you, at the present time our price in California is \$54.35, which is \$12.50 below what the New York price was when I left home. And throughout the month of November—the 4th of November, we were \$9 lower. We went to \$11.25 lower; \$12.25 lower; and then \$12.50 lower. And this applies back through all of the months here in the past.

As a matter of fact, when sugar was selling at \$35 in California, during the month of September, for the whole month, on the east coast it was \$40.85. And there has been a difference and this is brought about by competition between the beet companies and our general market condition.

Mr. FINDLEY. Is beet sugar not storable for long periods of time?

Mr. YOUNG. It is storable as long as any other kind of sugar, and that is for long periods of time.

Mr. FINDLEY. I had the impression from earlier comments that it might not be practical to warehouse sugar for any period of time. But I did not want to read the wrong thing into that comment.

Mr. YOUNG. All of our factories in California have large bulk storage facilities, plus some storage for bag sugar. And right now, what we are in effect, as the beet industry rationing sugar in California, we had such a small acreage this fall that our factory has closed down some 30 to 40 days early, and we will not start harvesting until March. And we—our processors will be rationing sugar among their customers or buying sugar from C. & H., or bringing sugar from other places to maintain their customers, because of our tremendous drop in beet sugar production this year.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. Blake, for the record, because I think we are going to need this later on, I would like to have you go through some figures with me—as we try to zero in on the villain in this piece.

When do the farmers generally plant sugar beets out in the 12 Western States?

Mr. BLAKE. The earliest, outside of California, would be the latter part of February; but most of them are in April and May, Mr. Johnson.

Mr. JOHNSON. And when are they harvested?

Mr. BLAKE. Starting the middle of September. And they hope to be through harvesting by the middle of November.

Mr. JOHNSON. What size farms are these generally raised on? I mean the total farm, not the sugar beet acreage on these average farms, but generally. About half a section?

Mr. BLAKE. Yes. I think generally most of the areas are set up at 160-acre farms. But they farm more than 160—maybe a quarter. So they run in the neighborhood of 300 to 500 acres.

Mr. JOHNSON. All right, now what is the average beet acreage on these places?

Mr. BLAKE. Somewhere in the neighborhood of 70 to 62 acres of beets. I think in Mr. Berland's area they will run up as high as 100 to 150 acres, somewhere in that area. In the State of Washington, it might be around 100 acres.

Mr. JOHNSON. How many farmers are we talking about in this area?

Mr. BLAKE. In my immediate area? The area I represent?

Mr. JOHNSON. Yes, sir.

Mr. BLAKE. Somewhere in the neighborhood of 12,000 to 15,000.

Mr. JOHNSON. That is in 12 Western States?

Mr. BLAKE. Right.

Mr. JOHNSON. What is the equipment situation? Mr. Goodling asked the question, can you switch from beets to other crops, which, of course, you cannot as far as the land is concerned. But you have specialized equipment for the production of beets, do you not?

Mr. BLAKE. Yes, sir; we do.

Mr. JOHNSON. And what equipment is necessary that is indigenous only to beets?

Mr. BLAKE. Well, to start off with, we are trying to mechanize our crop as much as possible, and we are now using electronic thinners in the spring, which can only be used on sugar beets.

Mr. JOHNSON. And how often do you use them?

Mr. BLAKE. Well, they are used probably from 3 weeks to a month during the year.

Mr. JOHNSON. And what is the cost?

Mr. BLAKE. The cost will run somewhere in the neighborhood—and I hope you will not hold me to this—but I have not heard—they started out at about \$1,000 a row. They will generally use six-row thinners. But I think they have gone up somewhere around \$1,200 to \$1,500 a row.

Mr. JOHNSON. Now, when you are talking about harvesting, do-thinner alone?

Mr. BLAKE. Right.

Mr. JOHNSON. Now, when you are talking about harvesting, do you have special equipment for that?

Mr. BLAKE. Yes, sir. We have a special harvester—normally a two- or three row.

Mr. JOHNSON. And how long do you use that during the course of a year?

Mr. BLAKE. Well, probably 30 days.

Mr. JOHNSON. And what does that cost?

Mr. BLAKE. Well, they will run somewhere in the neighborhood of—well, in 1974 a John Deere tractor cost—or harvester cost \$15,000.

Mr. JOHNSON. Okay. So we are talking about—those are the only two items that are used only in the beet production? You have tractors and planters and things that can be used elsewhere?

Mr. BLAKE. Well, there could be some pesticide and herbicide applicators that could only be used in the sugar beet.

Mr. JOHNSON. What would you estimate to the cost, just of beet equipment only, for the average farm? Around \$25,000?

Mr. BLAKE. That would be difficult, Mr. JOHNSON. You have trucks that you use in the beets and other crops.

Mr. JOHNSON. Right. It takes more trucks in our area to take all of the beets. So you would have to take more than one truck in there, would you not?

Mr. BLAKE. I think the last figure I heard came out of the Department of Agriculture a year or two ago, and I think they said that the average—I believe this to be true—the average investment in the beet enterprise is somewhere in the neighborhood of \$45,000.

Mr. JOHNSON. That would include some equipment that can be used elsewhere?

Mr. BLAKE. Oh, yes.

Mr. JOHNSON. All right.

Now, in our area we do not make as many tons of beets to the acre as they do in California. What is our average?

Mr. BLAKE. The average in the area that you represent is around 19 tons per acre.

Mr. JOHNSON. And what is the sugar content in that?

Mr. BLAKE. The sugar content will run—this year we had a very good sugar content—about 17.2 percent sugar.

Mr. JOHNSON. That means how many tons of sugar per acre?

Mr. BLAKE. Somewhere between 2½ to 3 tons.

Mr. JOHNSON. All right, and what does this mean in terms of a per acre return, gross and net, after you take your per acre—first of all, your gross, and then your per acre cost? And what has been the pattern of that, say, for the last 4 or 5 years—not just this year; this has been an extremely good year—but over the past 3 or 4 or 5 years? What has been the average net return per acre that a sugar beet farmer gets?

Mr. BLAKE. Well, I am not certain I can give you a specific answer to that.

Mr. JOHNSON. I know it would have to be a ball-park figure.

Mr. BLAKE. For the 1973 crop, which was just paid for this past October—they are always a year late—the last crop, which was the 1973 crop, the price per ton averagely, would be somewhere in the neighborhood of \$30 a ton; \$30 a ton. And using the cost of production—and I hate to use these kinds of figures, because they vary so much. I did pick up a figure from one of the largest growers in Colorado, but he figured that it cost him somewhere in the neighborhood of \$400 an acre to produce those beets; for which he got \$600.

Mr. JOHNSON. So he makes \$200 an acre and this is in one of their better years.

Mr. BLAKE. As a result of the sugar price.

Mr. JOHNSON. Right.

So we have \$200 an acre times profit for an average 60-acre farm. You are talking about a \$12,000 return, net. And that is not in one of our best years.

Mr. BLAKE. Oh, it is the best year they have ever had.

Mr. JOHNSON. No; it has not been that good; it has not been half that good, has it?

Mr. BLAKE. Oh, no; no.

Mr. JOHNSON. In the recent past.

Mr. BLAKE. Actually, I think over a period of years the prices ranged somewhere in the neighborhood of \$15 to \$20 a ton. I remember back in 1947, I think the last year of the price support program after World War II, I think it was \$14.50 a ton.

Mr. JOHNSON. And this generally takes from April or May of one year until October of the following year before you get your final payment.

Mr. BLAKE. That is correct.

Mr. JOHNSON. Now, as we have gone through these hearings, and I know you have been here the whole time, we find out—everybody presents figures, but nobody is the villain. The producer is not. And as we go through the figures—it is established to my satisfaction they are not—as we go through with the refiners, their operating margins that they presented to us—and I presume their figures are accurate—their operating margins—you heard them this morning—indicated that they buy and refine sugar and sell it on a market. Their margins are not exorbitant.

Could part of the profit—not in our country—you have heard about the Great Western Sugar. There has been a great deal of talk about how sugar should be subject to antitrust legislation and investigation because Great Western Sugar has made 3,000 percent on their money. I think that was in Sunday's paper, if you were coming back on the plane. Is part of the profit that has been made as a result of the liquidation of the inventories that the sugar companies had on hand, and they raised the prices as the spot prices went up? Could that account for part of the problem? Because the operating margin is—you buy sugar, you sell it, you refine it, you market it—it is not too high any place along the line, but that liquidation of these inventories, as the consumption exceeded production over the last year or two, could that have accounted for some of the increased profit and the higher prices? Or the increased profits—let us ignore the higher prices for a moment. As the prices went up and they charged on the basis of spot price, they liquidate their inventory; could that be part of the reason for the increased profits of companies like Great Western Sugar and others?

Mr. BLAKE. Mr. Johnson, there will be a man from Great Western here tomorrow, and I would prefer that he answer that question, if it is all right with you.

Mr. JOHNSON. All right.

When we get to this 15 percent of the total world production, which is what travels around in the free world market, that determines the spot price in New York, evidently; is that right? This surplus sugar that is traveling around that is not part of these preferential arrangements?

Mr. BLAKE. Well, in effect, since we are now on a world market, I would say that whatever the New York price is—

Mr. JOHNSON. Well, according to USDA, that figure is 15 percent of the total amount of the sugar that is loose and traveling around in the world and not under preferential agreement of some sort or another. That is where the spot price is determined.

Now, the question is, who knows—who controls that 15 percent? The countries that are involved? The speculators some place along the line? If that is where the price rise is coming from we ought to be able to identify it. Surely there is enough brains in this room—not up here, obviously, because we are asking the questions; but there ought to be enough brains in this room for us to at least zero in on where the spot price, spot market price keeps coming from. Evidently it is that New York price; evidently it comes from that 15 percent that travels around loose in the world market. Now, who controls that 15 percent? Who can tell us?

Mr. BLAKE. Well, the 15 percent, I think, that you are talking about—and you are going to have an expert here day after tomorrow, I believe; Mr. Earle MacHardy, who is president of the Coffee and Sugar Exchange, who can probably answer that a lot better than I can—and I think—because we have an interest in knowing what the spot price is, but we do not follow it. And I would say that the 15 percent that you are talking about would be a world price. And I do not think it is directly connected to the New York spot.

Mr. JOHNSON. Well, it is pretty close, according to these figures.

Mr. BLAKE. The New York spot has been set on sugar that has been coming in—up until December 31 of this year, anyway—by the quota sugar that has been allowed under the sugar program.

Mr. JOHNSON. According to the figures that we have some place in all of this pile, those figures are very close. We are a little bit lower on a monthly basis. USDA has given us these figures some place; I cannot lay my hands on them—yes, here it is, right here.

The world price and the spot price are just—since January of 1974, we are below, but not by very much. In 1973, we were below again, but not by very much, on a monthly basis, according to the figures that they gave us on this thing. I do not know if you have that or not.

Mr. BLAKE. Yes, this is one that Mr. Murray introduced.

Mr. JOHNSON. Yes.

Mr. BLAKE. I have a copy of it, yes.

Mr. JOHNSON. In table II it shows the comparison of the world price and the spot price, and they are very close. So I am just trying to find out who can tell us—because evidently it is not the producer, it is not the refiner. I do not think it is the retailer, according to the figures that we have, because they are operating on a pretty slim margin. So this is where, at least it seems to me, it comes down to. Who is it that you people can tell us, that can identify the cause of that price? It seems to me it is in your interest to do this so that we do not have the consuming public raising Cain about the sugar beet farmer raising beets or the sugar beet farmer getting rich, too rich, having excess profits, taxes involved, or the retailers involved. It is in the interest of the sugar beet or the sugar interest, I mean, to identify where this is coming from. I would hope that we would get a little bit more help from all of you and the whole group than we have been

seeing so far. It seems like we have kind of had to drag it out. We really do not know enough to ask the right questions, probably.

Mr. Young.

Mr. YOUNG. It seems to me that a part of that answer is that this is a function of supply and demand. You have got a percentage of the sugar produced in the world that is free traded at whatever you want it, that is world market sugar. That is a small percentage of the sugar that is marketed, and any time there is a reduction in carryover supplies and this type of thing, I think the impact of that reduction in supplies gets multiplied in this world market thing about the normal thing for a producing country to do would be to take care of its own people first and export surplus—

Mr. JOHNSON. I agree with you. I am sure that is right.

Mr. YOUNG. And I think what you are seeing happen is that we have had now 4 years in a row where the world inventory of sugar, on August 21, has declined, and we are now going into another year. It looks like we may lose another million tons, and I think—

Mr. JOHNSON. We have had those figures. What I am trying to say is who controls this sugar that is being floated around?

Mr. YOUNG. Well, as I understand, some foreign countries sell their sugar through governmental agencies; other countries, the individual mills deal direct with buyers, such as refiners, operators or whoever else may buy sugar. And it becomes a matter of trade between those people.

Mr. JOHNSON. If that is the case, we ought to be able to identify it and satisfy the American public.

Mr. YOUNG. People are bidding against each other for this sugar.

Mr. JOHNSON. We ought to be able to satisfy the American people there is no villain involved. We ought to be able to do that. And these hearings should be able to solve that for us. I would think we would all be in the same boat in trying to reach that conclusion with facts and figures, to get all of you off the hook, if you please.

Thank you, Mr. Chairman; I have no further questions.

Mr. VIGORITO. Mr. Bergland, do you have any questions?

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

Mr. Blake and Mr. Young, I think it has been very well established that if we are going to provide the consumers of this country with a reliable supply of sugar at a reasonable price and increase production, one of the difficulties to which you have referred is the competing crop factor. With the high prices for many of the grains that are now being produced, the sugar beet producer is finding it more valuable to grow those crops. Assuming for a moment that grain prices and cotton prices stay at about present levels, at what price would sugar need to be posted in order to be competitive in your area, in California or the Western States?

Mr. YOUNG. I think in California, we would have to look at 30 cents to 35 cents sugar.

Mr. BERGLAND. 30 cents or 35 cents retail or wholesale?

Mr. YOUNG. Wholesale.

Mr. BERGLAND. Is that generally true in the West, Mr. Blake?

Mr. BLAKE. I would say 30 cents to 40 cents, Mr. Bergland. Thirty-five cents would probably be a good figure, using—you know, if costs

do not increase too much in the next year. But as of the moment, I would say 35 cents wholesale price.

Mr. BERGLAND. Thank you very much; that is all, Mr. Chairman.

Mr. VIGORITO. I wish to thank you very much, Mr. Blake and Mr. Young, for your testimony today. You have contributed very much to what we want to know.

This committee—

Mr. FINDLEY. Could I ask one more question?

Mr. VIGORITO. Yes; you may, Mr. Findley.

Mr. FINDLEY. Witnesses, time after time, have spoken of the importance to sugar beet growers of having an assured market for several years ahead, and they use that as the rationale for a piece of legislation.

Have your producers given any thought to offering, let us say, a 5-year contract with Coca-Cola to supply them with sugar at, let us say, 25 cents a pound?

Mr. BLAKE. We do not participate in any marketing decisions of the companies, Mr. Findley. If there is any possibility of this, in my opinion, it would be discussed at a contract negotiation that we might have with the processor. But we do not participate in marketing decisions at all.

Mr. FINDLEY. It would be a very normal step to take—and I realize we have had 40 years' history of Government control, and sugar has been the most tightly controlled of all commodities marketed in this country. So I realize that this would be a substantial departure from what you have known. But if the act has come to an end, if sugar legislation in its traditional form is a thing of the past now—and I think there is that possibility—I hope your association will be giving some thought to ways it can meet its own needs through long-term contracts for production at a price.

Mr. BLAKE. Well, certainly, Mr. Findley; with the cost of going into big production today, and like the new areas up in Mr. Bergland's territory, anything that is going to give us some kind of assurance of a reasonable price for our product is going to be looked at. And I think we are ready to look at any innovation that would give us this assurance.

Mr. FINDLEY. What is a reasonable price today, given current costs?

Mr. BLAKE. Somewhere in the neighborhood of 30 cents to 35 cents a pound; 35 cents a pound, I would say.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. YOUNG. May I comment a little bit about this? This is not new to me. As a matter of fact, I have talked to one of our users about something like this. I am a little bit skeptical about long-term contracting of refined sugar, out ahead for 2, 3, 4, or 5 years, for several reasons. The only thing that we are familiar with, in a limited way, is some forward pricing that our processors have done at times, which we thought has been detrimental to the market; and that is pricing by the quarter or two quarters ahead. It has always been our opinion in recent years that it is silly to price ahead when you are in a rising market; and that is all we have had for a long time. But, nevertheless, they have done it.

What you are talking about is that we would make a contract with a large user for so many thousand tons of sugar or something at a price for a period of years. Some of the things I read about forward contracting indicate that the people who are consumers that make these contracts are quite willing to on this basis, providing they can buy it cheaper out ahead if the price is lower. This does not give us the guarantee that we need for production costs. And I just wonder if you can make any commitment with the buyer out any great distance ahead that he would really be bound to, if the price went down in the normal market—this is where my concern is.

For example, we have a lot of—have had a lot of Japanese mills and people buying cotton in California, as you may have heard. And I have heard of several instances now where these people will come back to the people that sold them their cotton under contract sales and asked them that the thing be renegotiated, otherwise they would have to drop the contract because the market had dropped so low that they were placed in a poor competitive position in marketing the cloth or whatever they would make out of it. So I have some concern about it, plus the fact that I think the user is always trying to get sugar about as cheap as he can. And I think we have to look at it carefully, and I think we will be looking at things carefully.

Mr. FINDLEY. Thank you.

Mr. VIGORITO. The committee will reconvene tomorrow at 2 p.m., Wednesday, December 11. The meeting is now adjourned.

[Whereupon, at 3:25 p.m., the hearing was adjourned, to reconvene at 2 p.m., Wednesday, December 11, 1974.]

[The following statement was submitted to the subcommittee:]

STATEMENT OF HON. ROBERT F. DRINAN, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF MASSACHUSETTS

Mr. Chairman, during the past few years, as inflation has reached the highest rate since 1946, American consumers have experienced increasing difficulty in stretching their dollars to buy enough food to feed their families, sufficient energy to heat and light their homes, and adequate medical care to preserve their health. While nearly all consumer goods have escalated in price, three essential commodities in particular—beef, petroleum and now sugar—have in turn undergone sudden, meteoric price increases since 1972. In each of these instances, the consumer has been the victim and the industry has reaped immense profits. In each case, the public has been told that rising prices resulted from excessive demand relative to available supply, but the immense windfall profits earned by the giant oil conglomerates during the “energy shortage” last winter indicate that the selfishness of private industry has played an important part in driving prices upward. The lessons gleaned from the recent beef and petroleum “shortages” should not be forgotten in examining the problem of excessive sugar prices and considering possible remedies.

The price of refined sugar in American supermarkets has risen more than 400 percent this year. Products containing large quantities of sugar including candy, soft drinks, baked goods, and processed foods have also risen sharply in price. The retail price of Coca-Cola, for example, has increased nearly 50 percent in the past year.

During the past few weeks, the upsurge in raw sugar prices on the world market has been temporarily halted. On November 20th, the world spot sugar price stood at 64.5 cents a pound, up more than 600% from November 1, 1973. Two weeks later, on December 2nd, the world price had dropped to 52.5 cents. This decline was followed by a drop in wholesale sugar prices announced by the major American producers. Unfortunately, most economists forecast that this deflationary trend is only temporary. Moreover, it may take months for the recent drop in the price of world sugar futures to influence retail prices in our supermarkets. The high price of sugar continues to impose a serious

economic handicap upon consumers and upon industries dependent upon sugar as a major ingredient in food production.

One prime factor in this recent price increase is the inadequate supply of sugar available to satisfy world demand, the explanation offered by both the sugar industry and the Department of Agriculture. There is no doubt that world consumption of sugar has increased significantly during the past five years while production has remained relatively stable. The Arab nations, in particular, have increased their consumption of sugar products in conjunction with their vastly increased wealth. Moreover, the Arab states have been speculating in sugar futures on the world market, further driving up the price. The Soviet Union, the world's largest sugar producer has had a number of poor crops and recently purchased 400,000 tons of sugar cane from the Philippines. We have been told that the insufficiency of the world supply of sugar in meeting the constantly rising demand has resulted in the high prices American consumers now face.

The complexity of the sugar industry and the reluctance of the industry to provide information about its operation make it difficult to challenge this line of reasoning, which seems to exonerate both industry and government from blame for excessive prices. A few important questions should at least be raised. For many years, the United States has protected the domestic sugar industry at the expense of the consumer through the system of quotas and subsidies provided by the Sugar Act. It is difficult to understand why the Administration has continued to support a program which limits domestic supply by restricting sugar imports during this period of growing demand. Earlier this year, the House of Representatives voted to end the Sugar Act after forty years of existence, but the provisions of this domestic subsidy program, including its import quotas, will remain in effect until the end of 1974.

Our commercial policy towards Cuba certainly deserves reconsideration if we are serious about increasing the supply of sugar available to the United States. Before the imposition of the trade embargo with Cuba in 1961, that nation provided the United States with more sugar than any foreign nation except the Philippines. Cuba, one of the world's largest sugar producers, has expressed a desire to resume commercial relations with the United States. But while the Administration proclaims its commitment to providing Americans with an adequate supply of sugar, it recently refused to join with a majority of American states in lifting sanctions against Cuba. The Administration thus continues to hold the preservation of cold war foreign policy over the economic interests of the American people.

According to available data, world demand for sugar has outstripped production in four of the past five years. In light of that fact it is not surprising that prices have increased steadily on the world market from 3 cents per pound of raw cane in 1969 to 7 cents in 1972 and 9 cents in 1973. Today, the spot price of world sugar is more than 60 cents per pound! How are conditions in this industry any different now than they were two years ago? Why have prices risen so drastically in so short a time? Can it be attributed solely to the impenetrable "laws of the marketplace"?

The focus upon inadequate world sugar supplies has drawn public attention away from the role which the sugar industry itself has played in raising prices to unprecedented levels. This industry is dominated by a handful of large corporations which own most of the 58 beet sugar factories and 27 refineries in operation. The largest American sugar company, Amstar, which produces Domino Sugar, recently announced profits up 250 percent for the quarter ending September 30th. Other major producers have reaped even greater profits. Natural Sugar Refining's earnings have shot up 3,000 percent during the past year, Great Western, a large sugar beet producer in the Midwest, has declared a net income increase of 1120 percent in the quarter ending August 31st.

Much like the situation in the oil industry last winter, nobody knows much about what the sugar industry is doing during the current "shortage" other than the fact that it is making a tremendous amount of money at the expense of the American consumer. The Justice Department has been investigating the price-setting mechanisms and other aspects of the sugar industry giants for more than a year, but has yet to announce any results.

Is the industry hoarding refined sugar in the expectation of driving the price still higher? Is the industry failing to import all of the sugar it possibly can in order to maintain a domestic shortage and keep prices high? Is the industry fixing prices to maximize profits and eliminate competition? I don't have the answers to these questions. The public doesn't have the answers to these ques-

tions. I, for one, am unwilling to take the industry's word that these practices are not being engaged in. The American people have a clear right to know whether they are being cheated by the sugar industry through excessive prices administered in violation of anti-trust statutes.

There is no paucity of those prepared to deplore the high price of sugar. Such expressions of dismay, while laudable, will not help the overburdened consumer. There is no single answer to this serious problem, but there are a few constructive proposals which should be considered by Congress as soon as possible.

First, we should examine the possibility of lowering tariffs on imported sugar to encourage more imports at lower prices. In 1973, the United States collected more than \$61 million in duties on raw sugar imports. While a reduction in that duty would lower tariff revenues somewhat, the savings could be passed on directly to the consumer in the form of lower prices. President Ford's recent action to prevent the tariff on sugar from rising after the expiration of the Sugar Act was a step in the right direction in this regard.

Second, we should restore trade relations with Cuba, formerly our second largest source of imported sugar. Since most sugar contracts are negotiated many months in advance of delivery, the immediate restoration of trade with Cuba would not produce an immediate flow of sugar from Cuba to the United States. Nevertheless, the sooner we take the overdue step of restoring commercial relations with Cuba, the sooner our sugar supply will be enlarged, permitting the price to decline.

Third, Congress should initiate an intensive investigation of the American sugar industry to determine the extent to which factors other than the world market are responsible for the current high prices.

Fourth, Congress should resist any efforts to restore the Sugar Act in any form, particularly the establishment of domestic or foreign quotas for sugar production and the subsidizing of American sugar growers through direct payments at taxpayer expense.

Fifth, Congress should investigate the feasibility and importance of imposing temporary price controls on refined sugar by taking into account the price of raw sugar, the cost of production, and a competitive price margin for companies in the sugar industry. The purpose of such controls would be to reverse the inflationary trend in refined sugar and sugar products. It is discouraging that Treasury Secretary Simon rejected price controls on sugar out of hand during his recent appearance before the Council on Wage and Price Stability. While Mr. Simon was adamant on this point, he offered no solutions of his own to soaring sugar prices.

Finally, the Food and Drug Administration should publicize its scientific findings concerning the nutritional value of sugar. If the FDA agrees with most nutritional experts that sugar has virtually no positive value as a source of needed vitamins and minerals, that determination should be made public. If Americans are consuming too much sugar, the federal government should take an active role in encouraging the substitution of inexpensive artificial sweeteners. President Ford has acted in this regard by asking all Americans to reduce their consumption of sugar by one-half. The FDA should continue the campaign to reduce sugar consumption and lower the price.

It is easy to deplore the outrageously high price of sugar, just as it is easy to express dismay over the poor state of our economy. The crucial question is whether Congress is willing to adopt the decisive measures needed to remedy the economic crisis we face. I urge this Committee to follow up these hearings by recommending legislation which will bring the price of sugar down. The hard-pressed consumers of America deserve our immediate attention to this serious economic problem.

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EXAMINATION OF SUGAR MARKETING CONDITIONS SINCE DEFEAT OF SUGAR BILL

WEDNESDAY, DECEMBER 11, 1974

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

The subcommittee met, pursuant to recess, at 2:05 p.m., in room 1301, Longworth House Office Building, Hon. Joseph P. Vigorito, (chairman of the subcommittee) presiding.

Present: Representatives Vigorito, Goodling, and Findley.

Also present: Representatives Bergland and Zwach.

Staff present: John O'Neal, general counsel; John Rainbolt, associate counsel; Hyde H. Murray, associate counsel; L. T. Easley, press assistant; Steve Allen, staff consultant; Steve Pringle, staff assistant; and Anita Brown, staff assistant.

Mr. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations is now in session for further consideration of discussion of the subject of the sugar marketing.

The first witness—we will divide this in two groups. First, I believe, and already at the witness table—that is cane sugar, I understand; and then, the next two, Mr. Carter and the beet people will be next. And we will hear your remarks and ask questions.

We are on the floor of the House, you know—we have the foreign aid authorization bill before us, so we never know when the bells are going to ring. Consequently, we are going to have a busy afternoon.

If you have not received the oath this past week—if you have received the oath already, then of course, you are still under the oath.

Mr. POTVIN. Mr. Chairman, to my knowledge, no member of this panel has been sworn at this juncture.

I beg your pardon. Mr. Falconer tells me he was yesterday.

Mr. VIGORITO. Will the rest of you stand up, please, and hold up your right hand, and you will identify yourself.

Mr. LETZLER. Harry Letzler.

Mr. WILLIAMS. Hugh Williams.

Mr. POTVIN. Gregg Potvin.

Mr. CLEAVER. William Cleaver.

Mr. MORRISSETTE. Taylor Morrisette.

Mr. VIGORITO. Do you solemnly swear that the testimony you are about to give to the committee is the truth, the whole truth, and nothing but the truth so help you God?

Mr. LETZLER. I do.

Mr. WILLIAMS. I do.

Mr. POTVIN. I do.

Mr. CLEAVER. I do.

Mr. MORRISSETTE. I do.

Mr. VIGORITO. Let the record show that the witnesses have been sworn in.

Thank you.

Mr. Potvin.

STATEMENT OF GREGG POTVIN, PRESIDENT-ELECT, U.S. CANE SUGAR REFINERS ASSOCIATION, WASHINGTON, D.C., ACCOMPANIED BY IRVIN A. HOFF, PRESIDENT, U.S. CANE SUGAR REFINERS ASSOCIATION; WILLIAM P. CLEAVER, VICE PRESIDENT, AMSTAR CORP.; TAYLOR MORRISSETTE, PRESIDENT, NORTH AMERICAN SUGAR INDUSTRIES; HUGH WILLIAMS, PRESIDENT, IMPERIAL SUGAR CO.; HARRY LETZLER, VICE PRESIDENT AND COMPTROLLER, NATIONAL SUGAR REFINING CO.; AND DONALD P. FALCØNER, VICE PRESIDENT, CALIFORNIA & HAWAIIAN SUGAR CO.

Mr. POTVIN. Mr. Chairman, members of the subcommittee, my name is Gregg Potvin. I appear here today as president-elect and spokesman for the U.S. Cane Sugar Refiners Association. I am accompanied by the president of the association, Irvin A. Hoff, who is, I know, well known to each of you as a result of his many prior appearances before the House Agriculture Committee. Also accompanying us, at the request of the subcommittee, are, progressively to my left, William P. Cleaver, vice president of Amstar Corp.; Donald P. Falconer, vice president of California and Hawaiian Sugar Co.; Taylor Morrisette, president of North American Sugar Industries; progressively to my right, Hugh Williams, president of Imperial Sugar Co.; and Harry Letzler, vice president and comptroller of National Sugar Refining Co. Several of these gentlemen in turn are accompanied by their respective counsels, who are sitting behind them in the front row.

Our association is composed of the 12 domestic cane sugar refining companies. With the sole exception of one small cooperative in Florida, which primarily regards itself as a grower of sugarcane and a processor of raw cane sugar, this represents the totality of the cane sugar refining industry within the United States. The name and address of each of the 12 member firms appears in exhibit A, which is attached at the conclusion of this statement and which I ask to be made a part of the records of these hearings.

Mr. Chairman, it is altogether fitting that the Agriculture Committee should include a subcommittee whose focus is on consumer relations and marketing problems. We commend you and your colleagues for holding this timely hearing. We know that the burdens of the Congress at this time are unusually heavy, and we appreciate the time and thought that each of you are expending on this important subject.

Cane sugar refiners, like consumers, are beset by the incredible spiral in the price of raw sugar. The degree to which our members' survival

is held hostage by worldwide economic forces over which they have no control is almost beyond description. At raw cane sugar prices prevailing a year ago yesterday, a 20,000 ton cargo cost about \$4,500,000. At the high of the market, this would have cost about \$26 million. At prices quoted yesterday, the same amount cost about \$19 million. These high prices, in addition to requiring refiners to seek additional financing in a tight money market with high interest rates, may well have two additional long-term results which cause us grave concern—first, high prices may permanently reduce the demand for our products, and, second, competitive sweeteners may make severe inroads into our markets.

The subcommittee has already received testimony from sugar beet growers and sugarcane producers. Immediately following us, the sugar beet processors will testify. Thus, it would be redundant to cover industry structure in this statement. However, it does seem germane to note that of our national consumption—which this year may approximate 11,700,000 tons of sugar—roughly 30 percent normally would come from sugar beets, with the remaining 70 percent being refined from raw canesugar. This year, however, beet sugar distribution is down approximately 500,000 tons and cane refiners will fill the deficit.

Cane sugar refiners purchase a raw material, namely raw cane sugar at market prices—convert this raw sugar to refined sugar—and sell the refined sugar at wholesale, to industrial users, institutional users, and to buyers for the retail or grocery trade. The difference or spread—between the prices paid by refiners for raw cane sugar and their wholesale selling prices, represents the so-called refiners' margin. Out of this margin—or spread—they must recover labor, fuel, transportation, interest, packaging and other costs, and still allow for a reasonable profit.

Refiners produce refined sugar in dozens of forms, grades and packages—to meet the exacting specifications of their varied customers.

In 1974 refiners will purchase enough raw cane sugar to meet around 75 percent of the requirements of U.S. consumers. Where does this sugar come from?

About 70 percent will come as imports from 30 foreign countries. The remainder will come from domestic sources—Louisiana, Florida, Texas, Hawaii, and Puerto Rico. The United States is the biggest single importer of raw cane sugar in the world. Hence, in a period of tight supplies, our procurement problems are an inextricable part of the worldwide problem.

Prices paid by refiners for their raw material are quoted daily on the New York Coffee & Sugar Exchange—in the form of a daily raw sugar spot price. This New York spot price is transmitted across the entire United States and indeed the entire world. Thus, every significant seller, every significant buyer, knows almost at once what the raw material is currently selling for. It is indeed difficult to imagine a more completely ventilated set of statistics than the selling prices of raw sugar. Further, just as U.S. buyers and sellers know the domestic spot price, so, too, both foreign and U.S. buyers know the prices on the London and Paris exchanges.

How are spot prices determined? By the interaction of supply and demand—the actual trading between sellers and buyers of raw sugar in

the United States and worldwide. Raw sugar is a fungible product of relatively uniform quality with its prices based on 96 degree polarization and publicly disseminated.

One of the questions your staff indicated that you would like discussed is the extent to which spot prices indicate the prices actually paid by refiners for their raw sugar. A study was made of this question by the Agricultural Stabilization and Conservation Service of USDA in 1971. It determined that from October 1, 1970, to September 30, 1971, the actual average cost of raw sugar was slightly less than 8.37 cents a pound. During the same period of time the average spot price was 8.36 cents a pound, almost a perfect correlation. A copy of the letter from ASCS and related data is attached to this statement as exhibit B.

I again request permission, Mr. Chairman, that the exhibit be made a part of the record of this hearing.

Mr. VIGORITO. All exhibits with your statement will be considered a part of the record.

Mr. POTVIN. Thank you, Mr. Chairman.

It must be noted, too, that a further cost to refiners is the 7-percent volumetric loss suffered when raw sugar is manufactured into refined sugar. Industry studies establish that it actually takes 108 pounds of raw sugar to produce 100 pounds of refined sugar. Additionally, as is true throughout the food industry generally, buyers of refined cane sugar typically demand and receive a discount for cash payment.

Exhibit C, attached to this statement, charts the movement of U.S. raw sugar spot prices for the period 1971 through December 10, 1974.

I realize, Mr. Chairman, that neither you nor your colleagues are the sort that need pictures drawn for them. That is, in effect, what we have done with exhibit C.

If you would look at it briefly, you will see that raw sugar prices remain relatively stable, but with an upward trend until late last year. At that point, those prices started to ascend and move from 11.15 cents per pound on December 10, 1973, to a high of 64.5 cents per pound on November 20 of this year. This is an increase of more than 475 percent.

Put another way, raw sugar on November 20, 1974, cost over five times what it did a year earlier.

During this unprecedented skyrocketing of raw cane sugar prices, refiners were forced to stretch their financial resources to the limit to replace sugar they had sold, with raw cane sugar purchased at new and ever higher prices. Further, since November 20 the price of raw sugar has decreased a total of 17.5 cents. This has resulted in several substantial decreases in the price of refined sugar. The total stocks of raw cane sugar in this country on November 30—the date nearest November 20 for which inventory figures are available—were 534,000 tons. Thus, the 17.5-cent decrease represented a decrease in the value of the raw sugar inventory, much of it purchased at peak and near-peak prices, of \$186,900,000. This, I believe, vividly illustrates the illusory nature of so-called profits resulting from inventory appreciation.

Now, Mr. Chairman, what has caused raw cane sugar prices to skyrocket? For statistical answers we must rely on the best sources avail-

able—in this case the U.S. Department of Agriculture and the F. O. Licht, a European company which gathers and publishes statistics on worldwide consumption, production, and stocks. Fortunately, both organizations are in substantial agreement.

Their statements convey this message. Consumption of sugar worldwide has outstripped production. World stocks are down. The people of the world are consuming sugar faster than it is being produced.

F. O. Licht notes that world sugar stocks on August 31, 1970, were equal to about 28.7 percent of anticipated annual consumption. On August 31, 1974, stocks were estimated at 18.8 percent of anticipated annual consumption—a drawdown of around 30 percent or almost 6 million tons.

Our own Government policies have made a major contribution to the U.S. sugar supply situation. In an article by Mr. L. C. Hurt of USDA's Foreign Agriculture Service, published in the Department's November 11, 1974, issue of "Foreign Agriculture," he stated that in 1974-75 worldwide "beet sugar production will be down from 1973-74 levels by about 1.4 million tons."

The drop in U.S. beet sugar production accounts for a very significant part of this decline. Between 1972 and 1974 domestic production of refined beet sugar dropped from 3,632,000 tons to an estimated 2,950,000 tons—or almost 700,000 tons.

Why did this happen? Because the Cost of Living Council refused to recognize that their controls on refined sugar were forcing sugar beet growers into alternate crops—cotton, wheat, corn, soybeans, et cetera—where they could make more money.

Repeatedly, the domestic sugar industry filed briefs, and argued the consequences of continued controls. As late as January 24, 1974—when the fuse under raw sugar prices clearly was burning—our association wrote a final letter to the Director of the Cost of Living Council—and I quote the concluding paragraph thereof.

The Council should act promptly to relieve pressures on raw sugar prices by exempting the sugar industry from controls. These controls are having a diametrically opposite effect than intended. Their removal will encourage beet sugar farmers to grow sugar beets. Increased refined beet sugar supplies will make it unnecessary for the cane sugar refiners to acquire quantities of raw cane sugar—to replace beet sugar shortages—in the volatile foreign market, where prices are increasing daily.

Mr. VIGORITO. Two bells have rung. The warning bell is ringing also. I will declare a 10-minute recess while we go vote and then we will come back.

[A brief recess was taken.]

Mr. VIGORITO. The subcommittee will resume its hearings.

Mr. Potvin, would you please continue?

Mr. POTVIN. Thank you, Mr. Chairman.

Mr. Chairman, it seems pertinent to note before resuming the text of this statement, that during your absence I have learned that the sugar market today again went down the limit—an additional \$2.

To resume, our pleas went unheeded. This spring many traditional beet growers planted alternate crops—and, accordingly, to fill the gap in supply, cane sugar refiners had to buy an additional 500,000 tons of raw cane sugar from foreign sources—thereby placing further pressure on an already tight world supply situation.

A further contributing factor—involving U.S. Government policy or lack thereof—was the unconscionable time lag between defeat of the Sugar Act, in the House of Representatives on June 5, and President Ford's proclamation of November 18 establishing tariffs and quotas which will apply upon termination of the Sugar Act at the end of this year. Thus, for 5 months, while prices soared—buyers and sellers were forced to deal with no knowledge of what the rules of the game might be.

Mr. Chairman, in your invitation to appear here today, you requested that we discuss "inventory depletion since the defeat of the sugar bill in June."

Stocks always build up at the end of the year because of the addition to stocks of the new crop. Also, in the past, a number of nations have rushed to meet their quota commitments prior to the end of the calendar year. Therefore, in assessing inventory trends, one must necessarily compare corresponding time periods.

In exhibit D, which is attached, you will find a chart and tabular data setting forth stocks of raw and refined cane sugar and total stocks. Stock on May 31, 1974, were 646,000 tons, which by the end of November had increased to 732,000 tons. However, more meaningful is the fact that from November of 1973 to November of 1974 there was a decline from 807,000 tons to 732,000 tons.

Mr. Chairman, if you would look on the chart on exhibit D, you will note that the entire year 1974 is visually representative of a level far below that of the entire year in 1973. So, clearly there has been no buildup in inventories.

Mr. Chairman, you also requested us to discuss marketing conditions. I believe that from what we have said to this point in our statement, it is clear that marketing conditions can be best described as chaotic.

The third point that you asked us to cover in the statement was profits. As you know, in a soaring market, the galloping cost of inventory can produce strange distortions. Secretary of Treasury, William E. Simon, explained this well on November 20 of this year.

He stated:

Double-digit inflation has done strange things to corporate profits. Some of the conventional accounting techniques used by corporations have proved to be inaccurate and misleading, now that inflation has become so rampant. They understate the replacement cost of both inventories and capital equipment, and thus overstate profits. They create an illusion of rapidly rising profits when the actual record of profitability is weak.

In addition, corporations have to pay taxes on those illusory profits, and to some degree they pay dividends from them as well. As a result, corporate cash flow has been squeezed hard: the retained earnings of non-financial corporations, after adjustment for the understatement of replacement costs of inventories and capital equipment, was down to \$3 billion in 1973, less than one-fifth of the 1965 level.

As you would expect, Mr. Chairman, this association does not accept data concerning prices, volumes, et cetera. At the request of the President's Council on Wage and Price Stability, however, we recently had a distinguished economist, Dr. Edward D. Hollander, senior vice president of Robert R. Nathan Associates, receive data from individual cane sugar refining firms and compute the profits on 5-pound bag of sugar for the years 1970 through the third quarter of 1974. Dr. Hollander also received data on operating costs which were found to have in-

creased 19 percent in the past year. As he explained in his statement, some firms had converted to LIFO accounting; other were still on a FIFO basis. This produced a dichotomy which necessitated Dr. Hollander giving separate data for the FIFO companies and the LIFO companies.

For the FIFO companies the Hollander study shows the profit for 5 pounds of refined sugar ranged from slightly over 1½ cent, on up to slightly more than 6 cents during the period covered for the study. Even for the FIFO companies, whose bookkeeping methods substantially exaggerate profits during a time of escalating costs of raw materials, the refiners' profits were only 1 penny and a tiny fraction per pound. For those cane sugar refining firms who had converted during the period studied to LIFO, which produces a more meaningful assessment, profits were only a very small fraction of 1 penny per pound.

Dr. Hollander's entire statement, as prepared for the Council on Wage and Price Stability, and accompanying tables are attached as exhibit E.

It is abundantly clear then, Mr. Chairman, that refiners' profits—whether LIFO, FIFO, or as you will—play no role in the escalation of refined sugar prices. The culprit is easily identified as the soaring world cost of raw sugar.

It is equally clear that there has been no buildup of refiners' stocks. Beyond this, it may be said in general that the Nation's cane refiners have extended their resources to the limit in meeting the needs of our consumers.

Thank you again for this opportunity to present our views. The panel will be pleased to respond to questions.

[The exhibits referred to follow:]

EXHIBIT A—UNITED STATES CANE SUGAR REFINERS' ASSOCIATION

Amstar Corporation, 1251 Avenue of the Americas, New York, New York 10020; C&H Sugar Company, One California Street, San Francisco, California 94106; CPC International, Inc., International Plaza, Englewood Cliffs, New Jersey 07632; Godchaux-Henderson Sugar Co., Inc. P.O. Drawer 1667, Mobile, Alabama 36601; Imperial Sugar Company, Sugar Land, Texas 77478; The National Sugar Refining Company, Rohm & Hass Building, Independence Mall West, Philadelphia, Pennsylvania 19106; North American Sugar Industries, Inc., P.O. Box 1646, Mobile, Alabama 36601; Savannah Foods & Industries, Inc., P.O. Box 339, Savannah, Georgia 31402; The South Coast Corporation, P.O. Box 8036, Houma, Louisiana 70360; Southdown Sugars, Inc., 1820 Canal LaSalle Building, New Orleans, Louisiana 70112; SuCrest Corporation, 120 Wall Street, New York, New York 10005; Supreme Sugar Co., Inc., One Shell Square—Suite 320, New Orleans, Louisiana 70139.

U.S. DEPARTMENT OF AGRICULTURE,
Washington, D.C., November 19, 1971.

Mr. IRVING HOFF,
President, U.S. Cane Sugar Refiners Association,
Washington D.C.

DEAR IRV: The enclosed table summarizes the results of the "cost of raw sugar" survey conducted by the Department at the request of certain sugarbeet processors and growers' associations prompted by provisions of the 1970-crop sugarbeet purchase contracts.

I am writing similar letters to Messrs. Blake, Bunker and Fisher and also plan to note the 8.37 cent average in a coming issue of Sugar Reports.

Sincerely,

TOM O. MURPHY,
Director, Sugar Division.

Enclosure.

U.S. refining industry raw sugar receipts and prices, Oct. 1, 1970 to Sept. 30, 1971

	Tons commercial weight
Total quota raw sugar received from all sources.....	7,766,417
Less C. & H. receipts, captive sugar and sugar tolled for industrial users	1,165,096
Sugar covered by survey.....	6,601,321

Average cost of raw sugar, basis 96° average polarization and standard quality range, CIF discharged at refinery, plus duty where applicable and transfer costs from port to inland refinery where applicable. Excludes adjustments for profit or loss on refiner's stevedoring operations, weighing, sampling and testing, and dispatch or demurrage. Includes average increase of 3 cents per hundredweight on quantity received in gulf ports to adjust price in gulf to a New York basis (per hundredweight) ¹ \$8.3699.

¹ The quantity received is on a commercial weight of quota sugar purchased. Actual cost is on a 96° CIF New York, duty-paid, discharged at refinery basis. Does not include adjustments for quality premiums or discounts or polarization since the price reported reflects the standard quality range and average 96° polarization.

TABLE 14.—SUGAR PRICES

[Cents per pound]

Year and month	Raw cane sugar—spot price			Refined beet sugar—quoted wholesale (gross) ⁴		
	Domestic sugar at New York duty paid ¹	World sugar ²	Quota premium and discount ³	Eastern	Chicago—west	Pacific coast
1966 to 1970 monthly average.....	7.52	2.59	+3.93	10.08	10.08	10.19
1969 monthly average.....	7.75	3.37	+3.38	10.23	10.23	10.14
1970 monthly average.....	8.07	3.75	+3.19	11.08	11.08	10.79
1970:						
October.....	8.14	3.99	+3.00	11.45	11.45	11.20
November.....	7.96	4.18	+2.63	11.45	11.45	11.20
December.....	8.02	4.16	+2.71	11.45	11.45	11.20
1971:						
January.....	8.35	4.73	+2.42	11.52	11.52	11.20
February.....	8.44	4.83	+2.41	11.60	11.60	11.20
March.....	8.37	4.71	+2.46	11.60	11.60	11.40
April.....	8.29	4.61	+2.52	11.60	11.60	11.40
May.....	8.46	4.35	-2.95	11.60	11.60	11.40
June.....	8.54	4.14	+3.24	11.60	11.60	11.40
July.....	8.58	4.20	+3.26	11.60	11.60	11.40
August.....	8.66	4.37	+3.17	11.60	11.60	11.40
September.....	8.57	3.99	+3.48	11.60	11.60	11.42
Last 12-month average.....	8.36	4.36	+2.85	11.56	11.56	11.30

Footnotes at end of table (p. 159).

TABLE 14.—SUGAR PRICES—Continued

Year and month	Refined cane sugar—quoted wholesale (gross) ⁴					Retail U.S. average
	Northeast	Southeast	Gulf	Chicago West	Pacific Coast	
1966 to 1970 monthly average	11.05	10.61	10.42	10.14	10.19	12.36
1969 monthly average	11.44	10.85	10.50	10.23	10.14	12.40
1970 monthly average	11.97	11.41	11.04	11.08	10.79	12.97
1970:						
October	12.20	11.65	11.15	11.45	11.20	13.22
November	12.20	11.65	11.15	11.45	11.20	13.34
December	12.20	11.65	11.15	11.45	11.20	13.40
1971:						
January	12.20	11.76	11.30	11.52	11.20	13.40
February	12.20	11.80	11.30	11.60	11.20	13.44
March	12.40	12.00	11.50	11.60	11.40	13.46
April	12.40	12.00	11.50	11.60	11.40	13.54
May	12.40	12.00	11.50	11.60	11.40	13.54
June	12.55	12.07	11.50	11.60	11.40	13.60
July	12.60	12.20	11.70	11.60	11.40	13.64
August	12.60	12.20	11.70	11.60	11.40	13.70
September	12.60	12.20	11.70	11.60	11.40	13.74
Last 12-month average	12.38	11.93	11.43	11.56	11.32	13.50

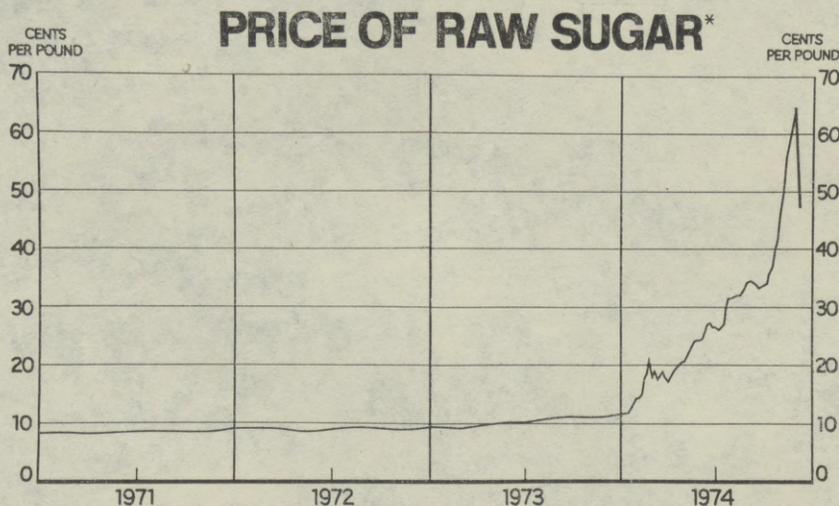
¹ Spot prices are for bulk sugar under contract No. 10 which, beginning Nov. 21, 1966, replaces contract No. 7. The terms of these contracts are duty paid or duty free, full duty rate 0.625 cent per pound.

² Spot prices are for bulk sugar under contract No. 11 which, beginning Jan. 1, 1971, replace contract No. 8. The terms of these contracts are f.o.b. and stowed at Greater Caribbean ports, including Brazil.

³ The No. 10 domestic bulk contract has been adjusted by deducting duty (0.625 cent), computed freight from the Greater Caribbean ports (including Brazil), insurance and unloading charges before calculating the differential from the contract spot prices.

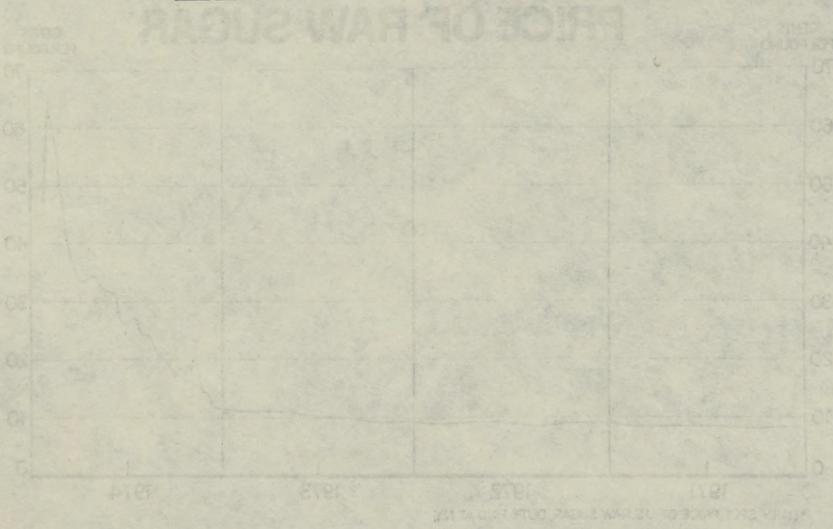
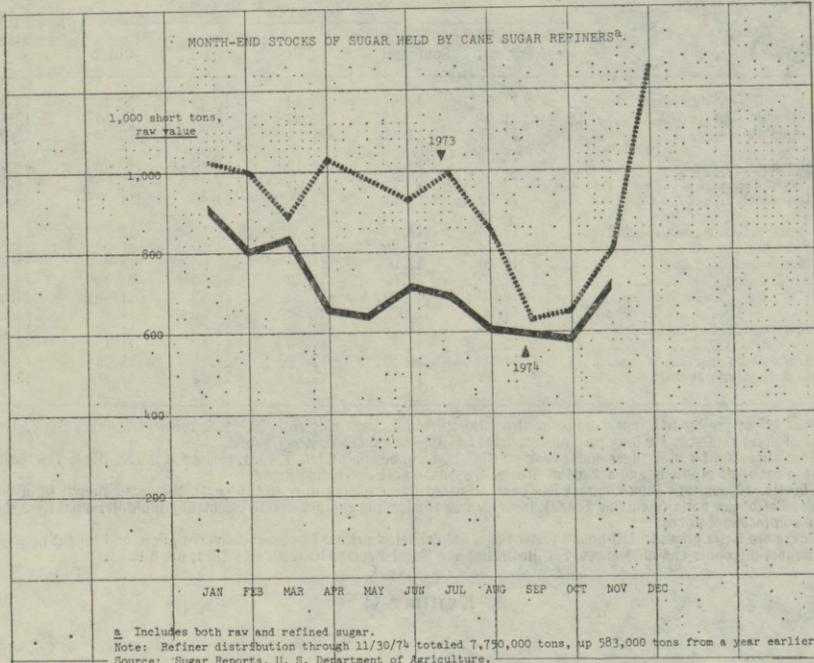
⁴ These are basis prices in 100-pound paper bags, not delivered prices. To obtain delivered prices add freight prepaes and deduct discounts and allowances. For illustration see Sugar Reports No. 230, July 1971, pp. 6 to 23.

EXHIBIT C



*DAILY SPOT PRICE OF U.S. RAW SUGAR, DUTY PAID AT N.Y.

EXHIBIT D



MONTHEND STOCKS OF SUGAR HELD BY CANE SUGAR REFINERS

[Thousand short tons, raw value]

Year and month	Raws	Refined	Total	Year and month	Raws	Refined	Total
1973:				1974:			
January	771	255	1,026	January	668	249	917
February	721	282	1,003	February	539	270	809
March	601	281	882	March	518	318	836
April	744	288	1,032	April	338	320	658
May	681	299	980	May	361	285	646
June	626	303	929	June	411	303	714
July	699	297	996	July	420	271	691
August	577	273	850	August	347	266	613
September	353	283	636	September	345	255	600
October	357	296	653	October	375	213	588
November	517	290	807	November	534	198	732
December	998	275	1,273	December	-----	-----	-----

Source: "Sugar Reports," USDA.

EXHIBIT E

STATEMENT OF EDWARD D. HOLLANDER

To answer questions raised by the Council (Chairman?), we have undertaken to collect and analyze information on changes in profits and operating costs from cane sugar refining companies. The items of information solicited and the procedure we followed are described below. The information has been limited by the shortness of time and by the degree of comparability of the primary data.

Variations in accounting procedure, as between FIFO and LIFO, from company to company and from year to year, preclude a single, consolidated set of profits data covering all respondent companies and all years covered in the inquiry. Accordingly, we have separated the data arrived at on FIFO basis from the data arrived at on a LIFO basis and calculated the results separately. In order to achieve some degree of comparability, we have reduced both sets of results to a "per hundredweight" basis. Even so, the results are not strictly comparable because the companies included are not identical for all periods. Coverage ranges in different time periods from 84 to 40 percent of total refined cane sugar output.

Several conclusions seem clear. The first is that the increase in the wholesale price of refined cane sugar over the past year is almost entirely a reflection of the spectacular rise in the price of raw sugar, world-wide and in the United States, which, as of September 1974, accounted for 91 percent of the wholesale price of refined sugar (and by now accounts for an even larger fraction). If you are looking for the cause of the high price of sugar, either household or industrial, it is not to be found in the refiners' margins.

Second, refiners' cost other than the cost of raw sugar, have risen because of inflationary increases in prices refiners pay for labor and materials.

Third, refiners' profits before taxes, even on a FIFO basis, account for a minuscule fraction of the price of refined sugar, even less of the increase in price. For those companies using LIFO accounting, profits are even a smaller fraction of price.

A word about FIFO and LIFO accounting: Under FIFO (first-in-first-out), increments of inventory (in this case, raw sugar) are assumed to be used in the order in which they were acquired; the raw sugar refined and sold this week is assumed to be the earliest acquired, reflecting costs prevailing several weeks ago. Under LIFO (last-in-first-out), the increments of inventory are assumed to be used in the inverse order of acquisition; the raw sugar refined and sold this week is assumed to be the latest received, reflecting the most recent costs. (Both are accounting procedures, since in practice stocks are not segregated by date of receipt but tend to be commingled.) When raw sugar prices are relatively stable, with small fluctuations, the two methods do not produce very different results; wholesale prices of refined sugar tend, in any case, to follow closely the market for raw sugar. But in a period of rapidly changing prices of raw sugar, the two methods produce different reported profits. When prices are rising, FIFO shows reported profits on inventory, as the consequence of the spread between old (lower priced) inventory and current (higher) selling prices; when prices are falling, it has the opposite effect of showing inventory losses and diminishing reported profits. Under LIFO the situation is the reverse: the assumption that raw mate-

rials currently used are the most recently acquired implies minimal reported inventory profits in a rising market and minimal reported inventory losses in a falling market.

The Treasury is reported recently as saying that if a company doesn't use LIFO, one might ask if its inventory valuation method doesn't misrepresent its income these days.¹

Profits on this more realistic and prudent LIFO basis have been mainly offset by the rising costs of replacing raw sugar and have thus fallen to almost nothing in the first 9 months of this year and to about one-fourth of a cent a pound in the third quarter.

For purposes of profits comparison with earlier years we have had to resort to FIFO figures because most companies have been on that basis until recently.² Even so calculated, the FIFO profits of just over 1 cent a pound in 1974 and the increases from earlier years of a fraction of a cent are so small as to be hardly relevant to the increases we have seen in the prices of raw and refined sugar. The "profits" so reported are not available for capital investment or for dividends but only to support the purchase of raw sugar at higher and higher prices.

A year ago the cane sugar refining industry was operating almost without profit even on a FIFO basis, as the figures show, because prices of refined sugar were under tight controls which did not permit the companies to recover the increases in their operating costs. Price controls were in effect in 1972 and nearly half of 1971, with a dampening effect on profits.

From data supplied by the companies we have also calculated increases in their operating costs, which are 19 percent higher than a year ago. The increase in fuel prices has had a relatively great impact because the refining process uses so much fuel. But the increase in the price of raw sugar has overshadowed everything else: raw sugar, which accounted for about 75 percent of the wholesale price in 1968 when we first studied it, had risen above 90 percent in the third quarter of the 1974 and is now, of course, higher still as raw sugar continues to rise. In other words, we are dealing here with a total refiners' margin, between raw sugar cost and wholesale price, of well below 10 percent of the wholesale price, to cover all operating costs, capital costs, Federal income taxes and profits, as well as 53 cents per hundredweight of Federal excise tax. If we are looking for relief from the high prices of refined sugar, it is plain where we must find it. Demonology will not provide any answers.

TABLE 1.—PROFITS BEFORE FEDERAL INCOME TAX FOR THE 9 RESPONDING U.S. CANE SUGAR REFINING COMPANIES^a FOR THE CALENDAR YEARS 1970-73 AND FOR THE FIRST 9 MONTHS OF 1974

Item	1970	1971	1972	1973	1974
	Companies reporting FIFO profits ^b				
Number of companies reporting.....	8	8	8	8	6
Percent of total tonnage (of the 9 reporting companies) accounted for by these companies.....	92.3	91.7	92.2	92.6	43.6
Profits before tax (million dollars).....	37.2	31.9	10.6	9.4	56.8
Quantity of sugar sold (million hundredweight).....	114.6	117.6	118.9	120.5	46.1
Profits before tax (dollars):					
Per hundredweight of sugar sold.....	0.3246	0.2713	0.0892	0.0780	1.2321
Per 5-pound bag sold.....	0.0162	0.0136	0.0045	0.0039	0.0616
	Companies reporting LIFO profits				
Number of companies reporting.....	•2	•2	•2	•3	5
Percent of total tonnage (of the 9 reporting companies) accounted for by these companies.....					71.1
Profits before tax (million dollars).....					3.5
Quantity of sugar sold (million hundredweight).....					75.1
Profits before tax (dollars):					
Per hundredweight of sugar sold.....					0.0466
Per 5-pound bag sold.....					0.0023

^a These 9 companies represent 91 percent of the output of the industry.

^b Included is 1 company which used an average-cost method of accounting for 1970-73 and changed to FIFO for 1974.

^c Profits not computed to avoid disclosure.

Source: Company reports to Robert R. Nathan Associates, Inc.

¹ Wall Street Journal, November 20, 1974, p. 1.

² Some companies which are currently on LIFO have reported 1974 figures to us on both bases to facilitate comparison with earlier years.

TABLE 2.—PROFITS BEFORE FEDERAL INCOME TAX FOR THE 9 RESPONDING U.S. CANE SUGAR REFINING COMPANIES ^a FOR THE 3D-CALNDAR QUARTERS OF 1970-74

Item	1970	1971	1972	1973	1974
	Companies reporting FIFO profits ^b				
Number of companies reporting.....	8	8	8	8	6
Percent of total tonnage (of the 9 reporting companies) accounted for by these companies.....	91.3	91.9	92.2	92.5	45.2
Profits before tax (million dollars).....	11.2	7.3	0.5	0.9	18.7
Quantity of sugar sold (million hundredweight).....	29.4	31.6	33.0	33.5	16.8
Profits before tax (dollars):					
Per hundredweight of sugar sold.....	0.3810	0.2310	0.0152	0.0269	1.1131
Per 5-pound bag sold.....	0.0191	0.0116	0.0008	0.0013	0.0557
	Companies reporting LIFO profits				
Number of companies reporting.....	2	2	2	3	5
Percent of total tonnage (of the 9 reporting companies) accounted for by these companies.....					69.4
Profits before tax (million dollars).....					7.0
Quantity of sugar sold (million hundredweight).....					25.8
Profits before tax (dollars):					
Per hundredweight of sugar sold.....					0.2713
Per 5-pound bag sold.....					0.0136

^a These 9 industries represent 91 percent of the output of the industry.

^b Included is 1 company which used an average-cost method of accounting for 1970-73 and changed to FIFO for 1974.

^c Profits not computed to avoid disclosure.

Source: Company reports to Robert R. Nathan Associates, Inc.

SOURCES OF DATA

Our means of collecting data for this analysis was to send a questionnaire to each of the member companies of the U.S. Cane Sugar Refiners' Association. They were requested to respond with data pertaining solely to the refining of cane sugar. Nine companies, which together account for 91 percent of the industry output, responded. Each company provided us with the quantity of sugar sold and the operating profits before Federal income tax (but after deduction for state and local income taxes) for: (a) each of the calendar years from 1970-1973 and for the first nine months of 1974; (b) the third calendar quarter of each of the years 1970-1974. From these data, we have computed profits per 5-pound bag of sugar sold.

Inconsistencies in methods of accounting exist between some companies in some years. For a given year, some companies may have provided us with FIFO profit figures, some may have provided us with LIFO figures, some may have provided us with two sets of profit figures (one under FIFO, the other under LIFO). Therefore, for each year and for each quarter, we have calculated profits twice—once using the FIFO profit figures available to us, and once more using the LIFO profit figures available to us. Included in the FIFO figures are the figures of one company which used an average cost method of accounting through 1973 and then changed to FIFO. For each aggregate profit figure we have computed, we have noted the number of companies which contributed to this figure, as well as the percent of total tonnage of sugar sold which these same companies account for.

For a given year or quarter, the sum of the number of companies which the FIFO figures represent and the number of companies which the LIFO figures represent may be more than 9, the number of responding companies, because some of the companies provided us with both FIFO and LIFO figures for the same year or quarter. The companies reporting LIFO profit figures for 1970-1973 and for the third quarters of these years are too few to permit the calculation of aggregates that we could use with confidence and, moreover, present problems of disclosure.

Each company also responded with the increase, in cents per hundredweight, of its operating costs (including selling, general administrative, state and local income taxes), but exclusive of raw sugar costs, from: (a) third quarter 1971 to third quarter 1974; (b) third quarter 1973 to third quarter 1974. We computed a weighted industry-wide average increase in operating costs from this data for the above time periods.

Each company also provided us with its percent increase in operating costs, exclusive of raw sugar costs, for third quarter 1973 vs. third quarter 1974 for

fuel, purchased electricity, labor costs, packaging materials, taxes (state and local), and other, weighted by the percent of item cost to total operating cost in 1973. We then computed an industry-wide percent increase in total operating costs, exclusive of raw sugar costs, for this same period. We used this together with raw and wholesale sugar prices published in Sugar Reports, USDA, to compute the percentage of total operating costs attributable to raw sugar costs as of September, 1974.

Mr. VIGORITO. Thank you, Mr. Potvin. If you will bear with me for a minute or so while I glance at the remaining statements and exhibits that you have attached.

Mr. BERGLAND. Mr. Chairman, while you are reviewing the appendices, I have a question. May I be recognized?

Mr. VIGORITO. You may proceed, Mr. Bergland.

Mr. BERGLAND. Mr. Potvin, sugar has dropped rather substantially from its high point in late November. To what do you attribute that? Has there been any marked change in demand?

Mr. POTVIN. Mr. Bergland, if I may refer that question to Mr. Cleaver, who is one of the largest buyers, probably the largest single buyer of raw sugar. It would be a little presumptuous for me to cope with the question.

Mr. CLEAVER. Mr. Bergland, I think it was a matter, at least as we see it now, of a reaction from a market that had moved too rapidly too far. I am talking here essentially about the world market, which has been leading the U.S. marketplace in price in these recent months. It got to a point where there had been a substantial amount of buying. Those buyers who had been most anxious to buy had satisfied their demands for the immediate time and the withdrawal of that buying demand in the world market resulted in a change of attitude.

Mr. BERGLAND. Would some of this be attributed to what some characterize as hoarding and overstocking by some purchasers who finally decided they had had enough?

Mr. CLEAVER. Are you speaking about hoarding in the United States or the world?

Mr. BERGLAND. Within the United States. I do not use the term in the sense that it is illegal or dishonest. I know how most of us react when we see in the newspaper, talk to the cab driver, or we see something is going to be short in supply and rise in price, we go and buy.

Mr. CLEAVER. I believe that there has been some stocking of sugar. There can be little doubt about that. However, I do not think this change in the market has resulted from the termination of that practice necessarily.

As a matter of fact, by a peculiar development, as soon as the price did reverse its trend and as soon as the refiners prices were first reduced, the demand on refiners for additional deliveries was cut almost in half. It is just the opposite effect of what you are speaking of.

Mr. BERGLAND. Buyers apparently detect some element of the buyers' market. Is that the idea?

Mr. CLEAVER. Psychologically, they expect further reductions and are withholding their buying, anticipating that those will come.

Mr. BERGLAND. I watched the grain markets very carefully for obvious reasons. I know grain markets react to rumors, hearsay, items that may not affect the market for some months in the distance. People will react to market information in order to be hedged in the market or merely as a gambling device. We see markets rise and fall daily limits

frequently based on the information which really is not well documented, but they frequently bid on these contracts as a means by which they hope to take advantage on what may or may not ultimately take place.

Does that same kind of attitude and environment permeate the sugar market?

Mr. CLEAVER. Yes, sir; it does. In this case, according to the figures that the New York Coffee and Sugar Exchange put together, the speculative interest was lower in 1974 than it had been in prior years. However, there is no doubt that some of us react on emotional factors, rumors, and all of those elements go to make a market. They are particularly important when a market is rapidly moving up or down.

Mr. BERGLAND. What seems to be the general attitude among industrial users? Has there been consumer resistance detected at the retail level to the higher prices in sugar causing higher prices in soft drinks and baked goods, for example?

Mr. CLEAVER. I do not have any figures on that, sir. There is suspicion that if it has not happened, it will.

I do not believe the statistics show it as yet.

Mr. POTVIN. There was an interesting coincidence, Mr. Bergland. At the very moment the consumer groups were telling Mr. Rees at his recent hearings at the Council on Wage and Price Stability that consumer resistance was hurting sales, actually the distribution numbers were starting to climb, and it has been the opposite, as Mr. Cleaver pointed out.

Mr. BERGLAND. Is there any way to indicate how much has been attributed to stockpiling?

Mr. CLEAVER. Not at the moment. The figures are not available.

Mr. BERGLAND. That is all I have at this time.

Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Findley.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. Potvin, have prices to users come down 17½ cents since November 20?

Mr. POTVIN. I am going to refer this to one member of the panel. Mr. Chairman, if I may have just a moment to determine which would be the most appropriate member.

Mr. MORRISSETTE says he would like to respond to that if he may.

Mr. MORRISSETTE. Mr. Findley, the decline in the market, to my knowledge, has reflected two declines in the refined product, which would be sugar, which would be sold to users, two general declines in refined price in recent weeks.

Mr. FINDLEY. The reason I ask the question is that Mr. Potvin indicated that since November 20, the price of raw sugar has declined 17½ cents a pound. I believe I am correct.

Mr. POTVIN. That is correct, sir.

Mr. FINDLEY. Therefore, my question is, to what extent has this price decline in raw sugar been passed to the user?

Mr. MORRISSETTE. It has been reflected. The refined price never actually caught up to the rapid increase in raw price. It has certainly been reflected in the decline.

Mr. FINDLEY. Let me ask you this. To what extent has the price of refined sugar gone down since November 20? How many cents?

Mr. MORRISSETTE. Excuse me, Mr. Cleaver has that.

Mr. CLEAVER. Mr. Findley, I trust you appreciate that generally refined prices do not move as frequently as raw sugar prices. The raw sugar price fluctuates everyday, as a general practice to adjust the refined sugar prices both the upside and down that is at less frequent intervals.

To answer your question specifically, the price on the 25th of November—and I am speaking about a price for a 100-pound bag of granulated sugar—was \$71.95. On December 2, it was reduced to \$66.75.

Mr. FINDLEY. It is now \$66 you say?

Mr. CLEAVER. On December 2, it was reduced to \$66.75, which is a reduction of \$5.20.

Mr. FINDLEY. The \$71.95 figure was as of November 20?

Mr. CLEAVER. November 25, sir.

Mr. FINDLEY. What does that translate to in cents per pound?

Mr. CLEAVER. \$5.75, sir. There was another reduction made effective on the 9th of December, reducing the price from \$66.75 to \$61. That is another \$5.75. So the total reduction is \$10.95.

Mr. FINDLEY. \$10.95, whereas the cost of raw sugar has declined in a comparable period 17½ cents.

Mr. CLEAVER. Yes, sir. I should point out, however, that the \$71.95 did not reflect the full cost of raw sugar on that particular day. In other words, prices have been increased as the raw market increased. They have not been increased to the full extent of the increase in the cost of raw sugar.

Mr. FINDLEY. It may be that as you say, the price of refined sugar has not changed as frequently as the price of raw sugar, but my wife has been under the impression that the increase is almost daily. It seemed like it was happening quite frequently.

It is very much on the minds of consumers. They will wonder, as I do, why the decline has not even reached 11 cents, where the decline in the cost of raw sugar has exceeded 17 cents. Bearing in mind of course, that normally the markup is based on the cost of materials, the percentage of markup. When the price comes down, the adjustment ought to reflect that part of the formula too.

Mr. POTVIN. Congressman Findley, I think there are a couple of factors that have to be entered into the equation for clarification here.

First, as Mr. Cleaver has pointed out, both going up and down the curve, you are constantly playing catchup ball with sporadic adjustments that are far less frequent than those in the prices of raw sugar. Point No. 1.

Point No. 2. You must add on an additional 8 percent between the cost of the raw and the cost of the refined, because that is the volume that is lost when you manufacture the refined from the raw.

Further, you are comparing numbers from one level of distribution retail to those of another level of distribution wholesale. As you, sir, are so fully aware, as you go through each level of distribution, the effect becomes rather more attenuated, of course.

Mr. FINDLEY. That would tend to prove my point because the merchant buys sugar at a lower price, assuming that he has a percentage of add-on based upon the item that he is going to sell. He would therefore have a smaller markup on the wholesale item of lesser cost.

Mr. POTVIN. So much was clear on the way up.

It is after all a matter of not many days yet. I am sure that you would grant us that we have no control over the pricing policies of the retail merchant, that purchase for members of this association, nor indeed do we presume to even suggest to them what they should charge.

Mr. FINDLEY. Maybe I am asking the wrong question. What is the difference in price that you have charged your customers—that you were charging your customers today, as contrasted with November 20?

Mr. POTVIN. That was the figure that Mr. Cleaver gave you. The total was 10.95 cents. There again, sir, you must bear in mind that the highest or peak price that wholesale reached for refined never fully reflected the highest or peak price of raw. It never got adjusted that far up the curve.

Mr. FINDLEY. How soon can the consumer expect the catchup period to take effect? The figures that you cited showed an almost week lag.

Mr. CLEAVER. There is a further lag also, sir, due to the fact that it takes some time to move sugar through the channels of distribution from the refinery to the store. I do not have any figure on what that is, but it is a matter of weeks.

Mr. FINDLEY. There is not much of a lag when the price goes up and the increased price occurs on the shelf.

Mr. FALCONER. May I be heard on that?

There is not a price for refined sugar, different prices in different parts of the country. On November 20, the spot price was \$64.50. The refiner who is refining sugar of that value has to produce 100 pounds of refined sugar to use \$70 worth of raw sugar.

On that date, my company's price for refined sugar in the California market was \$59.50, over \$11 below the value of the included raw sugar, which makes the point that the price never got up to reflect those higher raw values, and it never has gone above the price that I quoted, \$59.50.

Mr. FINDLEY. In your statement of December 10, Mr. Falconer, you stated "We have been selling refined sugar for substantially less than the value of raw sugar."

Mr. FALCONER. That is what I said, sir.

Mr. FINDLEY. For what period of time did that occur?

Mr. FALCONER. That has been a persistent pattern for a number of months. I do not have the tabulation in front of me that shows that.

Mr. FINDLEY. I raise the question because on the face of it, this would seem to be an extraordinary pricing practice, which would, on the face of it, also seem to be in restraint of trade, unfair competition.

Mr. POTVIN. If I may respond to that, Mr. Chairman. Mr. Findley, let me assure you that it is not extraordinary. It is not extraordinary. There has been nothing said on this side of the table that points toward a restraint of trade and I think the record when it is compiled and studied will fully reveal that.

Let me say this, Congressman, with all due respect. These adjustments do not happen in 1 day or 1 week or 1 month. We can cite to you protracted periods of time when the firms that belong to this association were public servants, I suppose, in the sense that they were not passing on increases in the raw costs.

We ask no accolades, no green stamps for that. We do, however, ask a little patience so that, when the shakeup comes and you look at this whole record, I think it will become abundantly clear that there certainly has been no attempt to take advantage, that the simple fact of the matter is that it takes a bit of time for these adjustments to roll through the entire rather intricate system from cane grower to raw manufacturer to cane refiner to wholesaler to retailer.

Mr. FINDLEY. This association which is represented here today consists of 12 domestic refining companies, and by your own statement, with one minor exception, is the totality of the cane sugar refining industry.

Thus, that means that there is a rather substantial concentration of power in the cane refining industry. That is very plain, and a greater concentration of power than seems to exist even in the crude oil business, and much has been said about the concentration of power in that field, where 12 firms control about 80 percent of the production.

What percent of the cane sugar refining is handled by this one small cooperative? Can you make an estimate of the percentage?

Mr. POTVIN. One percent would not be a bad guess, Mr. Findley.

Mr. FINDLEY. So the 12 firms of your association refine about 99 percent of the cane sugar refined in this country?

In your statement, Mr. Potvin, you criticize President Ford for the 5-month delay in announcing the quota, and you attribute to that delay some of the blame for price rises.

Was there ever any doubt that an absolute quota would be established, and at a level substantially above expected imports? Did anyone in the industry have any doubt about that?

Mr. POTVIN. Mr. Findley, to say that there was a doubt is to make an understatement on an order of magnitude beyond my powers of expression, sir. Rumors were rife, theories were marching and countermarching about not just in this town but through the entire sugar industry and its customers.

Would there be a global quota, a country by country? Would there be a quota so large as to be meaningless, or would it be so small as to be restrictive? Would it be a 62½-cent duty or would it go up to the full amount authorized by the President which would be 150 percent of \$1.82½, I believe. There was no telling. Nobody knew. You can imagine the very considerable difficulties of having to look into the vacuum, beginning on January 1, with the absence of the Sugar Act, which had been there for 40 years, trying to engage in commercial transactions without knowing the answers to these questions.

We do not cite this as a primary cause. That would be ridiculous. But as a substantial cause, yes, indeed.

Mr. FINDLEY. The House Agriculture Committee this morning made a decision not to recommend sugar legislation before adjournment of this Congress. Your firms naturally have a great stake in assuring the flow of raw sugar for refining purposes. I would be glad to know what steps you have taken to make arrangements to assure that steady flow in the absence of legislation beyond December 31.

Mr. POTVIN. Mr. Findley, these are questions—and I say this most respectfully, sir—that would have to be directed to individual members of the panel. That would not be an appropriate area of activity for the association, of course.

Mr. FINDLEY. I would be glad to have the individuals respond.

Mr. CLEAVER. Mr. Findley, the doubts that you asked about and Mr. Potvin described concerning what the President's proclamation would contain were only one of the elements involved in the confusion that has existed in the marketing picture of raw sugar the last several months.

The defeat of the Sugar Act certainly played its part and influenced the thinking of some of the producers who normally sell to this market. The question of what the rules of the game are, as Mr. Potvin put it, would be completely another. The continuing rumor here that there would be or might be at the last minute an extension of the Sugar Act also has served to confuse the procurement picture in the United States for refiners.

In the meanwhile, in the world market—and after all, in the absence of the Sugar Act or even in the presence of the Sugar Act, the same pool of sugar supplies the sugar for the United States as well as the rest of the world, in the activity of the last several months related to procuring supplies for next year, some of the countries normally supplying this market under quotas while the Sugar Act has been in existence have been selling sugar to destinations other than the United States.

One simple reason that the price on the world market so-called was higher than that of the United States. Many of the buyers in the world market without the inhibitions or doubt that I am talking about, and some of them government agencies, of course, have been able to trade freely with no questions of what future conditions will be.

American buyers have had those doubts plaguing them. Also, at the current levels of price, they have had several restrictions as to their financial ability to contract at fixed prices for long period ahead and have had the question of serious market risks to take in account.

They have, however, contracted for a substantial quantity of sugar. My company, for example, has purchased sugar to arrive as far distant as next July. We have had to deal in the market, on a world market price basis, and where it was possible, we bought on contract terms which provide for average prices at or near the time of arrival.

However, in the strong type of market that we have, most sellers in the strictly sellers market have insisted on having a fixed price. They, like everybody else, knew the risk of decline in the market. We feel that we have done as much as we as an individual corporation are able to do in assuring supplies for next year.

Mr. FINDLEY. You, for the first time in many years, have the problem as well as the opportunity to make direct arrangements with foreign producers. Is that correct?

Mr. CLEAVER. Yes, sir.

Mr. FINDLEY. So it is a somewhat new experience that takes an adjustment period.

Mr. CLEAVER. Yes, sir. We have been feeling our way along. We have not felt free. We did not know whether we would have Government regulation of the market. We could not feel confident to proceed on that basis unless we knew what Congress was going to decide.

We have had some conversations with foreign producers about long-term contracts. One country in particular was anxious to sell. They would sell only on the basis of a 5-year contract. They wanted

a fixed minimum price with some sort of price-escalator provision, which would cover prices in succeeding years. They wanted also what they called Government endorsement of the contract, mainly some Government recognition of the existence of the contract and some indication that the contract would be honored, even if later on there was some form of sugar legislation passed.

Those negotiations did not succeed. However, we have for a more limited period made a contract with a former quota country for an approximate quantity that it has in the quota under the Sugar Act. The sugar needs to be priced on an average price basis near the time of arrival and will arrive during the period March through June.

Mr. FINDLEY. Would your firm have been receptive to the 5-year contract offer if you had been able to deliver on the Government aspect?

Mr. CLEAVER. Yes; we would have been willing to enter in a contract, providing the price was one we would have some expectation of getting out of the market.

Mr. FINDLEY. You are not averse to long-term contracts?

Mr. CLEAVER. No, sir, we are not. We would have a caveat, that we would not want to have a contract made invalid by some future regulation.

Mr. FINDLEY. The responsibility that the Congress has to the sugar industry is to make it as clear as we possibly can that Congress is not going to be on the edge of passing a sugar act every other week.

Mr. CLEAVER. The company would appreciate knowing that, so that we would know how to operate. We as a company also favor the development of a national sugar policy which will assure supplies and will provide consumers with reasonable prices, provided that it recognizes the changing, fluid sugar economy, and recognizes the need for a substantial, strong domestic sugar industry.

Mr. FINDLEY. Mr. Chairman, I have a number of other questions. I hate to take too much time. I have one final question at this point.

You mentioned accounting procedures. Have any of you gentlemen changed your accounting procedures within the last year?

Mr. WILLIAMS. I have changed to LIFO December 31 this year.

Mr. CLEAVER. Our company has too.

Mr. FINDLEY. Two of you have made the change.

Thank you, Mr. Chairman.

Mr. VIGORITO. Could one of you tell me what the average inventory turnover rate is?

Mr. POTVIN. We will come up with that in just a moment, sir. I am trying to find which member of the panel would be best suited to give you that information. Could you give us a period we might use as an example, sir?

Mr. VIGORITO. In a year's time.

Mr. POTVIN. During the past year, as an example?

Mr. VIGORITO. It does not matter which year you pick. You still have the total sales, the volume of sales, then you have every inventory. You can divide one into the other and get a turnover, right?

Mr. POTVIN. Yes, sir.

Mr. VIGORITO. In other words, taking the fresh fruit produce business, they buy inventory three times. They go into the market three

times a week. There is an inventory turnover by 150 times during the year.

Of course, I know yours could not possibly be that much.

Mr. POTVIN. Mr. Chairman, if we may, no one seems to be able to come up with that exact number. Might I have the indulgence of the Chair and permission to submit it in writing, say within 5 days?

Mr. VIGORITO. Yes, you may, sir.

[The material referred to follows:]

AMSTAR CORPORATION,
New York, N.Y., December 17, 1974.

HON. JOSEPH P. VIGORITO,
Chairman, Subcommittee on Domestic Marketing and Consumer Relations, House
Agriculture Committee, U.S. House of Representatives, Longworth House
Office Building, Washington, D.C.

DEAR MR. VIGORITO: During the hearings of your subcommittee on December 11th, you requested that the member companies of the United States Cane Sugar Refiners' Association submit to you in writing their annual inventory turnover rates.

In response to that request, Amstar Corporation's inventory turnover rate for cane sugar refining was 13.9 for the fiscal year ended June 30, 1974. The rate was computed by dividing Amstar's reported cane sugar deliveries for the year by its average month-end inventory of raw cane sugar, stock-in-process and refined sugar. In making that calculation the raw cane sugar component was converted to a refined sugar equivalent.

Very truly yours,

J. C. REYNOLDS.

CALIFORNIA AND HAWAIIAN SUGAR COMPANY,
San Francisco, Calif., December 13, 1974.

HON. JOSEPH P. VIGORITO,
Chairman, Subcommittee on Domestic Marketing and Consumer Relations, House
Agriculture Committee, U.S. House of Representatives, Longworth House
Office Building, Washington, D.C.

DEAR MR. VIGORITO: During the December 11th session of your hearings on sugar marketing conditions, you requested that the companies whose representatives appeared with Mr. Gregg R. Potvin (of the U. S. Cane Sugar Refiners' Association) furnish data regarding their 1974 inventory turnover. California and Hawaiian Sugar Company's data follows:

Our Crockett California refinery will produce approximately 850,000 tons of refined sugar this year. The refined sugar inventory produced at Crockett will turn over thirteen times during 1974.

Additionally, it may be of interest that the average raw sugar inventory maintained at Crockett during 1974 was equal to approximately sixty per cent of average monthly production.

Very truly yours,

D. P. FALCONER,

GODCHAUX-HENDERSON SUGAR CO., INC.,
Mobile, Ala., December 18, 1974.

HON. JOSEPH P. VIGORITO,
Chairman, Subcommittee on Domestic Marketing and Consumer Relations, House
Agriculture Committee, U.S. House of Representatives, Longworth House
Office Building, Washington, D.C.

DEAR SIR: In response to your question asked the U. S. Cane Sugar Refiners' Association at the sugar hearings on December 11, 1974, Godchaux-Henderson Sugar Co., Inc.'s inventory turnover from January 1 through November 30, 1974, is 9.3 times.

Sincerely yours,

JEAN L. DECHAZAL, *President.*

THE NATIONAL SUGAR REFINING COMPANY,
Philadelphia, Pa., December 17, 1974.

HON. JOSEPH P. VIGORITO,
Chairman, Subcommittee on Domestic Marketing and Consumer Relations, House
Agriculture Committee, U.S. House of Representatives, Longworth House
Office Building, Washington, D.C.

DEAR CONGRESSMAN VIGORITO: In response to your request asked of the U.S. Cane Sugar Refiners' Association at the hearing on December 11, 1974, the number of inventory turnovers for 1974 (annualized) for The National Sugar Refining Company is approximately Eight (8) times.

I believe this covers the question you proposed.

Very truly yours,

H. LETZLER,
Vice President and Comptroller.

NORTH AMERICAN SUGAR,
DIVISION OF BORDEN FOODS, BORDEN INC.,
Mobile, Ala., December 19, 1974.

HON. JOSEPH P. VIGORITO,
Chairman, Subcommittee on Domestic Marketing and Consumer Relations, House
Agriculture Committee, U.S. House of Representatives, Longworth House
Office Building, Washington, D.C.

DEAR CONGRESSMAN VIGORITO: In accordance with the indication from Mr. Gregg Potvin of the United States Cane Sugar Refiners' Association we wish to advise you that the inventory turnover experienced during the first nine months of 1974 at our Colonial Sugars Company in Gramercy, Louisiana, was 14.9 times.

Yours very truly,

J. M. LACALLE,
Corporate Secretary.

SAVANNAH FOODS & INDUSTRIES, INC.,
Savannah, Ga., December 17, 1974.

HON. JOSEPH P. VIGORITO,
Chairman, Subcommittee on Domestic Marketing and Consumer Relations, U.S.
House of Representatives, Longworth House Office Building, Washington,
D.C.

DEAR SIR: In response to your question asked the United States Cane Sugar Refiners Association at their hearing on December 11, 1974, our inventory turnover for 1974 has been $9\frac{3}{4}$.

Respectfully yours,

THOMAS M. WISE, Treasurer.

THE SOUTH COAST CORPORATION,
Houma, La., December 17, 1974.

HON. JOSEPH P. VIGORITO,
Chairman, Subcommittee on Domestic Marketing and Consumer Relations, House
Agriculture Committee, U.S. House of Representatives, Longworth House
Office Building, Washington, D.C.

DEAR MR. VIGORITO: Mr. Gregg Potvin, President Elect of the United States Cane Sugar Refiners Association, has requested that our company furnish your Subcommittee certain data relative to a question directed to the USCSRA at the December 11, 1974 hearing involving refined sugar.

This is to advise that The South Coast Corporation's inventory turnover of refined cane sugar for the eleven (11) months of calendar year 1974 was 27.022.

Respectfully,

J. L. DICKSON, President.

SUPREME SUGAR COMPANY INC.,
 SUBSIDIARY OF ARCHER DANIELS MIDLAND COMPANY,
 New Orleans, La., December 16, 1974.

Re : Response to question asked USCRS at 12/11/74 hearing

Hon. JOSEPH P. VIGORITO,
 Chairman, Subcommittee on Domestic Marketing and Consumer Relations, House
 Agriculture Committee, U.S. House of Representatives, Longworth House
 Office Building.

DEAR MR. VIGORITO: Supreme Sugar Company, Inc. experienced twenty (20) in-
 ventory turnovers from January 1 thru November 30, 1974.

Sincerely,

P. RUSSELL COMEAUX, *Comptroller.*

UNITED STATES CANE SUGAR REFINERS' ASSOCIATION,
 Washington, D.C., December 19, 1974.

Hon. JOSEPH P. VIGORITO,
 Chairman, Subcommittee on Domestic Marketing and Consumer Relations, House
 Agriculture Committee, U.S. House of Representatives, Longworth House
 Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The Southdown Sugars, Inc. has requested that I for-
 ward to you, in their behalf, the inventory turnover data you requested.

This is to advise that the Southdown Sugars, Inc. inventory turnover of re-
 fined cane sugar during 1974 was 59.24.

Respectfully,

GREGG R. POTVIN, *President.*

Mr. VIGORITO. What would you say is the No. 1 reason, without giving me the stock answer of increased consumption, decreased production, and decreased inventories for the last 4 years, for the tremendous increase in 6 months, a short period of time in which to have almost a 500-percent increase in price of raw sugar, the No. 1 reason? I know there are a half dozen reasons, but No. 1.

Mr. POTVIN. We have already established, we feel, the No. 1 reason is the soaring world cost of raw sugar. If in turn you wish to inquire as to why that happened, Mr. Cleaver would be pleased to speak to that.

Mr. CLEAVER. Mr. Chairman, it is a matter of the music eventually reaching a crescendo. This situation has been building for some time. It has been noticeable, particularly in the last year.

Mr. VIGORITO. The last 6 months especially.

Mr. CLEAVER. Particularly the last 6 months. It has been in the press, blamed on the buying by the oil countries and the Russians. I think there is some element of truth in each of those.

While the Arabs have not, perhaps we should call them the near-eastern countries, normally large importers. While they have not bought, I do not believe, in excess of their needs, they have not hesitated to pay whatever price was asked whenever they wanted to buy. There is not hard information on it. There has been discussion of buying by the Russians because their own crop has been less than expected. That could have made its influence felt either through buying of the actual physical sugar or it could have been purchases on the world contracts on the London and New York sugar exchanges.

It happened early in this fall when it started to become apparent that the European beet crop on which people had depended for a new supply, was, by reason of weather conditions, going to be less than expected. You had it during the last several months, the conglomeration of bullish factors influencing the market all at one time.

Now I am certain that some of the buying became panicky in nature and people, countries, buyers, rushed to get their purchases made before prices went higher before the shortage actually did emerge.

As I said in answer to Mr. Bergland before, the panic psychology was going on in the market. Some of the urgent buying has been satisfied and the market is reacting from what had been an extreme level.

Mr. VIGORITO. Do you believe that when the administration this year went on the world market which has been very tight because of short supply, for an additional 700,000 or 800,000 tons of sugar, has a bearing on the price increase.

Mr. CLEAVER. Sir, that action of the administration, in my opinion, might have affected the timing of the price increase but it did not provide a basic reason for it.

Mr. VIGORITO. Whether the administration had done that or not, you still would have had the increase.

Mr. CLEAVER. I think that is correct, sir.

Mr. VIGORITO. Instead of the last 6 months of this year, it might have been 3 months of this year and the first 3 months of next year.

Mr. CLEAVER. That is a possibility. A quota action at that time, sir, no matter what its nature, could only have a psychological impact on the market. I think market students would agree that psychological impacts, increases in price or decreases, would not be sustained unless the basic nature of the market does confirm the movement.

Mr. VIGORITO. Does the sugar industry, the refiners, your group, do you practice hedging?

Mr. CLEAVER. To the extent we can, sir. Over the period in which the Sugar Act was effective, until recently, as a matter of fact, the stability of the price that eliminated the necessity for hedging almost; therefore, the volume on the sugar exchange as available to refiners in hedging were too small to suit their requirement.

As prices have begun to move more rapidly and more erratically, the volume on the exchanges has increased and some hedging is possible. We would like to think, and we would like to have conditions in these times, that it would be possible to hedge all our inventories, but it has not yet been possible.

Mr. POTVIN. We know with pleasure that you in your wisdom scheduled a very able gentleman, Earl McHarty, who sets up the sugar exchanges; our witness tomorrow. I am sure his testimony will explore many of the details of this in a helpful sort of way.

Mr. VIGORITO. Mr. Cleaver, what do you know about operators? I have in front of me a list of 15 names from London, New York, Paris, Germany, and so forth.

Mr. CLEAVER. What we call operators are merchants who buy sugar from a sugar-producing country and resell it to refiners with the hope and expectation of making a profit. They perform a very valuable function in arranging contacts and taking the sugar on an f.o.b. price basis, arranging the freight, translating the price into the kind of terms that we buyers, in the United States, at least, like to buy on, which is a delivered price basis, and they have handled the financing of the sugar in transit.

Obviously, they did not make a profit on every transaction but they hope over a period of years to average out at a reasonable profit.

Mr. VIGORITO. There are 13 cane sugar refineries in the United States today. How does that compare with years gone by in, say, 40, 30, 20, and 10 years ago, roughly, just off the top of your head?

Mr. CLEAVER. I think there are 12 now, sir.

Mr. VIGORITO. Twelve in your association.

Mr. CLEAVER. Yes, sir.

Mr. POTVIN. Mr. Chairman, the number in recent years has gone from 15 to 13 to 12. The latest one that departed was Revere Refinery in Boston, which is now being operated, or at least renovated and hopefully operated by SuCrest Corp. So there has been no meaningful elimination of additional competition.

Mr. VIGORITO. When did we have a maximum number of refineries?

Mr. POTVIN. Forty or 50 years ago, I am told. Much of the underlying reason for this is for a number of years it was a high volume, very low return on sales type of industry. There were no barriers to entry but neither was there any real inducement for entrants.

Mr. VIGORITO. If I sign a purchase agreement to each of the 12 cane refiners saying, "I want to buy 1 million pounds of sugar and I want a bid, a quote," would I get the exact same quote from all 12 or would it vary?

Mr. POTVIN. It would not be the same number, Mr. Chairman. I would suggest that you start as you choose on my extreme right or left and work your way across for individual answers.

Mr. Falconer has already made the point as an example that a very different sort of number attends in his part of the world on the Pacific coast than here in the mid-Atlantic states.

Mr. FALCONER. Any bid we would submit would be individually determined by our company.

Mr. VIGORITO. I hope so. Mr. Bergland.

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

I want to clarify and amplify one point. It has been established that the sugar market in the world is influenced by rumors and hearsay and actions that may not necessarily affect the immediate supply and demand situation. And I would like to clarify one point.

On the 11th day of January of this year, the Department of Agriculture revised the consumption estimate upward to 12.5 million tons when most knowledgeable people in the industry admitted or recognized that the actual demand would probably be 11.7. It seems to me this would have a devastating impact on the market. When the Department of Agriculture revised the estimates to that extent, it is bound to have a bullish effect, would it not?

Mr. CLEAVER. Yes. I think I did say that it did have an effect. It affected the timing of the price move. Principally, in my opinion, I think it would have occurred in any case.

But if you will go back and recall the circumstances at that time, sir, you will recall that the market price had moved up past the target price of the Sugar Act and it was mandated upon the Secretary to take quota action, and, in effect, the sense of the language was to return the price back to the objective. In the context of the time in the strong market, it seemed to be apparent that the market would need a vigorous action if the price was to be lower. Of course there was no certainty at the time that there could be. As it turned out, it would not be

That action also contemplated, if I recall circumstances correctly,

that the world price was higher than the United States and there was concern that supplies for the early part of the year would be sold to the most favorable market rather than to the United States by countries who could take advantage of the higher price market then and fill their U.S. quota later.

As I remember the Department had two considerations. As it happened they were not able to affect the price but they were able to assure supplies which were needed, particularly during the first part of the year. And there is no evidence that we have had a shortage of supply during the year.

Mr. BERGLAND. The record will show that the price in the world market rose \$6 a hundred.

Mr. CLEAVER. Yes, sir.

Mr. BERGLAND. How much does a refinery cost to construct?

Mr. POTVIN. I can give you a number in just a moment.

Mr. BERGLAND. If you could give us a rough ball park figure.

Mr. CLEAVER. It would depend on its size, sir. An economical size would cost between \$80 million and \$100 million.

Mr. BERGLAND. Are there any refineries now under construction in the United States?

Mr. CLEAVER. None under construction.

Mr. BERGLAND. To the best of your knowledge, are there any planned?

Mr. CLEAVER. There is talk that there is one to be built on Staten Island in New York.

Mr. BERGLAND. Has there been any important renovation or expansion of existing refineries in the last year beyond the usual maintenance and upgrading of equipment?

Mr. POTVIN. Yes, sir; as I mentioned, the Revere plant. I cannot give you the details. We do not have a representative from the SuCrest Corp. here. I can say very extensive modernization is taking place at that plant, sir, and I believe in others there are what you might call substantial renovations taking place as a continuing policy.

It is worthy of note that during this time the additional incomes produced are being retained by these corporations to enhance and enlarge their production capacity rather than being turned into dividends for shareholders. That is an important distinction, sir.

Mr. BERGLAND. That was my next question. You just answered it.

My last point, Mr. Chairman, is on the 20th day of November of this year, the Associated Press International reported a meeting in Mexico attended by 20 Latin American and Carribean countries in which they agreed to creating a sugar cartel. According to news accounts, if accurate, they agreed to establish a price of 75 cents per pound for the sugar produced in that region and sold under the control of this cartel.

Are any of you knowledgeable on this meeting and the results from it? What effect has this had on the market and what do you anticipate?

Mr. CLEAVER. We know really nothing more than you have cited as the contents of the newspaper article. I do not recall myself the mention of the 75-cent price. That would not surprise me.

Mr. BERGLAND. If I may read, I am quoting: "Initial plans for the sale of 50 million tons of sugar for \$24 billion." That is 75 cents a pound.

Mr. CLEAVER. It has not yet had any effect on the market. They have not made any of those plans concrete. They have not established any mechanism that we know of.

I should point out, however, in several of the countries that are in that area, that the sale of sugar for export, raw sugar, is controlled by a governmental or semigovernmental monopoly, in any case. They, of course, individually do exercise considerable power on the sale of sugar.

Mr. BERGLAND. They have in the past, acted independently of each other. This sounds like an attempt to abridge that.

Mr. CLEAVER. Yes, sir.

Mr. BERGLAND. Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Zwach.

Mr. ZWACH. Thank you, Mr. Chairman.

I think I should just make a brief statement. As you know, this committee passed a sugar bill that was beaten by 30 to 5 after many long hearings. I think that bill had some weaknesses; I think that bill should be corrected. I do not think that we should say not, that there will be no attempt at any sugar legislation for a long period of time. I think we are in sort of a limbo in trying to see what happened and see if the United States gets out of this picture. We are the bigger user who is going to be setting prices.

Is there going to be any stability or are we going to get kind of a rocking boat type operation.

So far it seems like the effect of no sugar bill to me it has not looked good. It has looked like international combines are going to be setting their price instead of the people in the United States who are so very, very interested in large amounts of sugar.

So I think we will just wait. In my district we are building a \$50 million sugar beet plant. 300 farmers are going into very heavy debt over a long period of time to build this mill. It is already \$12 million to \$13 million more than they anticipated when they started 2½ years ago.

Now what they need and what their lenders need is some stability in this whole overall structure. This we think the Sugar Act did. I know that there are some here who opposed it because they wanted more fluctuation. They wanted to gamble on the exchanges and buy. To producers, that is no good. If we are going to have sugar, we have to satisfy the producers. They need stability. Input costs are stable. They have to have on this end, especially to borrow this money.

I went along with a group, saw the New York bankers, the Chicago bankers, and the Minneapolis bankers, to get this huge sum of money. None from the banks or co-ops, all private sources. Those lenders were very, very interested in the future of the sugar business and they, I do not think, would have loaned the money without the Sugar Act at the time that these loans were made.

So I think that we will wait. The sensibleness and the result of not passing a sugar bill—I am leaving the Congress this term, but we are going to be watching very, very fully how it operates or who is calling the shots. When we take out a benevolent government who sort of tried to protect consumers and producers in America, and turned it over, let us see who is calling the shots on the world setup.

I think I ought to say this because my good friend from Illinois has said we do not need to worry a long time about a sugar law. I do not think that is true as of this time. I think that is in limbo and awaiting how things work.

Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Findley.

Mr. FINDLEY. Under the Sugar Act, refiners have enjoyed an extraordinary level of protection. Refined sugar for the most part has not been permitted to be marketed in this country. That has assured you the opportunity to refine locally produced cane as well as imported cane. Now that has changed.

I would like your comments about how you view the future. Are you confident about hanging on to this business without the advantage of protection in the form of the Sugar Act? And as a part of that, to what extent is your industry highly efficient compared to the rest of the world? Is there evidence that other countries are stepping rapidly into the business and anticipating direct access for refined sugar into this market?

Mr. CLEAVER. I can speak only for my company, of course, and I would describe our attitude as, I think, watchful waiting. There is not any indication at the moment of any large-scale plans for the shipment of refined sugar into this country. There undoubtedly will be some coming in as the Sugar Act expires. However, we are confident that we can produce sugar efficiently and provide it in the form which the customers in the United States want to have it.

It is perfectly possible that some sugar in 5-pound bags, for example, could find their way into the grocery stores where Mrs. Findley shops. We think when it gets there, it will, by reason of shipping difficulties, of cost, to be as expensive as the sugar we are producing here.

As far as the industrial users go, they have a wide range of very exacting specifications. They call for shipment in various forms. They call for certain chemical characteristics that are exact.

I am confident we can maintain our business, although we certainly are well aware of the risks of other countries, particularly nearby Canada, for example.

Mr. FINDLEY. Would others take exception to those comments?

Mr. WILLIAMS. I think that fairly states it.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Murray.

Mr. MURRAY. Thank you, Mr. Chairman.

To follow a bit of the future projection that Mr. Findley and Mr. Zwach were interested in, I am sure our panel today has been involved in international sugar dealings and interests. As you go into 1975, will you not have to deal more with these international sugar operators more than you have in the past?

Mr. CLEAVER. Mr. Murray, the operators we are dealing with in most cases have engaged both in international and domestic operations in the sense that they handle sugar—

Mr. ZWACH. Would you pull up the mike?

Mr. CLEAVER. I am saying that the firms deal with firms in and outside of the United States, so we are familiar with the market and the shift is not a difficult one.

Mr. MURRAY. The committee is probably not aware or familiar with just what the role of these operators are, who they are and how much sugar they control or how much sugar they deal with.

Who are the main sugar operators in the world?

Mr. CLEAVER. I would like to take those first that we deal with in the United States. I do not know which names are on the chairman's list.

Mr. VIGORITO. We will have to take a 10-minute recess.

Mr. CLEAVER. All right, sir.

Mr. VIGORITO. We appreciate your patience, but that is part of the game.

We will be in recess for 10 minutes.

[A brief recess was taken.]

Mr. VIGORITO. The subcommittee will resume its sitting.

Mr. MURRAY, would you continue?

Mr. MURRAY. We were pursuing the question as to who the main sugar operators are.

Mr. CLEAVER. I will answer that, Mr. Murray. I trust, though, you will understand I am not naming them in order of preference. I hope I will not leave any out because I have to deal with these people every day.

Several of them are located in New York are Czarnikow-Rionda Co. Another is M. Golodetz Co. Another is the Farr, Mann Co., that is a New York company that is owned almost entirely by a London firm which is named E. D. F. Mann.

There is another one, Christman Associates, in which a London firm has an interest.

There is a firm which, I believe they now call Westway Trading formerly known as Amrop that is owned by a French firm which in turn is controlled by a gentleman whose name is Farsano.

Those, I think, are the principal ones.

Excuse me, I am reminded, there is another one, Acli Co. That is a firm owned and controlled by two gentlemen by A. C. Israel and Leon Israel, located in New York.

There are in addition several smaller firms that operate as brokers selling sugar on a commission basis, in some cases representing refiners.

I think that covers most of them, Mr. Murray.

Mr. MURRAY. Which of those would you say is the biggest operator?

Mr. CLEAVER. The one that handles the largest volume is Czarnikow-Rionda Co.

Mr. MURRAY. You say big. How big is big in terms of tonnage or in terms of dollar value? What are you talking about in international sugar?

Mr. CLEAVER. I have no figures on that, sir.

Mr. MURRAY. How do you know he is bigger than somebody else?

Mr. CLEAVER. I know over the years we have bought more sugar from them. They generally have had more to offer over the years than other concerns. We have not kept any exact records. In fact, we do not know the total volume. They do not announce that.

Mr. MURRAY. For the edification of the committee, how would the committee go about finding out who is big and how big is big? Where does this information exist that could be made available?

Mr. CLEAVER. I am not aware that it exists in published form. I would imagine you would have to ask each of them to get the information that you suggest you need.

Mr. MURRAY. Are not many of these firms or individuals who control them foreign nationals?

Mr. CLEAVER. Let me make it clear, Mr. Murray, that the ownership or interests that I have indicated are just my beliefs about the subject. I have no exact knowledge. Some, we understand, are foreign nationals.

Mr. MURRAY. We have found on the staff level a great difficulty finding out much about this part of the sugar world. We asked the ASCS of the Department of Agriculture to list the sugar operators in the world, and they came up with a list of 22 companies, 11 of which were foreign, which we would be glad to put in the record, Mr. Chairman, and then we asked them, which of those were the largest and which were the biggest involved.

They said they did not know, and thought it was interesting that our Department of Agriculture, which is about to go onto the world market with the price of sugar in 3 weeks did not know who the biggest operators in international sugar are.

I think at least a part of the committee has a curiosity of finding out who these operators are, how big they are, and how much they have influenced the pricing of sugar in the so-called world market, and how much it will continue to be affected. I would think that you gentlemen who are in the sugar buying business would have a great interest in that too.

Mr. VIGORITO. May I add at this time, I think we will schedule a 1-day of hearings where we will get four or five of the bigger ones, operators, down here to testify and be questioned.

So let us go on that assumption. Next week someone will be down here. Of course, whatever they say will be available to anyone who is interested.

Mr. CLEAVER. I think that would be a good way to proceed, sir.

Mr. MURRAY. Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Goodling.

Mr. GOODLING. I did not hear all your testimony. I am sorry. I was tied up in other matters. I did hear you make a statement—you were commenting on the drop in sugar beet production. You said, why did this happen? Because the Cost of Living Council refused to recognize that their controls forced sugar beet growers into alternate crops.

I do not think I am going to buy that statement. The farmers were not forced into growing alternate crops. They did that of their own free will.

Mr. POTVIN. Yes, sir. We would share your thoughts. This is scarcely a police state. There is not compulsion, but yet there is an iron-like quality of certain laws of economics. If you can make more return on an acre of crop A, B, or C, than you can on sugar beets, and your economic needs require that higher income, while I would not characterize it as compulsion, there is a certain strength of motivation there, sir.

Mr. BERGLAND. Will the gentleman yield on that point?

Mr. GOODLING. Just 1 minute. Farmers are not stupid people by any stretch of the imagination. They are no different from refiners of sugar.

If they see an opportunity to make an extra nickel, they are going to make it, and I say more power to them.

It was the price of these farm commodities that went up and up: Soybeans, \$11 a bushel. There is not any farmer in his right mind who is going to raise sugar beets if he can get \$9, \$10 a bushel for soybeans.

Let us not blame the Cost of Living Council. It may have had some effect on it, but the fact that all these farm commodities went up and up had a great bearing on it.

I yield to the gentleman.

Mr. BERGLAND. I thank the gentleman for yielding.

My experience has been bankers' advice usually carries the force of law.

Mr. GOODLING. I did not get that.

Mr. BERGLAND. My experience in farming has taught me that a banker's advice usually carries the force of law.

Mr. GOODLING. You have a point there.

Mr. POTVIN. We would most assuredly want to defer to our conferees, the beet growers, to tell you their reasons for shifting. It is scarcely appropriate for us to do so.

Mr. GOODLING. In your opinion or the opinion of any other witnesses, did the defeat of the sugar bill in June have anything to do with the increase in sugar prices?

Mr. POTVIN. Do any of my copanelists wish to speak to that?

Mr. CLEAVER. I would say, it was not a basic reason for the increase in price. I think it was one of many factors, of a whole collection of factors that influenced the price. I would think its effect would be for sugar to rise next year than for sugar to rise in the current year.

Mr. GOODLING. Do you favor the enactment of additional sugar legislation?

Mr. CLEAVER. I think I indicated my company favors the development of a new sugar policy that would provide for a strong domestic industry and provide for the current condition in the sugar economy in the world.

We would certainly anticipate that that policy would recognize that the company will have to import substantial quantities of raw sugar in the foreseeable future, and we think that a total policy should be developed that will provide for a reasonable supply with reasonable prices.

I am not suggesting the form of any particular legislation.

Mr. GOODLING. I do not know if this question was asked when I was not here. What this committee is attempting to do is find out why the price of sugar is 60 cents to 65 cents a pound today. Do you have an answer to that? No one has given us an answer yet. We find nobody is responsible for it. It just happened automatically.

Mr. CLEAVER. The price today is 45 cents. It has come down quite a bit.

Mr. GOODLING. I beg your pardon?

Mr. CLEAVER. The price of sugar today is 45 cents.

Mr. GOODLING. In the supermarket?

Mr. CLEAVER. I am talking about raw sugar prices. It has come down from the high on November 20 and 21 by something like 20 cents.

Mr. BERGLAND. If the gentleman would yield further, I just noticed on the AP wire that a major sugar manufacturer today dropped his price \$5.25 a hundred, which is the third drop in 3 weeks.

Mr. GOODLING. What is the price?

Mr. BERGLAND. \$51.40.

Mr. GOODLING. \$51.40?

Mr. BERGLAND. Yes.

Mr. GOODLING. Thank you, Mr. Chairman.

Mr. VIGORITO. We wish to thank you gentlemen for your expert testimony today, and we would like to see you again.

Mr. POTVIN. Thank you, Mr. Chairman.

Mr. VIGORITO. We will hear the sugar beet people. Then we will open it up to questioning. We will have to move right along. I may have to limit the number of questions and time that we take. I would like to finish this up this afternoon.

The next witness is Mr. David Carter, the U.S. Sugar Beet Association, and he is accompanied by Mr. Ernest Flegenheimer, Mr. Robert Fisher, and Mr. Rowland Cannon.

Also, we have Mr. John Brunsdale, president, Red River Valley Co-operative, from North Dakota, and accompanied by Mr. William Hejl, vice president.

If you gentlemen would come forward.

Mr. VIGORITO. Would you please stand and take the oath?

Do you solemnly swear that the testimony that you are about to give to this subcommittee will be the truth, the whole truth, and nothing but the truth so help you God?

Mr. CARTER. I do.

Mr. VOORHEES. I do.

Mr. CANNON. I do.

Mr. FLEGENHEIMER. I do.

Mr. FISHER. I do.

Mr. BRUNSDALE. I do.

Mr. ZIMMERMAN. I do.

Mr. O'ROURKE. I do.

Mr. VIGORITO. Let the record show that the witnesses have been sworn in.

Please be seated and thank you.

And the first witness is Mr. David Carter.

**STATEMENT OF DAVID CARTER, EXECUTIVE VICE PRESIDENT,
U.S. BEET SUGAR ASSOCIATION, WASHINGTON, D.C., ACCOMPANIED BY JOHN VOORHEES, COUNSEL, U.S. BEET SUGAR ASSOCIATION, AND ROWLAND CANNON, PRESIDENT, UTAH-IDAHO SUGAR CO.**

Mr. CARTER. Mr. Chairman, before beginning my formal statement, which has been submitted to you and other members of the subcommittee, there is one preliminary matter which I would like to mention.

Your letter, on behalf of the subcommittee, requesting my testimony today indicated that I was to head up a "panel" of representatives from four named beet sugar processors. Your request for these four companies' attendance also mentioned that I would be chairing a "panel",

and stated that the purpose of the hearings was "to examine sugar marketing, profits and inventories since defeat of the sugar bill."

While I have no quibble with the word "panel", it is necessary to emphasize that I am appearing as executive vice president and president-elect of the U.S. Beet Sugar Association. The program of our association is closely circumscribed and continuously monitored by counsel, so as not to become involved either formally or informally in matters relating to the current or future marketing of beet sugar.

Counsel has accompanied me here today. Specifically, association functions and programs do not include discussion of prices, terms and conditions of sale or other matters of similar character. My testimony today, therefore, is designed as a general and, I hope, helpful background on the sugar situation as it has evolved in this country.

The gentlemen accompanying me are also here at the request of the committee, each one representing his own views, and his own company individually. In other words, they are not here as a "panel" in the sense of representing the membership of the U.S. Beet Sugar Association, nor are they representing any common or predetermined position by the industry on the matters before the subcommittee.

Thank you for that indulgence.

Mr. VIGORITO. Thank you, Mr. Carter.

Mr. CARTER. Mr. Chairman, my name is David Carter. I am executive vice president and president-elect of the U.S. Beet Sugar Association, a Washington-headquartered trade group whose membership is comprised of all but two of the beet sugar processing companies operating in the United States. Only two grower-owned—cooperative—beet sugar processing firms, each operating a single plant in the Red River Valley for the first time in 1974, are not presently members of the association.

The member companies in the association own and operate 53 beet sugar processing facilities located from Michigan and Ohio in the east, to California, Oregon, and Washington in the west, and near the Canadian border on the north to near the Mexican border on the south. In all, beet sugar processing plants operate in 16 of the 50 States and produce refined sugar from sugar beets produced by more than 25,000 growers in 18 States.

The United States beet sugar industry has since 1950 supplied between 25 percent and 30 percent of the total sugar requirements in this country. Beet sugar distribution on a percentage basis has over the past 25 years ranged from a high of 31.56 percent in 1971 to a low of 23.37 percent in 1960. In terms of total sugar production during that same span, U.S. beet sugar production ranged from a low of 28.8 million hundredweight in 1952 to a high of 67.8 million hundredweight in 1972.

I am here today at the invitation of subcommittee Chairman Vigorito to present the views of this industry relative to what happened, why and what the future may hold with regard to sugar supplies and sugar prices.

As we stated to the Council on Wage and Price Stability 2 weeks ago, the present situation with respect to sugar has not come about overnight. However, the origins of the problems have gone unnoticed, and only the results have been given close attention.

The genesis of the present situation traces back to 1963. A world-wide shortage resulting principally from European beet crop failures in 1962 and 1963, and from back-to-back shortfalls in Cuban production the same 2 years, caused dramatic increases in sugar prices during 1963. Beginning the following year, 1964, sugar producing countries around the world stepped up their productive capacity. The high prices of 1963 were short lived. The world production surplus from 1964 and the 2 subsequent years glutted the market. From a high of almost 14 cents per pound in 1963, the world market price for sugar dropped to less than 2 cents, a sevenfold decrease. Two-cent sugar was, even then, far below the cost of production anywhere.

As members of this committee know, only 10 to 15 percent of the world's sugar production is sold in the so-called "world market." The remainder is consumed in countries where it is produced or it moves under preferential trade arrangements. In any event, between 1964 and 1968 worldwide sugar production ran ahead of consumption. Then in 1969, consumption and production pulled about even.

In 1970, consumption slightly exceeded production. But rather than expanding, the producing nations began working off stocks accumulated from prior years. Through 1971 and 1972, consumption continued growing, but productive capacity failed to keep pace.

During the sixties, as well as the preceding 25 years, sugar prices in the United States were largely insulated from the world market. In this country, the real price of sugar also has been declining for many years.

In 1935, the retail price of refined sugar in the United States was 5.7 cents per pound. By 1960, when the retail price for sugar was 11.6 cents per pound, the price expressed in 1935 dollars, had actually declined to 5.4 cents per pound. By 1967, the retail price of refined sugar was 12.2 cents per pound. In relative terms, however, the price of sugar was only 5 cents per pound—a decrease of 12 percent, relative to 1935. By 1972, Americans were paying an average retail price of 13.9 cents per pound, equal to 4.6 cents per pound in 1935 dollars—a decrease of 19 percent. By 1973, the relative price had inched up to 4.8 cents even though the retail shelf price averaged 15.1 cents per pound. Official Government statistics on retail sugar prices for the first 9 months of 1974 show that the average retail price per pound was 26.2 cents, a fivefold increase over 1935 prices, but a scant 1.9 cent per pound increase over 1935 prices when the inflation factor is considered. A detailed table is attached outlining these statistics.

While the sugar industry has been making better than average productivity gains, technological progress alone did not account for the reduction in real prices through 1973. Profits of the sugar industry trended downward, as well.

During the 4-year period 1934 to 1937, the profits of the sugar beet processing industry averaged, on an annual basis, 11.9 percent of equity. For the 4-year period, 1951 through 1954, that profit ratio for publicly held sugar beet processing companies had fallen to 7.5 percent. And for the most recently available 4-year period 1970 through 1973 the comparable profit ratio was 6.1 percent.

For the publicly held companies that are purely beet sugar companies—in other words those which are not parts of other corporations—the aggregate of a percentage of net income to sales during

the 3-year period 1965 to 1967 averaged 5.6 percent. During the 3-year period 1971 to 1973 the average of the aggregate of net income as a percent of sales had dropped to 3.5 percent. As reported by the First City National Bank of New York this compares to the percent of margin on sales of the Nation's more than 2,000 leading manufacturing corporations of 4.7 percent in 1971, 5.1 percent in 1972, and 5.6 percent in 1973.

With profits down, and a generally descending relative price, the U.S. beet sugar industry, along with the rest of the world's sugar producers, was not in position to invest the heavy capital required to expand production sufficiently to meet increased demand. As a matter of fact, since 1950 there have been 33 beet sugar processing plants closed in this country. Thirteen have closed in just the last dozen years.

Even so, Mr. Chairman, the present U.S. sugar situation could have been eased had it not been for the actions and inactions of the U.S. Department of Agriculture, the former Cost of Living Council and the Members of Congress who voted against the Sugar Act last June 5.

USDA's trial balloon relative to replacing the 40-year-old sugar supply management program, first expressed publicly in November of 1973, was an initiator of a string of price-stimulating events. Uncertainty was created in the sugar market by the Department's posture and prices for raw cane sugar being shipped to the United States started an upward trend. To this point in time these prices in the United States had been at about Sugar Act target levels which were substantially below world market prices.

The significance of the Department's continuing and well publicized proposal for a future sugar program without quotas was this: Due to the uncertainties it created among quota holders as to their future in the U.S. market, these quota holders began to follow the world sugar market by increasing the price of their U.S. sugar sales, thereby exceeding the price guidelines of the act by a steadily expanding margin.

As you remember, Chairman Poage called the USDA proposal for a new approach to the sugar program "damn foolishness."

In January, the USDA—still publicly espousing a changed program—announced a 500,000-ton increase in U.S. sugar requirements. This consumption requirement increase—which by the Department's own estimate was 700,000 tons more than this country would use—could only come from the already short world market. Immediate increased prices then occurred in both the United States and world sugar markets.

Then on June 5, Congress voted down an extension of the Sugar Act. This removed the final incentive for foreign countries which had U.S. quotas to fill these quotas for the balance of 1974 at less than prevailing world prices. Chairman Poage's prediction at the time the Sugar Act failed to pass the Congress that "sugar prices in the United States would increase to 6 bits a pound," was rather prophetic.

Later in the year, as sugar prices were still rising, the USDA again contributed to price increases and greater pressures on the short world supply of sugar. That circumstance was the implication that USDA was considering lifting all sugar quotas for the balance of 1974. While the Department did not in fact lift such quotas, the mere press cover-

age of its contemplating such action contributed to the price resurgence which followed in both the world and U.S. markets.

Despite the foregoing, Mr. Chairman, the present sugar supply situation could have been eased—insofar as domestic beet sugar production is concerned—if the Cost of Living Council had heeded our pleadings beginning in 1971 and continuing through March of this year.

As members of this subcommittee know, the beet farmer is not paid a fixed, predetermined price for his crop. The price for his beet crop depends on the net proceeds received by the processor from the sale of sugar over a 12-month marketing year.

In any event, in 1971, with the imposition of phase 2 price controls, the Cost of Living Council purportedly decontrolled all raw agricultural products. By definition, raw cane sugar was a raw agricultural product. But the Council's regulations froze, among other things, the price of refined sugar and, therefore, effectively froze the price of sugar beets. This meant that a farmer could plant tomatoes, potatoes, wheat, corn, beans, onions or other crops knowing that ceiling prices were not applicable.

But because the farmer who grows beets is paid on the basis of the net selling price of beet sugar, he was locked into a controlled price for his beets. Food processors, other than sugar beet processors, could pass through cost increases of their raw agricultural products. But sugar beet costs could not increase because they were determined directly by the selling price of beet sugar which was frozen. The situation in the beet industry was like a dog chasing its tail.

Meanwhile, the price of raw cane sugar was not controlled and cane refiners were allowed to pass through the increased cost of their basic raw material. Such increases were reflected in the price of refined cane sugar.

Eventually, this disparate treatment of beet and cane sugar caused serious disruptions in the marketplace. There developed shortages of beet sugar, and other inequities for buyers and sellers. Eventually, the Cost of Living Council corrected the error and permitted the beet sugar industry to impute its basic raw material cost based on the price of cane sugar.

Considerable damage had already been done, however, with respect to the returns to growers for their 1971 and 1972 sugar beet crops. Sugar beets had not remained economically competitive with other crops which farmers could plant. This resulted in the decrease in acreage planted to the sugar beet crop in 1973 as compared to 1972.

Then in the summer of 1973, another price freeze was imposed, followed by phase 4 which again resulted in discrimination against the beet industry. The new regulations issued by the Cost of Living Council put the beet processors and beet farmers back in the soup again.

In phase 4, the beet industry once again was confronted by an inequitable situation which removed much of the farmer's incentive to grow sugar beets. Although the phase 4 rules permitted processors to pass through raw material cost increases on an imputed basis, these rules were not sufficient to induce farmers to grow sugar beets in sufficient quantities. Because of the much higher returns which farmers could realize from other crops, it was apparent that, unless the price

of beet sugar—and thus sugar beets—was decontrolled, sugar beets could not hope successfully to compete with other crops for acreage.

As late as March 5, 1974, we petitioned the Cost of Living Council to completely decontrol sugar in order that sugar beets could be competitive with the price of other crops. I direct you to a letter attached to this statement from growers and processors addressed to Kenneth Fedor, Administrator, Office of Food, Cost of Living Council imploring the Council to lift economic controls on the beet sugar industry.

The letter reads in part:

We have surveyed all U.S. beet sugar processing companies and various grower associations which collectively represent approximately 85 percent of all U.S. beet growers.

This survey indicates that if all economic controls are lifted on or before March 15, 1974, sugar beet plantings will be at least 12 to 15 percent above that which would be planted if economic controls are continued beyond that date.

The acreage increase would result from the positive psychological impact that such action would have on growers. As was pointed out in the beet sugar industry's petition of January 15, 1974, growers are well aware that controls have been retained on sugar beets while all other crops which they can produce are completely control free.

While March 15 is too late for the impact of decontrol to be fully reflected in 1974 crop production increases, decontrol will have a very beneficial affect on production.

Stated simply, this means that prompt decontrol action by CLC will permit about 150,000 more acres of 1974 beets to be planted than if no action were to be taken. That is enough acreage to produce sugar to satisfy the annual direct household needs (packaged sugar, as such) of 30,000,000 American citizens.

Such sugar, if not produced from domestic beets, will have to be made up by imports from the already supply-depressed and cost-inflated world market. Yesterday, the world price equivalent of raw sugar at New York City was about five cents per pound above domestic raw sugar. In recent weeks, the price differential has been as much as nine cents per pound.

Our pleadings fell on deaf ears and as a result the acreage for harvest in 1974 is the lowest since 1967. According to the USDA's Crop Reporting Board, the 1974 American sugar beet crop will be about 6 million tons less than in 1972, a 21 percent reduction. Sugar outturn from the 1974 crop will be about 1 million tons less than the industry's estimated capacity. This points out that no matter how well intentioned price controls may be, somebody gets hurt. The beet industry was hurt during the time of controls. The sugar consumer now is paying the price of CLC's policy with respect to price controls on sugar.

What effect an additional 500,000 tons of beet sugar would have on today's marketplace is hard to appraise. But certainly, the recently reported 500,000-ton purchase—principally of Philippine raws—by the Russians had an extremely bullish effect on the United States as well as the world market. We believe that another 500,000 tons of U.S. production would have resulted in less agonizing in the press over the reported Russian purchase.

These matters are cited because they constitute a factual recitation of what actually happened during this period—not to serve as embarrassment for any of the hard-working, and well-intentioned Government executives involved. We all recognize—including this witness—how very much easier it is to sit here and criticize after the

fact, than to cope with the hard judgments which faced our Government over the recent past.

And now, we come to the question of how the beet sugar processing industry—made up of individual companies who make individual decisions affecting their growers, and who make individual decisions affecting their stockholders—will market the 1974 beet sugar production.

Domestic beet sugar production and distribution do not operate in a vacuum. Like the other three-fourths of this Nation's supply—which is derived from domestic and imported cane sugar—beet sugar is subject to severe supply/demand pressures.

While I cannot, of course, speak for any individual beet sugar marketer, it would be my opinion that despite publicly reported attractions to sugar sellers such as record overseas prices and probable opportunities for large quantity, single shipment sales of refined sugar to countries which lack refining capacity, the beet sugar sellers' traditional marketing pattern of supplying their products to American consumers will prevail.

Such opportunities for overseas shipments, whether utilized or not, do seem to establish the fact that American-produced beet sugar has a market value that, in these present circumstances, is not insulated from world prices.

Historically, the market value of refined beet sugar in the United States generally has been established by the market value of refined cane sugar whether that market was high or low. Beet sugar is a smaller industry than the cane industry and over most of its life has been a marginally profitable industry in view of its sharing arrangements with the beet farmers.

As evidence of how the market value of beet sugar in the past had some relationship to cane sugar, I cite the fact that even the former Cost of Living Council after studying the entire sugar marketing structure for months, permitted beet sugar processors to use cane sugar prices in imputing the cost to establish the value for sugarbeets purchased from American farmers.

Nonetheless, while each individual beet sugar seller is, of course, free to market his production at whatever price appears most advantageous to his company and to his beet growers, refined beet sugar prices have traditionally tended to parallel those of the major factor in the market—refined cane sugar—which as noted, generally accounts for about three-fourths of the available supplies.

In these times of worldwide sugar shortages, when a purchase of sugar by any country in the world further depletes the scarce commodity—driving up its price—increased domestic beet sugar production for American consumption will directly decrease the demand pressures on those short worldwide supplies. This country's need for imported raw cane sugar are inversely proportional to the level of domestic sugar production. The easing of demand on world supplies brought about by a significant increase in our own production, will, all other things being equal, moderate raw sugar prices, thus moderating the eventual prices American consumers pay for sugar.

For many years, the beet sugar processors and sugarbeet growers have entered into participating, risk-sharing contracts, the terms of

which are negotiated yearly between the individual compaines and grower representatives.

Once agreement has been reached, these contracts have been submitted to the U.S. Department of Agriculture where, under the terms of the Sugar Act, the Department determined whether the pricing terms were fair and reasonable. Such a fair price determination has been made by the U.S. Department of Agriculture with respect to all 1974 beet purchase contracts. The net proceeds from the sale of refined beet sugar are split approximately two-thirds to the grower, one-third to the processor.

For his part, the farmer utilizes his land, machinery, labor, managerial skills, and other agricultural inputs to plant, cultivate, harvest and deliver the beets to an agreed upon location.

The processor, for his part, accepts the beets—all of the production from a contracted acreage—not a specified tonnage—transports the raw product, if necessary, to a processing site and provides the physical facilities, labor, machinery, managerial skills, and other inputs required to turn the sugar beet into refined sugar and to market the sugar. Implicit in the risk-sharing contract is the processor's consideration of the growers' interests that the sugar be sold at the best price obtainable in the marketplace.

As pointed out earlier, most farmers have a range of uses to which they can put their land. Some crops are simpler to grow than sugar beets. The grower is committed to sugar beets only to the extent that they offer a fair return competitive with other crops.

As I just stated, a farmer can plant many crops, but there is only a single raw material a beet sugar processor can utilize to make sugar. Without sugar beets, a beet processing facility is useless. This is another compelling consideration why the processor must obtain the best possible return from the marketplace for his growers. The independent sugar beet growers need to be encouraged not discouraged. As President Ford declared 2 weeks ago, American farmers must be "made aware of the excellent market opportunities offered by sugar beets."

The sugar beet industry is not just 25,000 sugar beet growers, 55 processing plants and several thousand sugar workers. Generally, beet sugar factories are located adjacent to small towns. The economy of many of these small sugar factory towns and many other nearby towns in beet producing areas revolves around the sugar beet crop. The farmer buys his agricultural equipment, hires his labor, purchases his food, his tractor fuel, gasoline for his farm trucks and other supplies in such towns. The factory labor force lives, spends its wages and pays its taxes in such towns. Such is the arrangement in hundreds of rural communities of the United States.

Sugar beets are a way of life—one perhaps that more people in more towns can become a part of through increased domestic beet sugar production.

And now, Mr. Chairman, what of the future?

We cannot speak for individual decisions by any particular grower or processor. Indications are, however, that due to the prospects for improved returns for growers, the 1975 acreage planted to sugar beets will increase significantly. With mother nature's help, with adequate fertilizer supplies, with adequate fuel for farm equipment, the sugar

beet tonnage next year will set a new record. It follows that more beet sugar than ever before will be produced.

We, as an industry, are capable of producing upwards of 4 million tons of sugar annually. Achieving this will lessen our dependency on foreign supplies. Full domestic beet sugar production in 1975 will help bring down consumer prices.

But what of 1976 and beyond?

Certainly we do not want a repeat of 1974.

This most recent experience of spiraling sugar costs in this country after 40 years of reasonable and stable prices has been harrowing for the sugar industry as well as consumers. There is also a well documented history of feast or famine on the world market and roller coaster prices for customers subjected to the world market. With what now seems the certain demise of the 40-year old Sugar Act, the United States will be into that world market as the largest raw sugar importer in the world. The future under these circumstances could well bring on uncertainty and possibly a repetition of 1974.

We believe, therefore, that the 94th Congress should at an early date consider the enactment of an uncomplicated sugar supply management program which would guarantee consumers an adequate supply of sugar at reasonable prices.

Such a program as we view it, would protect not only the welfare of consumers, but be dedicated to the fundamental proposition that our national interests require production of a significant portion of our needs domestically. Such a national commitment to the maintenance of the domestic sugar industry is essential in order to encourage investors to provide the necessary capital for continuing modernization and expansion, thus insuring the maintenance of a truly healthy, economically sound and highly competitive American beet sugar industry.

We are not prepared at this time to offer specific recommendations but hold to the belief that the less fettered and less complicated the program, the more chance it will have to work in a way acceptable to consumers, to Congress and to those whose responsibility it is to supply sugar.

Thank you.

[Mr. Carter submitted exhibits identical to exhibits A, B, C, D, and E submitted by Mr. Potvin. The following exhibits were also submitted by Mr. Carter:]

In terms of dollars of constant purchasing power, consumers paid less for refined sugar during the sixties and early seventies through 1973 than they had in the thirties, forties, and fifties.

EXHIBIT A.—RETAIL PRICES OF REFINED SUGAR IN TERMS OF BOTH CURRENT AND CONSTANT DOLLARS

Year	Retail price of refined sugar (cents per pound)	Consumer Price Index (1935=100)	Retail price of refined sugar expressed in 1935 dollars ¹ (cents per pound)
1934	5.5		
1935	5.7	100.0	5.7
1940	5.2	102.1	5.1
1945	6.7	131.2	5.1
1950	9.7	175.3	5.5
1955	10.4	195.2	5.3
1960	11.6	215.9	5.4
1965	11.8	230.0	5.1
1966	12.0	236.6	5.0
1967	12.2	243.4	5.0
1968	12.2	253.6	4.8
1969	12.4	267.2	4.6
1970	13.0	283.3	4.6
1971	13.6	295.2	4.6
1972	13.9	304.8	4.6
1973	15.1	316.5	4.8
1974 ²	26.2	354.6	7.4

¹ Based on actual price deflated by the Consumers Price Index.

² First 9-month average.

U. S. BEET SUGAR ASSOCIATION,
Washington, D. C., March 5, 1974.

Mr. KENNETH J. FEDOR, Administrator, Office of Food, Cost of Living Council,
Washington, D. C.

DEAR MR. FEDOR: Yesterday, during a meeting attended by representatives of the Cost of Living Council and representatives of the sugar industry, you requested that the beet sugar representatives survey the industry to determine what affect decontrol would have on 1974 planted acreage.

Accordingly, we have surveyed all U.S. beet sugar processing companies (see attached teletyped) and various grower associations which collectively represent approximately 85 percent of all U.S. beet growers.

This survey indicates that if all economic controls are lifted on or before March 15, 1974, sugarbeet plantings will be at least 12 to 15 percent above that which would be planted if economic controls are continued beyond that date.

This acreage increase would result from the positive psychological impact that such action would have on growers. As was pointed out in the beet sugar industry's petition of January 15, 1974, growers are well aware that controls have been retained on sugarbeets while all other crops which they can produce are completely control free. While March 15 is too late for the impact of decontrol to be fully reflected in 1974 crop production increases, decontrol will have a very beneficial affect on production.

Stated simply, this means that prompt decontrol action by CLC will permit about 150,000 more acres of 1974 beets to be planted than if no action were to be taken. That is enough acreage to produce sugar to satisfy the annual direct household needs (packaged sugar, as such) of 30,000,000 American citizens.

Such sugar, if not produced from domestic beets, will have to be made up by imports from the already supply-depressed and cost-inflated world market. Yesterday, the world price equivalent of raw sugar at New York City was about five cents per pound above domestic raw sugar. In recent weeks, the price differential has been as much as nine cents per pound.

Finally, if price decontrol on domestic beet sugar is not taken promptly, some beet factories which operated in 1973 may close because of insufficient volume. The record is clear that once a factory shuts down it is closed permanently. If that happens in 1974, housewives and industrial users will be beholden to imported replacement sugar for a long time to come.

The beet industry representatives wish to remind the Council that if price decontrol action had been taken, as requested in January 1974, the impact on increased beet acreage would have been greater than that contemplated with a March 15 decontrol date. It is, however, imperative that such decontrol now be granted, even at this late date.

Sincerely,

DAVID C. CARTER,
Executive Vice President,
U.S. Beet Sugar Association.
RICHARD W. BLAKE,
Executive Vice President,
National Sugarbeet Growers Federation.
MALCOLM YOUNG,
Executive Manager,
California Beet Growers Association, Ltd.

Enclosure.

WASHINGTON, D.C., March 4, 1974.

CLC has asked specifically:

What percentage increase in plantings to sugarbeets can be expected (in your area) if sugar is completely decontrolled on or before March 15?

CLC has been promised industry answer by Lipman, Fisher, Blake and Young by tomorrow, March 5.

Would you therefore give us your best estimate based on surveys and/or other method as you select by late today or early tomorrow.

DAVE CARTER, U.S.B.A.

002 Washington, D.C.
TLX 292230, ACS, FGO
Attn: J. C. Tanner.
003 Washington, D.C.
TWX 8104902370, Buck Sugar Inc.
Attn: John T. Stacey.
004 Washington, D.C.
TWX 9109312692, G.W. Sugar DN.
Attn: Robert J. Fisher.
005 Washington, D.C.
TWX 3034730405, Hol. Sug. Co.
Attn: John B. Bunker.
006 Washington, D.C.
TLX 227419, Mich. Sugar SGW.
Attn: Ernest Flegenheimer.
007 Washington, D.C.
TWX 8102651225, Mon. Sugar PC.
Attn: Hugh B. Eldred.
008 Washington, D.C.
TLX 340685, Spreckels SFO.
Attn: Guy D. Manuel.
009 Washington, D.C.
TWX 9103796103, Un. Sug. Dv. SFO.
Attn: Alden L. Stock.
010 Washington, D.C.
TWX 9109265663, U. & I. Sug. SLC.
Attn: Powland M. Cannon.
Accepted.
00001 thru 00010.
1-FC.

Mr. VIGORITO. Thank you, Mr. Carter.

Mr. CARTER. Mr. Chairman, I believe Mr. Ernest Flegenheimer, president of the Michigan Sugar Co., has a separate statement.

Mr. VIGORITO. Yes. Please proceed with that.

STATEMENT OF ERNEST FLEGENHEIMER, PRESIDENT,
MICHIGAN SUGAR CO.

Mr. FLEGENHEIMER. My name is Ernest Flegenheimer. I reside in Saginaw, Mich., and I am President and chief executive officer of Michigan Sugar Co., which is headquartered in Saginaw.

Our company operates four small beet sugar factories in the state of Michigan. In beet sugar production we ranked 8th out of the 10 sugar beet companies which operated in the United States in 1973. Our average annual sugar production amounts to only 3 to 4 percent of the total beet sugar produced in the country, and less than 1 percent of the total sugar consumed in the United States annually. Although practically all of the sugar we produce is sold within the State of Michigan, we account for only approximately 20 percent of the total sugar sold in Michigan. Because of the relatively small amount of sugar we produce, we are not a dominant factor in our operating market area and therefore are not in a position to influence the selling price of sugar. We generally remain competitive with western beet sugar processes.

Much comment has been made about our company's earnings for the year just ended. These earnings received national attention by being reported as a 2,000 percent increase over the previous year. However, no mention was made of the meager earnings in the previous year. Obviously, if one compares almost nonexistent earnings in 1 year, any improvement can be portrayed as a huge percentage increase. Dr. Albert Rees, chairman of the Council on Wage and Price Stability, who conducted similar hearings within the last 2 weeks, said that he "deplored the use" of figures giving percentage changes from 1 year to the next if adequate information is not also given on the size of profits in the earlier year.

Our company's profits for the past 2 years were as follows: For the year ended September 30, 1973, \$252,000 on sales of \$29,250,000, or 0.86 percent of sales; for the year ended September 30, 1974, \$5,269,000 on sales of \$60,700,000, or 8.6 percent of sales.

There are numerous reasons for the increase in profits in 1974 compared with 1973. The size of the sugar beet crop is very unpredictable. While the acreage planted is known, the number of tons produced can vary. Also, the amount of sugar produced can vary depending upon the quality of the beet, whether or not there are the proper weather conditions for the storage of beets during the processing season, and other variables. In 1974, 6 percent more beets were delivered by the farmers than in 1973; however, 31 percent more sugar was produced. In 1973 was the worst year for processing since 1959, and was followed by 1974 which was the best year in the 68-year history of the company.

I am certainly not trying to contend that price was not a significant factor in the company's improved earnings in 1974. However, producing 31 percent more sugar from just 6 percent more beets was also a very important factor. In addition, not only the increase in the price of sugar contributed to improved earnings, but also the prices received for pulp and molasses increased significantly from severely depressed levels. This alone contributed \$2,850,000 more to company sales. It became readily apparent that a percentage comparison is not only meaningless but also completely misleading under these circumstances.

The earnings that we have just reported amount to 8.68 percent on sales, and when averaged with the prior year are 4.77 percent, which is below the average of major manufacturing industries as reported by First National City Bank of New York. To put our earnings in a different perspective, they amounted to only 10 cents on a 5 pound bag of sugar. I do not believe that that can be termed excessive. Over the past years the sugar industry has traditionally been near the bottom when its profits are compared with other manufacturing industries.

Over the past 6 months or so our prices have consistently been below cane sugar, which accounts for roughly 45 percent of all sugar sold in the State of Michigan. Under the standard participating sugar beet contract in effect with our farmers, we have a responsibility to attain the generally prevailing price of sugar in our marketing area. The farmers' share is not a participation in the profits of the company, but is a direct participation by the farmer in the amount the consumer pays for sugar.

Another consideration in pricing sugar is to insure that the amount the farmer receives will be sufficient to enable the farmer to continue to grow sugar beets. Without an adequate supply of sugar beets grown by these independent farmers, it would be impossible for our company to operate. Unless the farmer receives an adequate price for his sugar beets compared to other competitive crops, there is no inducement for the farmer to grow sugar beets.

There have been no significant changes in our inventory position, and we have made no attempt to withhold sugar from the market. This can be shown by a comparison of our quarterly sales as a percentage of our annual sales for the last 2 fiscal years. Our annual sales reflect our inventory position. During the first quarter of 1973, we marketed 22 percent of the crop, versus 28 percent in 1974. During the second quarter, 25 percent in 1973 and 23 percent in 1974. During the third quarter, 22 percent in 1973 and 22 percent in 1974. During the fourth quarter, 31 percent in 1973 and 27 percent in 1974.

This concludes my statement. Thank you.

Mr. VIGORITO. Thank you. You made a statement that you produced 31 percent more sugar from just 6 percent more beets. How did that come about?

Mr. FLEGENHEIMER. That depends on the sugar content in the beet, which varies tremendously from year to year. In 1973, we extracted only 203 pounds of sugar from 1 ton of beets. In 1974, almost 250 pounds.

Mr. VIGORITO. Thank you.

Mr. CARTER. Mr. Robert Fisher, senior vice president of agriculture from the Great Western Sugar Co., has a statement, Mr. Chairman.

**STATEMENT OF ROBERT FISHER, SENIOR VICE PRESIDENT,
AGRICULTURE, GREAT WESTERN SUGAR CO.**

Mr. FISHER. Mr. Chairman, members of the committee, I have a brief statement to make. But first, I should like to ask that the record show that I am senior vice president of agriculture for the Great Western Sugar Co., and that I hold no official position, nor have any direct connection, with the parent company, Great Western United. I have

been with the sugar company for 30 years, 22 of them before we were owned by the holding company. I am, however, a very small stockholder in United. I am not an expert in financial matters or conglomerate accounting. I can answer general questions that you may have about Great Western United. My field, however, is agriculture; and therefore, I can answer in detail any question that the subcommittee may wish to ask regarding the growing of sugar beets, the sugar beet purchase contract, sugar economics, and the like.

My statement, sir, is really in answer to a question that was raised by Congressman Johnson yesterday to Mr. Blake, about beet sugar inventories and profits—the profits thereon—to which I would like to respond.

Great Western always sells sugar to customers from inventory. We never sell sugar immediately after it leaves the production line. The net return which we receive from the sale of such inventories during our marketing year is the price we pay growers for beets under our participating contract. Therefore, we cannot cost our inventories until we have sold the sugar.

Our marketing year begins on October 1, and we sell in that 12 months almost exactly as much sugar as we produce in that period. We do, however, have to carry over a small amount of old crop sugar on September 30, to see us through until new crop sugar is available. We normally start receiving beets about October 1, and start processing them shortly thereafter. Then we run our factories for about 4 months, until all the beets are sliced. We have to supply our customers on a year-round basis, however, so the sugar that we have in inventory on February 1 has to last us until the following October.

There was some confusion at yesterday's hearing regarding net returns and profits, or/and net losses, and whether growers and beet processors should share them. I would like to try to clarify the matter. Net return is quite different from net profit or net loss. Net return from sugar sales, as defined in the beet contract, is the amount of money customers pay us for the sugar, after we deduct selling and marketing expenses. Such net return, then, is divided about two-thirds to our growers and one-third to us, regardless of whether the company makes a profit or loss, and regardless of how much that profit or loss is.

From their share of the sugar net return, growers must cover their costs and seek a profit, and that is also true for the company, from our share of the sugar net return. Great Western, to carry out its obligation to growers and stockholders, consistent with good business judgment, seeks to obtain the highest net return that it can get in its normal marketplace from its normal customers. The higher that net return is in any given marketing year, the higher will be our payment to growers for beets. The higher our payment for beets, the better will be our chances to get growers to plant a decent acreage for us the following year, in competition with alternative crops that they can grow on their land.

We sell our sugar against the competitive prices that other sugar producers are charging, whether those prices are high or low. And while they are high now, they were too low for too long. Our contractual relation with growers requires us to do the best selling job that we can in all the circumstances. If we do not get a good price, our growers will suffer, and we in turn will suffer acreage-wise. For 5

straight years since 1969, the acreage that Great Western has been able to contract has declined; from 409,000 total acres in 1969, we fell to 295,000 contracted acres in 1974. That is a decline of 28 percent. We had 321,000 acres in 1973, so in the last year alone, we dropped 26,000 acres, or 8 percent.

If, sugar prices are relatively good through this coming winter, we have a chance to reverse the acreage trend in 1975. If we contract more acreage, we then should have more sugar available to help fill some of the sugar supply gap that has caused prices to rise in this country and around the world.

Thank you.

Mr. VIGORITO. Thank you.

Mr. Brunsdale?

Mr. O'Rourke. Point of inquiry. I am Dennis O'Rourke, associated with Mr. Brunsdale and Mr. Zimmerman. I was sworn with this group. However, as Mr. Carter has pointed out, we are not a member of this group or associated with it in any way, so Mr. Brunsdale's testimony should be separately considered, I think.

Mr. VIGORITO. I really do not have any questions for the gentlemen at the table right now. A lot of this was given yesterday, and very ably, by a Mr. Richard Blake and Mr. Malcolm Young. They did a tremendous job, and I am sure that if I ask the same questions, I will get the same answers I got yesterday. But if the other members have any questions—

Mr. GOODLING. Mr. Chairman, I would like to ask Mr. Flegenheimer one question. You say over the past 6 months beet sugar prices have consistently been below cane sugar. How do you account for that?

Mr. FLEGENHEIMER. As I stated in my remarks, that we are generally competitive with the western beet sugar processors, and beet sugar over that period of time has been selling considerably under cane sugar.

Mr. GOODLING. There isn't any difference in the quality, is there?

Mr. FLEGENHEIMER. No, sir.

Mr. GOODLING. I just cannot understand why you should receive less money for your beet sugar.

Mr. FLEGENHEIMER. Simply a matter of market conditions. That is determined by supply and demand, and that was the going price for beet sugar that we generally are competing against.

Mr. GOODLING. Mr. Carter, you say since 1950, 53 beet pressing plants in this country have been closed. Did they close because they became obsolete, or because they could not afford to stay in business, or was it combination of the two?

Mr. CARTER. I would have to answer that in a general way. There were a number of factors, definitely. They were unprofitable, or they would have remained open. Whether that profitability was caused by obsolescence or just the general market conditions, I cannot answer specifically. But the fact is that they did close.

Mr. GOODLING. In your opinion, or the opinion of any of the other gentlemen at the table, did the defeat of the sugar bill have any direct results on the price of sugar?

Mr. CARTER. I will defer to the gentlemen here with me. They are marketers of sugar.

Mr. CANNON. I am not sure I understand your question.

Mr. GOODLING. Would the price of sugar have orbited to the price it did if we had passed the Sugar Act in June?

Mr. CANNON. It is my judgment that the lack of passage of the Sugar Act did have an influence on sugar prices in the United States. Up until the time that the sugar bill was defeated in June, domestic raw sugar prices had consistently been below world prices.

I think the reason for that was that foreign producers were willing to market sugar in the United States under quota at a price below the world market, in order to protect their market position in this country. When the sugar bill was defeated, they had no future position to protect. Almost immediately, the domestic raw sugar price went up to a point equal to the world raw sugar price, and has since that time paralleled it very closely.

Mr. GOODLING. I have used that same argument, but there are a lot of people who do not agree with it.

Mr. CANNON. You asked my opinion, Mr. Goodling.

Mr. FISHER. I, too, agree with you. It was not only the defeat of the Sugar Act on June 5; it was the threat of not continuing the Sugar Act, as voiced by the Department of Agriculture officials as early as the precedent November, that also affected the price of sugar, creating market uncertainty.

Mr. GOODLING. The foreign producers realized that the honeymoon is not going to last forever. Sooner or later, they will need the United States. That is why we were buying sugar below the world price. Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Bergland?

Mr. BERGLAND. Thank you, Mr. Chairman.

Mr. Flegenheimer, is there any chemical difference between beet and cane sugar?

Mr. FLEGENHEIMER. None whatsoever.

Mr. BERGLAND. They are interchangeable?

Mr. FLEGENHEIMER. Yes, sir.

Mr. BERGLAND. Mr. Fisher, what do your growers tell you about the probable acreage of beets in 1975?

Mr. FISHER. We have not had a contract meeting yet, Mr. Bergland, but the scuttlebutt and discussion would indicate an increase in 1975. We do not have a specific answer.

Mr. BERGLAND. Would that compare with your high mark in 1969?

Mr. FISHER. Not quite, except in some areas we may possibly have more acreage offered to us than we can handle economically.

Mr. BERGLAND. Some mills may be operating under capacity?

Mr. FISHER. Yes, sir.

Mr. BERGLAND. Thank you very much. That is all, Mr. Chairman.

Mr. VIGORITO. Mr. Zwach?

Mr. ZWACH. Just one comment. I appreciate you gentlemen's participation to show that you are close to the picture of the sugar beet industry. I would like one question of Mr. Carter, and then on a followup.

On page 2, near the bottom, you say, from a high 14 cents a pound in 1963, the world market price of sugar dropped less than 2 cents, a sevenfold increase. Do any of you gentlemen remember what the new price was under the Sugar Act when the world price dropped to 2 cents?

Mr. FISHER. It was in the neighborhood of 7 cents. The record will show that.

Mr. ZWACH. It would really indicate that when world prices, which fluctuate up and down, when they get real high, the Sugar Act held down prices in America. When world prices got real low, the inclination was to stabilize them. Everything can be said for consumers and processors that that is good, can it not?

Mr. FISHER. Yes, sir.

Mr. ZWACH. It seems to me that that is a good recommendation for the Sugar Act. Thirty of us voted out that bill. We would agree to some changes. Five of them voted against—none of the House Members. So you can see the kind of situation we have. But I think that there is the evidence right there, along with a lot of other things that need to be driven forth.

That is all, Mr. Chairman.

Mr. VIGORITO. Mr. Murray, do you have anything?

Mr. MURRAY. No, Mr. Chairman, thank you.

Mr. VIGORITO. We thank you gentlemen.

Mr. GOODLING. I would like to ask the \$64 question. You gentlemen are experts in sugar production. What do we, as Congressmen, tell our constituents when they ask us, why must we pay 60 cents a pound for sugar? I have asked a great many people that question, and I still have not gotten an answer.

Mr. FISHER. The refiners answered that fairly well; because they are paying, and have paid, up to \$64.60 a pound for raw sugar. Then again, we have gone around the circle here. There was a shortage of world sugar, and up went the price.

Mr. FLEGENHEIMER. Mr. Goodling, may I make one statement? We importers, as I understand, are approximately—15 percent of all oil requirements are from foreign countries. We all have vivid memories of what 15 percent of a commodity can do to our economy. We rely on 50 percent of our sugar from foreign countries, and I think that should give us some indication as to what happens when you have a domestic industry that is not producing at capacity. That is not a direct answer, but it might shed some light on it.

Mr. GOODLING. I would like to suggest to Mr. Bergland that you have a project. You should see that your sugar beet growers receive the same amount for their product as the cane growers do in Louisiana.

Mr. VIGORITO. Thank you, gentlemen, for your testimony. Will Mr. Brunsdale please come up?

STATEMENT OF JOHN E. BRUNSDALE, PRESIDENT, RED RIVER VALLEY COOPERATIVE, INC., HILLSBORO, N. DAK., ACCOMPANIED BY LLOYD ZIMMERMAN, FARMER, DIRECTOR OF RED RIVER VALLEY COOPERATIVE, INC., HILLSBORO, N. DAK., AND DENNIS O'ROUKE, PRESIDENT, MANEXEC, INC.

Mr. BRUNSDALE. My name is John Brunsdale. I live on and operate a farm near Mayville, N. Dak. I am here today as president of the Red River Valley Cooperative, Inc. of Hillsboro, N. Dak.

Our Cooperative is a processor of sugar beets. It is not a member of any sugar or other trade association and, hence, speaks of itself at this hearing.

With me today is Lloyd Zimmerman of Amenia, N. Dak., who is also a beet farmer and a director of our cooperative. Also with me today is Dennis O'Rourke, president of ManExec, Inc. of Colorado Springs and Washington. ManExec acts as management consultant to our cooperative.

The Red River Valley Cooperative, Inc. is a brand new beet sugar producer. Its new sugar factory at Hillsboro is the first new U.S. beet sugar factory built since 1968. It sliced its first sugar beets in late October. It, and another cooperative in the Red River Valley, are unique in being the only new U.S. sugar factories to start producing sugar this year.

In February of this year, we testified before your full committee in support of an extension of the U.S. sugar program along the lines recommended later by the full committee.

In August of this year, Senator Quentin Burdick of North Dakota was principal speaker at the dedication of our new factory. His speech on the U.S. sugar program appeared in the Congressional Record of September 17. I recommended it for a sound analysis and commentary on the U.S. sugar program.

I should like to address myself to the problem that is clearly fundamental in sugar, namely, getting increased production in this country and in our foreign supplying countries. I also wish to comment on some of the causes of the present high sugar prices.

As the testimony at your hearings show, world sugar production has not been keeping up with increasing world sugar consumption in recent years. This year, the supply situation has become acute as a result of low stocks and of poor crops.

Sugar has always been recognized to have an inelastic demand. People tend to maintain consumption despite increases in price. This year, some countries that normally export sugar, particularly in the Communist bloc, are now importers. Moreover, the Arab countries, which formerly had to check their purchases as prices rose, now have sufficient purchasing power to continue buying at high prices.

The actions of the U.S. Department of Agriculture and of the Congress made the basically tight world supply and price situation much worse.

In the fall of 1973, the Director of the Sugar Division of the Department of Agriculture made speeches around the country, including the Red River Valley, urging that the Sugar Act be terminated and that U.S. farmers turn from the production of "high-cost sugar" to the production of other crops. He wanted domestic sugar prices to fall to the world level.

The administrative actions of the Department of Agriculture were even more injurious. Attention has already been called by others to the Department's establishment of a consumption requirement figure of 12,500,000 tons for 1974, which was around 800,000 to 1 million tons too high. This tended to have the effect of reducing world supplies by nearly 1 million tons. Going still further, on September 25 this year, the Department took the unrealistic action of reallocating deficits on the basis that 12,500,000 tons of sugar would still be required in the United States in 1974.

In both 1973 and 1974, the Department failed to reallocate deficits promptly when supplies could have been obtained and, instead of mak-

ing reallocations in a normal manner, changed to a first-come, first-served procedure. The effect was to throw the force of United States demand into the tight world market. Why, in late September this year, the Department belatedly made reallocations, is not known.

The House of Representatives, on June 5, 1974, voted against extending the Sugar Act, thus confirming the position against the sugar program previously taken by the Director of the Sugar Division. Those in Congress who led the fight against extending the Sugar Act argued that the defeat of the act would lower prices to American consumers. They could not have been more wrong.

The Chairman of your committee said that the House action would mean 75 cents-a-pound sugar. This was one of the most accurate predictions ever made.

The effects of the above administrative and legislative actions were: One, to replace the orderly marketing system under which the United States had purchased sugar for 40 years with a mad, competitive fight for limited world supplies; two, to overstate the apparent tightness of world supplies by nearly 1 million tons; three, to force foreign suppliers to develop other markets and to destroy the effectiveness of the quota system for obtaining supplies for the United States; four, to threaten domestic sugar farmers with bankruptcy if they continued to produce sugar crops.

To build our new factory, we have borrowed more than \$30 million, to be paid off over a period of 15 years, and our members have made large additional borrowings for beet farming equipment, also to be paid off over a long period of time. We have had to give close attention to threats to the U.S. sugar program and to our financial survival. The fact that the price results are for the time being the opposite of those intended by the Department and the Congress, is our temporary good fortune.

To cure the sugar shortage and inordinately high sugar prices, we need more domestic and more foreign sugar production. But it takes much time to increase production. And it takes even more time to pay off the resulting indebtedness and investment.

Our Cooperative was formed and our beet factory was built because of a provision incorporated in the Sugar Act amendments of 1971, designed to encourage expansion of the industry. We started at once after the new legislation was enacted and built on a previous foundation of grower experience and effort. Even so, we were able to get our plant into operation only a little over a month ago. A second cooperative, by duplicating our plant and actions, was also able to erect a plant which is now starting production. A third project, which also was started at the same time, will not be able to operate for another year.

In other words, it takes a leadtime of three years or more to get new plants into operation, where the basic agricultural work has already been accomplished. It would take much longer in areas not familiar with sugar beet production. Much the same leadtime would be necessary for sugar cane projects and, where land clearing and irrigation would be necessary, much longer leadtimes would be required.

I do not think the necessary large amounts of new capital will be put into new or expanded U.S. sugar production capacity unless a

sugar program is enacted. Current high sugar prices of some 50 cents or more per pound, while they last, produce temporary prosperity for the industry. However, producers and financing institutions know that world prices were less than 2 cents per pound only 6 years ago. They are certainly not likely to invest millions of dollars to be repaid over 15 to 20 years without the protection of a sugar program.

Any new sugar program, in order to get needed production, must include a price standard that is realistic in relation to both costs of production and the prices of competitive crops. As has been recognized by several witnesses at these hearings, any future sugar price objective will have to be much higher than the old objective in order to get sufficient sugar production.

If new capital is to be attracted into new sugar projects through market guarantees, the guarantees must extend over a sufficient period of time to repay at least a major part of the capital investment. We undertook our project on the assumption that the U.S. Sugar Act and sugar program would be continued. Since it was not continued, it must be expected that others will demand reassurances before they make investments.

All this points to the necessity of a long-term program with an adequate price objective if the Congress and administration really wish to be effective in bringing about an increase in sugar production for the purpose of reducing prices to more normal levels.

Thank you.

[An article from the Congressional Record, Sept. 17, 1974, S. 16759, is held in the subcommittee file.]

Mr. VIGORITO. Thank you very much, Mr. Brunsdale. You have a very nice, concise statement.

Mr. BERGLAND, would you like to be the first to ask questions?

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

I would like to congratulate these people and may I say, Mr. Chairman, and members of the committee, they tend to typify the general attitude of the Red River Valley and adjacent areas of the Middle West, and that they had the courage to put their money where their mouth is.

These growers, and a couple thousand like them in that region, have borrowed more than \$150 million in the last 3 years with which to double the manufacturing capacity of that region. And I certainly commend them for being willing to take these kinds of chances. Had it not been for these investments, the price of sugar would have even been higher than it is today because their production has made and will make a very valuable contribution to the demands of the consumers of the United States.

Mr. Chairman, I have but one question. That simply is had there not been a sugar program enacted in 1971, would you have borrowed this kind of money to go into this business?

Mr. BRUNSDALE. I will tell you, Congressman, the bankers would not have stood still unless we had some production like it was in 1971. I understand you had a great input into this legislation, and we are to thank you here today.

Mr. BERGLAND. I was a member of the committee at the time and was very actively involved in the so-called balloon that allowed our region

to expand. We have the capability in that general area to perhaps double our production again in the next 10 years, given the opportunity.

What will it take on the part of this Government? What can we do in this committee to foster that kind of expansion?

Mr. BRUNSDALE. We need a sugar program that will make it economically feasible for us to pay off our debt and for others to get started.

We need a long-range program, Congressman.

Mr. BERGLAND. Thank you very much. That is all, Mr. Chairman.

Mr. VIGORITO. Mr. Goodling.

Mr. GOODLING. I would like to ask you gentlemen the same question I asked the previous group. Are you selling your sugar at a lesser price than cane sugar?

Mr. BRUNSDALE. I do not know. I am not the expert in the sugar sales division. We have another man who does our marketing for us.

Dennis, could you add anything to that?

Mr. O'ROURKE. I have no specific knowledge. All I would say from my knowledge is sugar sales in general is, our sugar is being sold at prices competitive with the other sugar in the market which it reaches, which would be the Midwest and the Chicago market.

Mr. GOODLING. You heard the gentleman who just preceded you say they are selling their best sugar at a lesser price than cane sugar sold for.

Mr. O'ROURKE. Yes.

Mr. GOODLING. To me that does not make sense. I am not a sugar producer.

Mr. O'ROURKE. As a footnote on the basis of my rather long experience in the industry, for many, many years there was in the Midwest market especially a differential price for beet sugar slightly less than cane, and I suppose this goes back to the time when the beet sugar industry got started. Perhaps this product was not quite up to the highest standards.

In recent years the differential has ceased to exist and beet sugar is not only as good in quality as cane, but some people say it is even better. So there is no longer any reason for that differential.

Mr. GOODLING. I want to read one more paragraph and then make an additional comment. "The House of Representatives on June 5, 1974, voted against extending the Sugar Act, thus confirming the position against the sugar program previously taken by the Director of the Sugar Division."

I would like to state this for the record. I said this yesterday or the day before. There was more that entered in the defeat of that bill than you indicate. I stated then that I was on the ad hoc committee. We spent hours and hours and hours trying to get a reasonably good bill. We thought we had one. Unfortunately, and I said this before, when the bill reached the floor of the House, smart labor boys outsmarted themselves. Instead of getting additional benefits for the sugar workers, they got nothing. That, too, had a big effect in defeating the sugar bill. In fact, I think some of us who supported the sugar bill 100 percent up until that time, voted against it finally.

I think the record should show that also.

Thank you, Mr. Chairman.

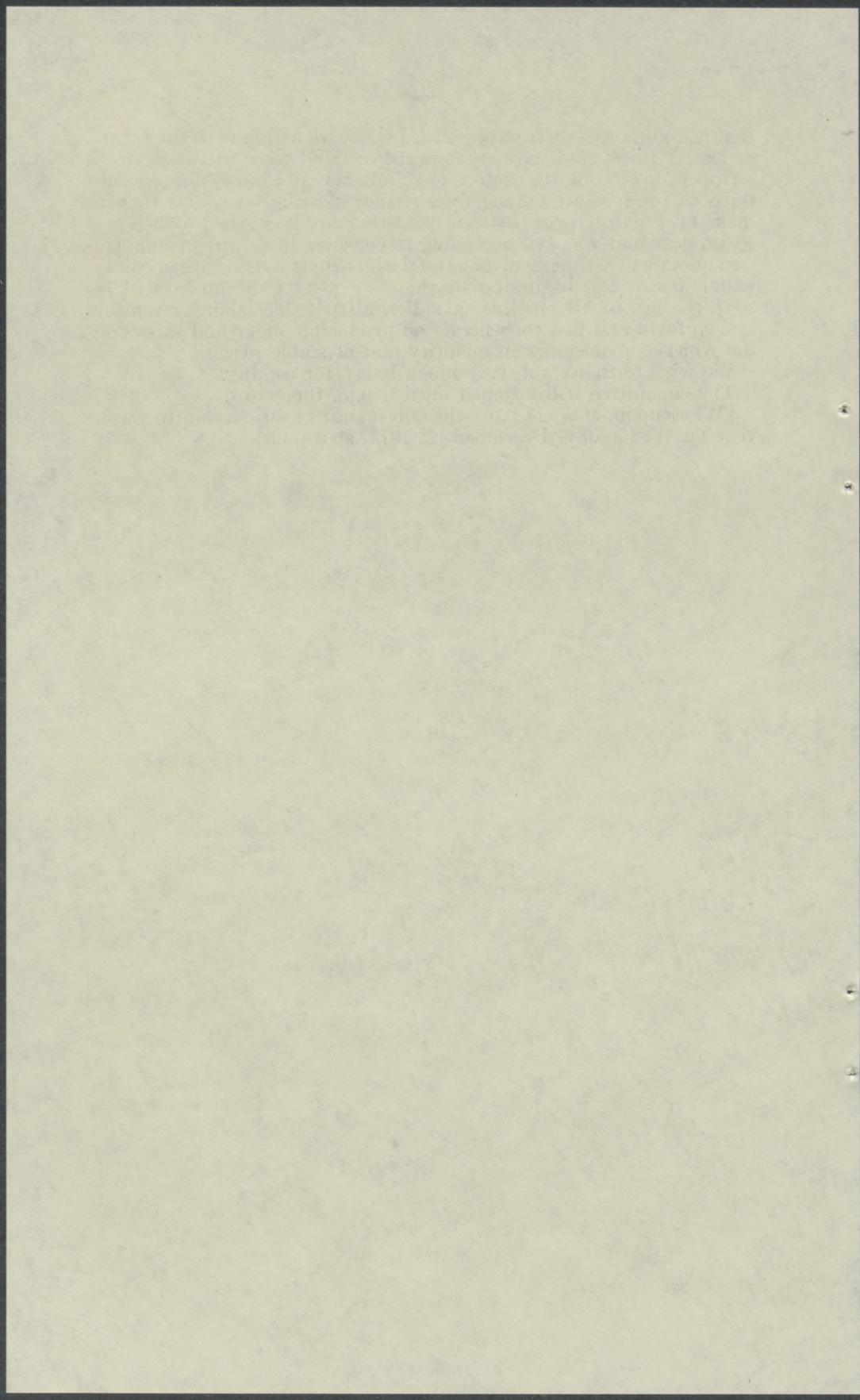
Mr. VIGORITO. I think you are very right, Mr. Goodling, and I must confess that I was the one that tried to load the bill up with the idea

that it would pass. I was wrong. But I think we will have in the future, at least I think as of now, that next year that they will work for a stripped-down bill to protect the industry producers and permit them to produce all the sugar that they possibly can, and then to make up the difference between what they are going to produce in a given year and what we are going to consume in a foreign importation quota where the importers, those who export to the United States, will know at the beginning of the year what their quota will be, strip the bill of all possible subsidies, all possible labor agreements and so forth and just concentrate on producing sugar and satisfying the American consumer in quantity and at stable prices.

We wish to thank you very much today for coming.

The committee will adjourn until 2 p.m. tomorrow.

[Whereupon, at 5:25 p.m., the subcommittee adjourned, to reconvene on Wednesday, December 12, 1974, at 2 p.m.]



EXAMINATION OF SUGAR MARKETING CONDITIONS SINCE DEFEAT OF SUGAR BILL

THURSDAY, DECEMBER 12, 1974

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

The subcommittee met, pursuant to recess, at 2:25 p.m., in room 1301, Longworth House Office Building, Hon. Joseph P. Vigorito (chairman of the subcommittee) presiding.

Present: Representatives Vigorito, Sisk, Denholm, Goodling, and Findley.

Also present: Representatives Bergland and Zwach.

Staff present: John O'Neal, general counsel; John Rainbolt, associate counsel; Hyde H. Murray, associate counsel; L. T. Easley, press assistant; Steve Allen, staff consultant; Steve Pringle, staff assistant; and Anita Brown, staff assistant.

Mr. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations will continue with its hearing on sugar marketing.

I think we will start out by having Mr. Creed from the Biscuit and Cracker Manufacturers' Association, Mr. Jim Mack and Mr. Quinlan present their testimony first, and then, we will ask questions.

Is that satisfactory?

Mr. CREED. It is with me, Mr. Chairman.

Mr. VIGORITO. If you three gentlemen would come to the table.

Mr. QUINLAN. Mr. Chairman, I am William Quinlan, and I am accompanied by three members of our industry, who are to be available to help in answering any questions.

Mr. VIGORITO. Thank you.

They can sit in the row behind you.

Mr. QUINLAN. Thank you.

Mr. VIGORITO. Will you three gentlemen please stand and I am going to read the oath to you.

As I mentioned before, everyone has taken the oath so I do not have to decide who takes it and who does not.

Do you solemnly swear that the testimony that you are about to give to this subcommittee will be the truth, the whole truth and nothing but the truth so help you God?

Mr. CREED. I do.

Mr. MACK. I do.

Mr. QUINLAN. I do.

Mr. VIGORITO. Let the record show that the witnesses have been sworn in.

Mr. Creed, would you please give your statement?

I am trying to cover as much ground as we can, because we are going to have a busy afternoon on the floor, so please proceed.

STATEMENT OF JOSEPH M. CREED, GENERAL COUNSEL, BISCUIT & CRACKER MANUFACTURERS' ASSOCIATION, WASHINGTON, D.C., AND CHAIRMAN OF THE SUGAR USERS GROUP

Mr. CREED. Thank you, Mr. Chairman.

My name is Joseph M. Creed. I am executive vice president and general counsel of the Biscuit & Cracker Manufacturers' Association and chairman of the Sugar Users Group. I am appearing on behalf of the group in response to an invitation from subcommittee Chairman Vigorito. The Sugar Users Group is comprised of the organizations listed at the end of this statement.

Mr. Chairman and members of the committee, we very much appreciate this opportunity to appear here today to give you our views with respect to the soaring sugar prices which have confronted the sugar using industries during these past several months. The statistical situation is well-known to the committee so we need not review it in detail at this time.

As you are well aware, some 75 percent of all sugar consumed in the United States is in the form of manufactured or processed food products; so obviously we are extremely concerned about today's sugar prices. We recognize that extraordinary conditions have existed throughout the world which have placed increasing demands on a diminishing total world supply of sugar. Consequently, it has become one of the most inflationary commodities within the United States today.

Two weeks ago we testified before the Council on Wage and Price Stability to express our deep concern over these high prices and to inform the Council of the difficulties which our members are facing in seeking a solution and relief. We made some specific recommendations to the Council which we resubmit to this committee for its consideration. They were:

1. A recommendation that the Government encourage the development and expansion of alternative competitive sweeteners, nutritive, and nonnutritive, to fill the gap of sugar inadequacy. We noted that should the Food and Drug Administration as a result of its pending review of cyclamates find that substance to be safe for human consumption, and lift the ban on its use, substantial quantities of sugar would be released for consumer products where it is a necessity because nonnutritive substances cannot be substituted for sugar.

2. We urged the Government to "indicate that any nearby foreign country which has been foreclosed from sending sugar to us in the past several years will again be welcome as a supplier."

3. We had previously recommended to the Secretaries of Agriculture and State that the President should establish a total foreign quota for 1975 as adequate and realistic as necessary to prevent the duty on foreign sugar from automatically increasing from .6250 cent per pound to 1.8750 cents per pound. Also, we recommended that there be no restriction placed on the importation of offshore sugar so as to tap those supplies, if available. It is now a matter of record that the President

has taken such action which should be helpful. We also endorsed a recommendation by other witnesses that the remaining tariff of .6250 cent per pound be eliminated promptly by the Congress.

The foregoing were our total recommendations but hopefully other realistic solutions to the problem can be developed by the Council.

As you will recall, at the time the Sugar Act of 1948 was before the Agriculture Committee for amendment and extension earlier this year, the Sugar Users Group submitted a program of amendments which, in our opinion, if adopted, would have given the Sugar Act more balance and made it more responsive to this Nation's need for an uninterrupted supply of sugar at fair and reasonable prices to all consumers.

Among our proposals was one which would have provided an undesignated foreign quota over and above the assigned foreign quotas in an effort to give access to this market to foreign suppliers who had no history of supplying this country and to enable those countries which had quotas to supply sugar over and above their assigned quotas.

We also included a provision designed to provide a more viable futures market for sugar as protection against price rises.

The Agriculture Committee in its wisdom saw fit to reject practically all of our proposals.

Accordingly, it became necessary for us to oppose passage of the extension of the act when it came before the House because the committee bill retained provisions which we considered inequitable to users and consumers.

What the House did is history, and the act is scheduled to expire at the end of this month. It is also a matter of record that many Congressmen who supported the bill as reported out by the Agriculture Committee voted against the bill as approved by the Committee of the Whole, which includes three labor supported amendments. The reasons for total rejection by the House were apparently many and diverse.

May we remind the committee that we expressed our serious concern over the impending world sugar shortage when we testified on February 21 of this year.

I quote from the testimony of Mr. John Mount, who appeared for the Sugar Users Group.

We have seen three consecutive crop years in which world consumption of sugar outpaced world production. Now, with world stocks at a dangerously low level, we are facing a crop year in which production and consumption hopefully are forecast to be approximately equal. This has led us to the present situation, with the domestic raw sugar price the highest it has been since 1920, and with the distinct possibility that the price will even surpass the 1920 record before we see a break.

As Mr. Mount stated at the time, our program was drawn up with the knowledge that we faced a probable sugar shortage or at best a tight supply-demand position throughout the proposed duration of the Sugar Act. Our program was designed to do all possible to encourage efficient production of sugar both in domestic areas and abroad.

It is now being said by some that had the act been extended, the present high prices for sugar would not have occurred. We emphatically disagree with that contention.

The world sugar supply situation has been such during this year that consequent high prices in the world market were a reasonable expectation. Unfortunately under the present act it is extremely difficult, if not impossible, to hedge against price fluctuations.

In our opinion, the action of the House to terminate the Sugar Act was the correct action in the circumstances, and today's high prices should not be blamed on that termination. Rather, it should be noted that the Sugar Act is still on the books but has provided absolutely no protection from high prices for domestic consumers; yet one of the major arguments advanced whenever the act was up for extension was its capacity to protect domestic consumers from high world market prices.

The fallacy of that argument has been demonstrated this year again as it was in 1963 when world sugar prices also moved to abnormally high levels. It provided a floor but no ceiling on sugar prices.

The act obviously has failed as a device to encourage domestic producers to meet their legislatively assigned quotas since in this year of need there is a shortfall of some 700,000 tons of beet sugar. The domestic growers diverted acreage from beets when the Nation's needs were critical.

It is clear that the Sugar Act, as now structured, functioned effectively only when confronted with surplus sugar, but it provides no assistance when demand exceeds supply on a world basis.

We are aware that efforts are underway, and will continue, to extend the present Sugar Act or some variation of it.

We realize that the committee yesterday decided not to seek an extension of the Sugar Act, but this statement, the committee understands, was prepared prior to that action. So, when we talk about efforts underway, your action has more or less changed the factual situation.

May we say that we think the action of the committee was sound in deciding not to seek an extension of the Sugar Act.

We believe the pros and cons of sugar legislation can be better considered in a different economic climate and after a period in which sugar producers, processors, refiners, and foreign suppliers, as well as users, have had an opportunity to function without the Sugar Act.

We find it hard to believe that today's price levels or even prices well below these levels will not be sufficient to induce expansion of sugar production in all world-producing areas. We believe competitive forces are and will be sufficiently strong to encourage production to supplement our domestic production without the necessity of all the Government strictures embodied in the Sugar Act of 1948.

If sometime in the future, conditions are such that our domestic products find it difficult or impossible to compete with foreign suppliers, at that time and not until then, the Congress should review the situation to determine what, if any, legislative action might be appropriate.

Meanwhile, we are hopeful that the slight decline in sugar prices which began last week is an indication that the worst is over and that prices will begin to recede.

We appreciate the interest of this committee in our problems as users and hope that it will continue its vigilance to protect the consumer in this difficult and trying situation.

Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you, Mr. Creed.

Mr. James Mack, please.

STATEMENT OF JAMES MACK, PRESIDENT AND GENERAL
COUNSEL, NATIONAL CONFECTIONERS ASSOCIATION

Mr. MACK. Mr. Chairman, my name is James E. Mack. This appearance is entered in behalf of the National Confectioners Association of which I am president and general counsel. The membership of the association consists of confectionery manufacturers and suppliers to the industry. It is estimated that our confectionery manufacturer members produce at least 85 percent of the confectionery manufactured in the United States.

While the United States produces slightly over half of the sugar it consumes, this country nevertheless is the largest sugar importing country in the world. Our requirements for sugar must be met on a long-term basis getting as much as we can from U.S. production and from friendly foreign countries which we can count on as being willing, able, and responsible for providing the remainder of the sugar. We cannot satisfy our sugar requirements on a catch-as-catch-can basis on the world market.

As you know, the world market is a very thin market accounting for only about 12 percent of world sales. It cannot be relied on by the United States. Canada is a country which has a population only a small fraction of that of the United States, and Canada has dealt on the world market; but even with its relatively small population, the price of sugar in Canada has fluctuated tremendously over the years while not doing so in the United States until this year.

The decision made by the U.S. Government to abandon a time-tested, long-range sugar program is the primary reason we got 72 cent sugar this fall. The problem all started about a year ago when officials of the U.S. Department of Agriculture let it be known that consideration within the administration was being given to abandoning the Sugar Act. The foreign countries which had long been suppliers to the U.S. market began to lose confidence in the United States as a future reliable year-in and year-out customer, and thus the rise in sugar price began.

In the early months of this year you members of the House Agriculture Committee gave comprehensive and thoughtful consideration to Sugar Act extension legislation. You did a very good job. While we think it was a mistake to remove the pricing corridor provision from Sugar Act extension legislation, the bill which you reported to the House for a 5-year extension of the act with provision for quarterly import quotas on foreign supplies was a very good bill.

If it had been passed by the House, the fears that had been aroused in the minds of foreign suppliers that the United States no longer could be depended upon as a steady customer would have been calmed. If then, the Senate had proceeded to pass the 5-year extension bill and it had been signed by the President, these fears would have been ended. Instead, the House action in voting down Sugar Act extension legislation gave very strong support to those fears which caused the price to continue to rise; but when Congress recessed in the fall, the foreign suppliers became convinced that the United States was abandoning its sugar program and then the price really took off.

In our opinion, no greater legislative mistake ever was made than the action by the U.S. House of Representatives in voting down Sugar

Act extension legislation. Had the administration not planted seeds indicating abandonment of the Sugar Act, we believe the price would have been lower than 24 cents on June 5, when the House voted down Sugar Act extension legislation; but even at 24 cents, we believe the price was lower than it would have been had there been no Sugar Act. However, had the House passed the sugar bill rather than defeating it, passage would have served to contain or reduce the price instead of stimulating the price which occurred because of defeat of the bill.

I would like to comment on two statements, each made by a different witness at the recent hearings held on sugar by the Council on Wage and Price Stability.

One was the effect that had the Sugar Act been extended, there would not have been any additional sugar available to U.S. consumers. Assuming without deciding that this statement is correct, the price which U.S. consumers would have paid would have been much lower. This is because had the United States passed a 5-year extension of the act, there would have been no question in the minds of our traditional foreign country suppliers having quotas in the U.S. market that they would ship us the sugar at a price near the Sugar Act price objective, rather than losing the quota in the future as the act requires.

However, by the House of Representatives vote signaling the end of long-term sugar commitments by the United States, the supplies that our traditional foreign suppliers had on hand instead of being shipped to the United States without question understandably were auctioned off to the highest bidder with the United States being only one of the bidders, instead of having the assurance that the sugar would come to the United States irrespective of what the world price might be. If the Sugar Act had been extended for 5 years, our traditional foreign suppliers in effect would have had no choice but to send the sugar to the United States at a price near the Sugar Act price objective; but with the act having been abandoned, their only incentive to sell to the United States was on a competitive price basis.

The other comment which was made at the wage and price stability hearings to which I would like to make reference was to the effect that the Sugar Act has been comparable to a fire insurance policy with a very high premium which provided no benefit when an inferno developed.

The basic illustration is good because the Sugar Act has been a fire insurance policy with a substantial annual premium paid by the United States; but when the time came for U.S. consumers to collect the benefits on this policy, the United States then instead of proceeding to collect the benefits cancelled the policy.

The House Agriculture Committee this year was right. The House of Representatives was wrong. Somehow the Members of the House must be made to realize that they made a mistake in listening to certain of their colleagues as well as private citizens recommending the voting down of the Sugar Act because that is what brought about the 72-cent sugar.

The best thing which could happen at this time would be for Congress swiftly to pass the 5-year extension bill reported by the House Agriculture Committee in June. That would do the most to correct the situation quickly.

With the adjournment of Congress approaching and the practical political problems in getting such action so quickly, the next best thing would be for Congress to pass a 1-year extension keeping the act alive and then early next year go to work on the provisions to be contained in a bill for a long-term extension.

The sooner the United States adopts a long-term sugar program providing the needed encouragement to domestic producers to produce and the incentive necessary to foreign countries for long-term supplying of the U.S. market, the quicker we will return to a normalized sugar price supply situation in the United States.

As you know, approximately 70 percent of the world's sugar has been consumed in the countries where produced. About 18 percent has been traded on long-term arrangements such as supplying the U.S. market under the Sugar Act. Only approximately 12 percent has been sold on the world market, which normally is a depressed market with the sugar being sold at far below the cost of production but which price accelerates fantastically when a tight world supply occurs.

As stated before, the world market is just too thin a market and getting thinner for the United States to depend on to supply an important part of its needs.

We are most hopeful that this subcommittee and then the House Agriculture Committee will get Sugar Act extension legislation before the House and get it passed in the near future. We then will be back moving in the right direction.

Mr. VIGORITO. Mr. Quinlan.

**STATEMENT OF WILLIAM A. QUINLAN, GENERAL COUNSEL,
ASSOCIATED RETAIL BAKERS OF AMERICA**

Mr. QUINLAN. Thank you, Mr. Chairman, members of the subcommittee. I am William A. Quinlan of Annapolis, Md., appearing as general counsel of the Associated Retail Bakers of America to testify on the sugar price emergency. With me are national affairs committee chairman Mr. Rudolf O. Danek; our director for this region, Leon F. Kern; and another retail baker, Mr. John Ghi.

We much appreciate this opportunity to appear and submit our problems and suggestions.

The Associated Retail Bakers of America (ARBA) is the national nonprofit membership association of retail bakers—those who produce bread and other bakery foods for sale across their own counters directly to consumers. There are about 20,000 retail bakers. Most of them operate very small, neighborhood businesses.

I have been associated with the baking industry in various capacities during all of my working life, and with ARBA during most of it.

THE DESPERATE PLIGHT OF THE RETAIL BAKER

The retail baker has been buffeted by one serious problem after another, by excessive and unrealistic regulations, by profligate Government spending and confiscatory taxation, by bungling of economic controls, by the Russian wheat deal and the refusal of our Government to provide for reserves of food and feed grains, and now by what promises to be the final blow for many—runaway sugar prices beyond the capacity of the consumer and the baker to pay.

Since the Russians and the Department of Agriculture left us holding the bag the cost of most foods including bakery ingredients has soared. Since January 1972, butter, strangely enough, has stayed about the same in price, but in order of inflation, for example, cake flour is up about 71 percent, frozen apples 73 percent, nonfat dry milk 78 percent, bread flour 85 percent, frozen cherries 100 percent, raisins 111 percent, sweet chocolate 124 percent, vegetable shortening 126 percent, frozen whole eggs 127 percent, honey 164 percent, soybean oil 182 percent, and sugar 387 percent.

Those figures are based on prices of a bakery supplier in the greater Washington, D.C., area, up to last Tuesday, December 10, and should give a roughly representative picture nationally, although the percentages in other areas will vary somewhat.

The price of sugar to the retail baker was \$67.25 per cwt., compared with \$13.80 in January 1972, \$17.60 in January 1974, and a high of \$77.75 before the two recent reductions.

We submit for your record a copy of information and comments received from retail bakers in a survey made for the recent hearing before the Council on Wage and Price Stability. The first group of returns includes those received up to November 21, and others received up to November 30 follow.

You will see that unless sugar can be made available at prices within reason, and very soon, this important segment of American small business—one of the few that still offered opportunity for the individual with relatively small capital but talent and the willingness to work—faces disaster. Its employees face or have already suffered loss of their jobs. The consumer faces loss of a source of food, of service, and of competition against monopoly and still higher prices. And many other small businesses which supply bakers with their ingredients and equipment may in turn be badly damaged or destroyed.

This is not just a matter of economics. There is sadness or heart-break in the reports of destruction or imminent destruction of businesses built with a lifetime or more of dedication and hard work.

Never before have I seen the retail baker in such a desperate plight.

RECOMMENDATIONS

We realize that the basic cause of runaway sugar prices, aggravated by other factors, is insufficiency of world supplies to meet world demand at reasonable prices, in other words, not enough sugar.

We realize also that the outlook is for a considerable drop in prices with the hopefully large new crops or new crop indications next summer or fall.

But emergency action, we respectfully submit, is needed now if retail bakers and other small sugar users are to survive in the meantime.

We have a number of recommendations which we ask your committee in turn to recommend to the Congress or the appropriate executive agencies. All but one of these recommendations, we submit, would either help to avoid further upward influence on prices or accomplish some small reduction. The remaining recommendations could bring prices down to a reasonable level as soon as it is placed in effect.

These are the recommendations:

1. *Curb speculation.*—Cool speculative fever by a drastic increase in margin requirements and any other available measures.

There is some difference of opinion as to how much of the price inflation is due to speculation, but it must be substantial.

2. *Removal of import duty.*—The President of the United States has avoided a trebling of the import duty on sugar which would otherwise have occurred automatically on January 1, 1975, following expiration of the Sugar Act.

He did so by setting an annual sugar import quota of 7 million short tons, raw value, intended not actually to limit imports but to be ample for U.S. needs and to satisfy the technicality of tariff law that would otherwise have resulted in the increase in duty. As recommended by the Sugar Users Group, of which ARBA is a part, he made this a total annual quota, avoiding the restrictive country-by-country and quarterly bases adopted under the Sugar Act and allowing sugar to enter from any foreign country at any time during the year.

However, this action still leaves in effect the existing import duty at the rate of 0.625 cent per pound on raw sugar, equivalent to 0.6625 cent on refined.

We see no sense in a sugar import duty of any amount in the present critical situation. You are urged to recommend that it be at least suspended for the duration of the emergency.

3. *Appeals to foreign suppliers.*—The United States has long befriended and aided foreign nations.

This might be an appropriate time to ask for something in return—some sugar on favorable terms from any such nations which are exporters of sugar. If there are any such possibilities they should be quickly and energetically pursued.

4. *Assurances of Cuban sugar.*—If the United States and other American governments resume consideration of relations with Cuba, it should include an effort to obtain favorable assurances of sugar supplies from that nearby potential source.

5. *Vigorous antitrust enforcement.*—There is widespread suspicion that recent prices and profits in the sugar industry are due in part to violations of the antitrust laws.

We have no evidence and make no charge of such violation. However, we agree that an urgent investigation is in order.

6. *Oppose extension of the Sugar Act.*—The present Sugar Act should be allowed to expire on December 31.

We do not say there should never again be a sugar act. Rather, efforts probably should be started next year to reach a national consensus on some new legislation that would be in the interests of all concerned—growers, refiners, distributors, industrial users, and consumers—in the light of future conditions and needs.

But the present Sugar Act does not meet present problems and it should be allowed a decent burial.

We are from the retail baking industry and are not experts in the politics and economics of sugar, although now acquiring considerable information, the hard way. We do believe, having avidly read and listened to many data and opinions, that it would be a serious mistake to extend anything like the present Sugar Act at this time, if ever.

It was designed for a situation of sugar surpluses, and was effective when prices were down, to get them up. It did so by restricting imports and by limiting domestic plantings or marketing.

With the expiration of the act domestic growers will be free to go ahead with their reported plans for greatly increased sugar plantings.

7. *Oppose sugar price ceilings.*—Some have suggested that a price ceiling be imposed on sugar.

That, we respectfully submit, would be another grave mistake. Selective price ceilings will not work. Price controls seldom if ever are workable, and then not without across-the-board control of costs, including prices and wages throughout the economy.

Moreover, in the case of sugar we are dependent upon foreign sources for half or more of our supply, and to impose a price lid would divert the sugar to other importing countries.

8. *A temporary emergency Government subsidy for the American consumer.*—The recommendations we have just submitted could have some effect, by helping to modify further sugar price increases, if not by causing some reduction from current levels.

Even all together, however, their effect would be relatively small.

The only hope we can see for any sufficient relief from what is becoming a catastrophe for bakers and other small sugar users is twofold.

First, as we have said, there is reason to hope that much larger plantings will bring prices within reach by next fall.

If that hope is realized, weather permitting, it will be too late for many retail bakers.

We are compelled, therefore, to the conclusion that an emergency Government sugar subsidy is the only current solution. It is a reluctant conclusion because our bakers regard dependence upon Government as a last recourse.

The Commodity Credit Corporation, for example, might be authorized and funded to buy refined sugar and resell it to United States distributors and users at lower prices, subject to appropriate conditions. Or to buy raw sugar and resell it to refiners at lower prices, again subject to appropriate conditions. Or perhaps other and better means could be provided. It has been suggested, for example, that a subsidy could be provided in the form of an income tax deduction based on use of sugar during this time of otherwise unbearable sugar costs.

Our Government would be joining other major governments which already give their people sugar price protection.

We are informed that world prices are reflected to consumers and users on only about 10 percent of all the sugar consumed, that the United States is one of only four or five countries where the consumer is bearing the whole burden.

In contrast, here are some prices in other countries:

PRICE FOR REFINED SUGAR, F.O.B. REFINERY U.S. DOLLAR PER POUND EQUIVALENT

Country	Oct. 15, 1973	Oct. 15, 1974
Canada.....	\$0. 1329	\$0. 5054
Mexico.....	. 0780	. 0800
Spain.....	. 1444	. 1663
West Germany.....	. 2022	. 1987
Eire.....	. 1281	. 1423
Netherlands.....	. 1536	. 1802
Belgium.....	. 1477	. 1758
France.....	. 1408	. 1512
United Kingdom.....	. 1106	. 1202

This recommendation to our Government, we emphasize, is for only a temporary emergency subsidy to bring users and consumers through the present crisis in sugar prices.

Your consideration of our problems and recommendations is very much appreciated. We thank you for the opportunity to testify. We hope your committee in turn will promptly and earnestly seek congressional and executive action on these and any other recommendations which will help to make sugar available at reasonable prices before it is too late.

[Information and comments from retail bakers submitted by Mr. Quinlan is held in the subcommittee file.]

Mr. QUINLAN. If I may, Mr. Chairman, without imposing unduly upon your time, I would like to ask the gentlemen accompanying me just to offer a brief statement of some information that they think will be helpful to the subcommittee.

Thank you.

Mr. VIGORITO. Please proceed.

Mr. QUINLAN. Mr. Danek.

**STATEMENT OF RUDOLF O. DANEK, DANNY'S PASTRY SHOP,
SILVER SPRING, MD.**

Mr. DANEK. My name is Rudolf Danek. I own and operate Danny's Pastry Shop in Silver Spring, Md. It is a retail bakery.

We have found our costs rising in the past several years, but since the first part of this year, they have skyrocketed. The average cost in our shop has gone up approximately 60 percent overall, with sugar, of course, going up about 325 percent since the first of the year.

We have been fortunate in some respects. We have been able to stockpile a few items since the first of the year, but those are rapidly becoming depleted. Now we are afraid although we have managed to hold the price line to some extent, we find that when we used to buy almonds for 96 cents a pound and we are getting to the bottom of that pile, we will have to pay \$2 to replace those. Chocolate was approximately 72 cents per pound; now we have to buy chocolate at \$1.39 a pound. Most of our ingredients have gone up an average of approximately 60 percent since the first of the year.

Although we try to hold the price line, we find we lose some customers when we do raise prices, and if we do continue to raise them, we will be continuing to lose more and more customers like many small shops. We will either have to close up because of lack of customers and short supply of business.

Mr. QUINLAN. Mr. Leon Kern, Mr. Chairman.

**STATEMENT OF LEON F. KERN, CLAR-LEE PASTRY SHOP, DODGE
PARK, MD.**

Mr. KERN. Mr. Chairman, I thank you for this opportunity. As Mr. Danek stated, he is a retail baker. I am also a retail baker, but I am a small retail baker as compared to a lot of them.

My problems are compounded by the fact that I cannot afford to have a large storage space, and there is no way that I can buy ahead to hedge on prices to save on anything, such as my friend Rudy was

able to do. In the past year, in the previous year, our supplies right after the Russian wheat deal, which was, we thought, unreasonable, and I wrote a letter to the Department of Agriculture, I got back advice to raise my prices if I got into trouble. That is the kind of consideration that we got.

Then we got into the sugar situation, and prices really took off. It is my estimate that my increase in the cost of ingredients has been approximately 104 percent in the last year. I am in a neighborhood composed of working people. There is no way that I can double my prices to compensate for that. In the last 3 years I have gone from two full-time bakers, two full-time helpers, to four full-time store girls, although I have one full-time baker, a man who comes in after school and cleans up for me and my wife.

We work an average of 10 to 12 hours a day, 6 days a week. That is just to pay the rent and keep a roof over our heads.

In 1973, I was forced to borrow \$2,000 in order to live. I am very distressed, and I am begging for all the beggars because I know that there are many more of them across the country, for some kind of subsidy and some kind of help. I have never been out of work since I was 16 years old, and I think that is a pretty good record. I have not asked for anything. Now I am begging.

Thank you, sir.

Mr. QUINLAN. Mr. Chairman, our last witness is Mr. John Ghi.

STATEMENT OF JOHN GHI, JOHN & NANCY'S BAKERY, HILLCREST HEIGHTS, MD.

Mr. GHI. My name is John Ghi, and I have a retail bakeshop in Hillcrest Heights.

My problem is the same as the rest of them. Last week, I had to let a man go because I looked at him not as a human being, but as two bags of sugar. This is the way I am looking at my employees right now: how many bags of sugar can they produce, so I let them go.

I could not give any regards to their problems, family or anything else. Right now I have my son, myself, my daughter working in the shop and my wife had to quit work because she is due to have a baby any day now. What it is going to come to, I do not know.

Mr. VIGORITO. Thank you.

Mr. QUINLAN. Thank you, Mr. Chairman and gentlemen.

Mr. VIGORITO. At this point in the record I would like to insert the testimony of Hon. Frank Annunzio, 11th District of Illinois. He would like to be here personally but he has other commitments on the floor and in his own committee.

STATEMENT OF HON. FRANK ANNUNZIO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. CHAIRMAN. Unfortunately for the American consumer, on June 5, 1974, the House of Representatives defeated a five-year extension of the Sugar Act. I voted for this extension because this is one of the most successful agricultural programs ever enacted by the Congress and because it has protected Americans from shortages and high prices by making adequate supplies of sugar available at stable prices over a long period of time.

The United States produces approximately 55 percent of its sugar needs with about 45 percent coming from foreign suppliers. Under the Sugar Act, Americans

were protected from extremely high prices when supplies were tight, as they are now, and the domestic sugar industry was protected when prices were low and there was no incentive to invest in sugar production.

The stabilizing influence of the Sugar Act encourages foreign producers to sell their sugar to the United States for lower than world prices because they were guaranteed a market for five years. Under the five-year sugar program, our domestic producers could make the necessary plans and commit the necessary capital and manpower to assure that this country had adequate sugar supplies when and where they were needed.

On June 5, when the House voted down the Sugar Act extension bill, it was in effect a warning to our long-term foreign suppliers that they might not continue to have an assured market in the United States.

By not guaranteeing stable prices to these suppliers through the Sugar Act, we left ourselves wide open to be exploited by countries who see just how successful the oil-producing Nations have been with their outrageous price increases. The world sugar supply is now very tight and the prices of those supplies now on the world market are at disastrous levels, as every American housewife knows.

Even worse, thousands of workers have already been laid off in the baking, bottling, and confection industries, and many more will lose their jobs in the next few weeks. My own City of Chicago is especially hard hit because of its status as a long-standing producer of candies and other confections.

American consumers paid some \$400 million less for sugar in the first six months of 1974 than they would have paid had their been no Sugar Act.

Mr. Chairman, I strongly urge this Subcommittee to consider a one-year extension of the Sugar Act, which will expire at the end of this month. Such an extension would be a step forward in stabilizing sugar prices even though it would not produce an overnight solution to this problem or provide immediate price decreases.

An extension of this crucial legislation would signal the world sugar traders that the United States will not enter the world sugar market—a market which is relatively small because many other Nations have programs similar to our own Sugar Act program. An extension would also encourage increased production from both domestic and foreign producers because they will have a stable and assured market.

During a difficult period when unemployment combined with inflation has already had tragic and disastrous effects on the people of our Nation, we cannot compound mistakes already made by abandoning a program like the Sugar Act which has served us so well.

Thank you, Mr. Chairman.

Mr. VIGORITO. I wish to thank you three gentlemen for your statements.

Now Mr. Creed, you mentioned and indicated that any nearby foreign country. What nearby foreign country did you have in mind?

Mr. CREED. The closest one I can think of, Mr. Chairman, is Cuba.

Mr. VIGORITO. That is what I thought you meant.

On your first recommendation that the Federal Government should encourage and develop an expansion of alternate competitive sweeteners and so forth, but do you think the Federal Government should get involved or let the market system play here because if the price of sugar stays high or even if it goes down lower than it is now, other substitutes will automatically come into play.

Mr. CREED. Essentially, what we are saying is the Government should provide appropriate climate for investment in facilities to make these available, not that the Government per se should involve itself in the development.

We have, insofar as our reference to the cyclamates are concerned, we think that the review of that situation could be speeded up. It is at the Food and Drug and of course they may conclude as they did before that they are not safe for human consumption.

But on the other hand, an early decision could be helpful, particularly if they reverse the finding that they made earlier as to its safety.

Mr. VIGORITO. Your third recommendation, that the President should establish a total foreign quota for 1975, I believe that has been done.

Mr. CREED. Yes, sir.

Mr. VIGORITO. That was pointed out in other statements here. What is your opinion of what we should do? Should we have a sugar act in the future or should we wait and see what develops in the industry?

Basically what do you recommend?

Mr. CREED. Our thinking with respect to that issue, Mr. Chairman, is there should not be any action taken immediately with respect to sugar regulation. Rather, the Congress and presumably this committee would keep the situation under continuous review and after we have had some experience operating in the free market, it would be timely then to make a determination whether it can continue to operate that way or whether some legislative action is necessary.

Mr. VIGORITO. Certainly I believe there will not be any action in the 93d Congress.

Mr. CREED. That is our understanding, too, sir.

Mr. VIGORITO. Mr. Quinlan, do you think we can really appeal to the foreign suppliers to give us a break in prices?

Mr. QUINLAN. That perhaps could be characterized as a suggestion out of desperation. That came to us from the industry and we felt it was reasonable and should be reflected to you.

My personal opinion does not hold out much hope, sir.

Mr. VIGORITO. You bring in the Cuban sugar again, as Mr. Creed mentioned. I fail to see where that would help the situation because Cuban sugar, if it does not come here, it is on the foreign market. It is not going to add to our supply or to the world supply of sugar, whether we buy from Cuba or not.

Mr. QUINLAN. There would have to be some diplomatic leverage exercised. How realistic that proposal is I do not know either.

We think that every possibility of getting some relief from the present prices should be explored. Cuba wants something. Perhaps Cuba, as I understand it, wants relations with this country, trade relations resumed. Perhaps some favorable consideration in sugar prices as a temporary critical measure would be conceivable quid pro quo.

Mr. VIGORITO. You mentioned vigorous antitrust enforcement. I believe the appropriate Government agency is already looking into that.

Mr. QUINLAN. Yes, we understand that, too, and the trouble with this recommendation—and we have tried to give you a litany of every possibility we could think of—is that ordinarily an antitrust investigation takes so long that the patient is dead before a conclusion is reached.

I have to say again that, after presenting all seven, these first seven recommendations, that we are compelled back to the subsidy request as our only conceivable solution for our industry to survive this period until next summer or even next fall.

Many of the retail bakers tell us that the worse crunch is going to come in the first quarter of the year. We already have indication that approximately 7½ percent of retail bakeries have already closed in the last 6 months. As you can see, I have not tallied them, but you

would see going through these survey reports from retail bakers attached to my statement. Others we will submit to you.

There are many reports there of closing, and many of those still in operation have had to let much of their help go. It really is a critical situation and promises to get worse after the first of the year. If anyone else has a solution for survival for our industry until the next sugar crops, we would like to know what it is.

I sat through the hearings of the Council on Wage and Price Stability. We have read and listened to everything we can about sugar because this is our prime concern at the moment and I have seen or heard no one else offer any solution to this critical problem for the small sugar user, particularly.

Mr. VIGORITO. Then you mentioned that there should be a Government subsidy for the American consumer. Very quickly I jotted some zeroes down and 12 million tons that we consume, approximately, which would translate into 24 billion pounds, and even at 10 cents, would come out to \$2.4 billion.

Mr. QUINLAN. For what period, Mr. Chairman?

Mr. VIGORITO. For a year. If you want to subsidize the American consumer, we consume 24 billion pounds of sugar.

Mr. QUINLAN. I do not think we need the subsidy for a year, Mr. Chairman. That is one thing. The second thing is I think that the critical problem is the small sugar user and the consumer as a customer of the small sugar user.

Basically, we advance the idea that the whole American public could be subsidized, including both the sugar user and the consumer as a user of sugar as such, because other nations have managed to keep the price down. But the consumer would benefit if you could subsidize our small sugar-using companies to keep them in business and enable them to serve the consumer and be there when those new crops come in, otherwise many of them are not going to be here any more.

I am sorry. I do not have a figure. I would submit that the actual figure would be far less than the one you mentioned, Mr. Chairman, to accomplish this purpose.

Mr. VIGORITO. The only thing that the history of subsidies has proven is once you have started, there is no end. If you underwrite the industry, it keeps going and it feeds on itself and definitely defeats its purpose.

Mr. QUINLAN. That is precisely our philosophy, but when you have no other solution, you have to take the only conceivable one. I do not think that this would become a permanent thing. Certainly from our standpoint, as the recipients of it, it would not. We do not want the Government intermeddling into the retail bakery business. It simply is a matter of survival and the fact we found no other possible answers.

Mr. VIGORITO. Mr. Goodling.

Mr. GOODLING. Thank you, Mr. Chairman.

Each time I go into a bank if I happen to know the tellers I always ask for a sample. They never have a sample. I notice our witnesses today have one thing in common. They brought no samples.

Mr. VIGORITO. There are only three there. Think of Congress, where we have 535.

Mr. GOODLING. Mr. Creed, you said if Food and Drug gave you the right to use cyclamates, it would relieve the situation to a great extent.

Could you use cyclamates effectively?

Mr. CREED. Remember now I am speaking for the sugar users groups that cut across all the sugar-using industries. Some of the industries can use them, some cannot.

For example, both the soft drink industry and the canning industry can use cyclamates and they did use them before the Food and Drug banned them. The baking industry, on the other hand, cannot use them for technical reasons. So you have different areas where they could be utilized if available.

The point I was making is if they were available and were used by the sugar-using industries that can use them, that would release comparable quantities of sugar for the other industries that can use only sugar and not the cyclamates.

Mr. GOODLING. You cannot use them in the bakery industry?

Mr. CREED. No, sir.

Mr. GOODLING. How about candy?

Mr. MACK. No.

Mr. GOODLING. I must say I am not a scientist, but I do not agree with everything Food and Drug comes up with. We had four witnesses before our committee sometime ago from Food and Drug. I told them I was amazed that I have lived as long as I have and appear to be in as good health as I am because they were not around when I was young and to tell me when to comb my hair, brush my teeth, and wash behind my ears.

I just do not agree with everything Food and Drug says.

Mr. Quinlan, you said that sugar was a high of \$77.75.

Mr. QUINLAN. Yes, sir.

Mr. GOODLING. Has the retail price ever been that high?

Mr. QUINLAN. No. We did not touch on this point in our statement today, although we did in our testimony before the Council on Wage and Price Stability.

Historically, and apparently universally, the retail price of sugar in the supermarket has been less than the wholesale price of sugar to the retail baker. Dr. Al Rees of the Council was especially interested in trying to find out why this was so. They called me after the hearing and asked for further documentation of that and some further speculation on my part as to what the reasons might be.

I gave them five conceivable reasons for that differential, including possible violation of section 2(a) of the Clayton Act as amended by the Robinson-Patman Act.

Mr. GOODLING. Did you say this was true historically or at this particular point in time?

Mr. QUINLAN. Historically, but it has hurt more under this present condition with sugar prices soaring. I will ask my retail bakery friends what their experiences have been.

Is that correct? They say that is correct.

Has this been true even before the skyrocketing of sugar prices? Yes, in fact, many of our retail bakers tell us that they were going to the supermarket and buying sugar in smaller packages because there was a saving on what they had to pay the wholesale distrib-

utor. But, more recently, they have not been able to get the sugar from the supermarket.

Mr. GOODLING. I was about to suggest if I was a small baker I would go to the supermarkets to buy my sugar.

Mr. QUINLAN. That is precisely what they have been doing when they could.

Mr. GOODLING. Very briefly, and the chairman did comment on this. You are more or less advocating that the taxpayers pick up a subsidy for your bakery products, are you not?

Mr. QUINLAN. Because of not only being in the interest of the retail baker, but we believe in the public interest. We have always tried in our dealings with Government never to recommend anything that was not in the public interest. I think this would be.

Philosophically, as I said, we are opposed to government, to recourse to government in any of our problems. If you had to ask me on one other occasion in 40 years whether we have asked for Government intervention, I could not think of one. But, in this instance, it seems to me that this segment of small business, which never before has had a subsidy, although many, many segments of the American economy have been subsidized in one way or the other, is not unreasonable now in coming in and asking for something temporary of an emergency nature.

Mr. GOODLING. I am traditionally opposed to subsidies in any form. We are subsidizing too many things today. Two wrongs do not make a right. Insofar as being a temporary subsidy, I am always afraid of a temporary "anything." I recall we put on a temporary tax, in my State in 1937. Those taxes are still on the books. There isn't anything as permanent as a temporary tax.

Mr. QUINLAN. I agree. There is no such thing as a temporary tax.

Mr. VIGORITO. Mr. Sisk.

Mr. SISK. I have no questions.

Mr. VIGORITO. Mr. Denholm.

Mr. DENHOLM. Thank you, Mr. Chairman.

I am tempted to ask a question that may cause all the witnesses to shout and stand at the same time. It does not reflect my philosophy. What is wrong with the philosophy that small retailers ought to be eliminated?

Do you have answers to to such inquiry?

Mr. QUINLAN. Yes, I do. I have been deeply disturbed as a government watcher for many years at the trend toward greater and greater concentration in the economy. It is not in the public interest to have all of our economic power, including the capital and the employment and the service to the public become more and more concentrated in a few hands.

We know, and I think all of us personally from our experience today in trying to get decent products, decent service, that that concentration is getting us poorer products and poorer service pretty much across the board.

I think in order to have a viable economy in order to serve the American consumer, you must have competition. To have competition you must have small business, you must have reasonable freedom of entry into the business.

Our retail baking industry is one of the few remaining industries that a man who wants to work and who has some talents and just a small amount of capital can get in. You can get into the retail bakery business and if you are willing to work hard, you can make a success of it. But with concentration, that will no longer be possible.

If I could just add one further point, it has seemed to me that if our economy is concentrated in the hands of a relatively few large private companies, that the step beyond that is inevitable. In other words, nationalization of our industry. When a business becomes so concentrated and powerful that the consumer is helpless before it, it is only one step—that is for the government to take over enterprises. So I view with considerable alarm any trend towards concentration in industry.

This is one of the things that disturbs me presently, a great deal, about what is happening to our retail bakers now, aside from the emotional and personal aspects of this. It is really heartbreaking.

Mr. DENHOLM. Now, you are discussing an area of philosophical conflict in legislation. That is, as we eliminate competition, we destroy the best price control system that we have in a free, competitive market, as far as retail merchandising and sales are concerned.

Mr. QUINLAN. Absolutely.

Mr. DENHOLM. The elimination of competitive small business firms precipitates the concentration of economic power and consumers are forced to protective legislation against the economic concentration of power.

Mr. QUINLAN. If you eliminate small business, you must have permanent price and wage controls, perish the thought.

Mr. DENHOLM. The retailers in my district are complaining of such minimum requirements of working conditions as described by the Occupational Safety and Health Act and other such legislation. The Federal Meat Inspection Act nearly eliminated the country locker systems in need now. The bakery business was once a family operation. It is difficult for a nonindustrial State to continue to do business on the main streets of rural America with more and more restrictive legislation. However, it is needed for the protection of the people and for other purposes.

Now, Mr. Mack demonstrated his knowledge of the legislative procedure in the Sugar Act and I ask you—why did the Sugar Act fail in the summer of 1974?

Mr. MACK. It failed because we de facto ended it. It was not in a position to be operable and the vote of the House, in effect, made it inoperable, de facto, at the time it was to work for the consumer.

Mr. DENHOLM. There were only two votes against it in the full committee.

Mr. MACK. The House vote ended it; at least it ended it temporarily and caused the price to go up.

Mr. DENHOLM. Why did the majority of the Members vote against it? Do you know?

Mr. MACK. I guess it was lack of understanding. I do not know. We favor the act.

Mr. DENHOLM. The Members of the Congress reflect the will of the people. In general many users of sugar were opposed to the Act.

Mr. MACK. It seemed as though it was said by some—it was said by some—that the Sugar Act was responsible for the then 24-cent price. Employing it was responsible for it going up to that level.

We feel that the Administration indications that it would be abandoned was responsible for it going up, but the Sugar Act was responsible for keeping it down as low as 24-cents. Then when the House voted against it, that was further assurance to our foreign suppliers that we were not interested in long-term arrangements.

It was at a time when it was quite convenient for them because factually it negated their responsibilities to our market. Any time you have a big buyer that goes into a thin market, like the United States going into the world market de facto, that is what it was, it ran the price up.

Mr. DENHOLM. May I ask all of you to respond as briefly as possible and can you agree, based on your knowledge of the sugar industry, with the proposals of Mr. Murphy, who testified before our committee the day before yesterday, that the Sugar Act should be amended to eliminate subsidies and any provision to regulate price. I think Mr. Godfrey also mentioned such a proposal in his direct testimony before the committee.

Can you agree with that proposal?

Mr. MACK. I am fully aware of the views of Mr. Murphy. My industry has not taken a position on Mr. Murphy's presentation.

I think it demonstrated his extra knowledge of the Sugar Act to which the country benefited for some years.

Mr. DENHOLM. I am asking whether Mr. Godfrey and Mr. Murphy, learned in the industry, have presented to this committee reasonable proposals for legislation in the future? Are the proposals of Mr. Godfrey and Mr. Murphy of merit and can such amendments to the present act solve the problem from the independent retail baker, the small businessman in the industry?

Mr. CREED. Mr. Denholm, I did not hear the testimony either of Mr. Murphy or Mr. Godfrey, but I understood that Mr. Godfrey was opposed to extension of the Sugar Act and Mr. Murphy favored legislation similar to the present Sugar Act.

I would like to repeat again, as far as the sugar users group is concerned, and our group cuts across all of the industries with the possible exception of the confectionery industry, that we presented a program in February to this committee. We were not against termination of the Sugar Act at that time. We recognized, however, that it had many inequities in it and certain flaws so that the consumer was being unduly damaged by its operation.

Consequently, we offered to the committee various proposals which if incorporated in the act would have struck the balance and there would have been more equity on behalf of the users.

In other words, we thought that the political situation was such that the strength of the proponents of the act would keep an act going. So we tried to make the best of that situation but improve on the act.

As I said in my direct testimony, the committee rejected our proposals and reported out a bill that retained all of the inequitable features that bothered us, which, in our opinion, had caused the price of sugar to rise unduly. Because of that we opposed the bill when it came on the floor of the House.

As I think the committee will recall, there were some other things that happened on the floor. For example, there were three labor amendments that were adopted by the Committee of the Whole and when those were adopted, previous supporters of the legislation felt they no longer stand behind it and they changed their vote to one of opposition. And consequently, when the final tally was in, the Sugar Act extension went down to defeat. It was not any one group or one cause; it was a multiplicity of causes that brought that about.

MR. QUINLAN. Mr. Chairman, I would like to respond to that, too, if I may.

I think that a whole new look at sugar legislation is needed. I think the only thing that the industrial users, with the exception of Mr. Mack's group, agrees upon is that the present Sugar Act is outmoded and should not be extended. We are pleased with the action of your subcommittee. Beyond that, before there is any new sugar legislation considered, I think all elements should be examined, the whole problem in light of future conditions and each try to reach a consensus.

I hope the industry users will try to reach a consensus and it might all come in together to reach a natural consensus that would be in the best interest of growers, refiners, users and consumers.

We are a long way off from any meeting of minds as to what form any future sugar legislation should take.

MR. MACK. Mr. Denholm, concerning those who say that the defeat of the Sugar Act was not responsible, there were just too many successive developments and the timing in connection with it to say that they were coincidences. The administration position last year—up it goes. The House action—up it goes some more. Then when the Congress left town, then it really exploded, one, two, three.

It is pretty hard to argue against that.

MR. DENHOLM. I thank you. I do not want to misstate the position of Mr. Godfrey or Mr. Murphy, but the principle I sense is the elimination of the subsidy and the tariff provisions in the act. Now, we import 45 percent of our need and if the domestic price is regulated on quota imports will that be sufficient assurance to the people in the industry? I do not seek to misstate the position of Mr. Godfrey or Mr. Murphy but I believe that in brief is their suggestion.

Thank you very much.

MR. CREED. May I add one further comment in response to Mr. Denholm's observation?

The Sugar Act as presently constructed worked effectively in keeping a floor under prices. I do not know how, and I do not know whether the committee could tell us how a provision could be written that would keep an effective ceiling on prices under the operation of the act.

So it really becomes a one-way street, the way the act operates.

MR. DENHOLM. Are you suggesting a ceiling on the price of wholesale and retail sales?

MR. CREED. The price of raw is controlled by the act.

MR. DENHOLM. Mr. Chairman, I am taking too much time on this matter and I yield to my colleagues.

MR. MACK. If I could comment, the protection to the consumer is a quota of a number of years, such as 5 years, to a foreign country with the promise of the United States to buy that sugar irrespective

of the world price which had provided and it would have provided this year for the incentive for them to sell it to us at our price. As it was, we released them from their commitment at the time that it was helpful to them and disastrous to us.

Mr. CREED. It was not released until December 31 of this year.

Mr. MACK. The only hold on the act is the attraction for the quota in the future, and they, in effect, had been released from that when the House decided not to extend the act. The incentive was destroyed.

Mr. VIGORITO. Mr. Sisk?

Mr. SISK. Mr. Chairman, I am totally in agreement with Mr. Mack on this question. I cannot help but be amused by Mr. Creed's testimony, which I disagree with, because what the gentleman, Mr. Mack, says is exactly right. Once this thing went down the drain with the kind of opposition we got from Mr. Creed's group and some others destroyed any incentive for the foreign countries to ship us any sugar. There was no incentive there on the basis of a long term obligation that we would have to purchase. Therefore, they went to the highest bidder.

There is no question in anyone's mind that I think when given a fair and objective view of this that the loss of the Sugar Act is the reason today that we are suffering from the price of sugar.

Mr. VIGORITO. Mr. Findley?

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. Creed, I want to thank you for your testimony which strikes me as one of the most optimistic statements that the subcommittee has received. One of the most optimistic in terms of the private enterprise sector of our country being able to respond to the challenge of the termination of the Sugar Act and being able to overcome the problems that the termination of that act represents.

I would like to direct attention to two items in your statement, one where you say we recommended there be no restriction placed on importation of off-shore sugar. I presume you mean by that, Puerto Rico and Hawaii?

Mr. CREED. We meant any sugar from any source that is willing to supply us.

Mr. FINDLEY. Maybe you had Cuba in mind? Cuba has come up several times.

One of the problems on the import of sugar from Cuba is that in public law we now have a Cuban preference, and if the President should suspend economic sanctions against Cuba and permit sugar to come in, that would mean that Cuba would really enjoy a preference over other foreign suppliers. I think we do have a need to change the basic law that applies to Cuba.

It may be you did not have Cuba in mind at all. Naturally, in this period of very high prices, any user would naturally go to additional sources of supply and I think we ought to examine that as a possible source of supply.

Mr. CREED. We were not thinking to leave any preferences with any country, but rather have them on an equal basis. That is a hangover from earlier law.

Mr. FINDLEY. Yes, and I congratulate you on that statement. I think one of the great weaknesses of the Sugar Act over its 40-year history was that it did discriminate by means of country quotas, which, by

their very nature, are a form of discrimination and favoritism, and I think it does tend to lead to trouble.

The other item I want to call attention to was your suggestion if I am correct, Mr. Creed, that the tariff be eliminated. Am I correct?

Mr. CREED. Yes, sir; we did.

Mr. FINDLEY. In the long term, that would pose a problem for U.S. producers. In more normal price times, we would want certainly to have price advantage to U.S. producers. One may achieve that, of course, by means of a uniform tariff law.

Those are the only two points that I wanted to comment on individually and generally, I think your statement was excellent.

Mr. CREED. Thank you, Mr. Findley.

May I comment on the last observation you made about the tariff?

We recognize as time moves on and we get away from this high price period that there may be problems for the domestic industry in its capacity and ability to compete with foreign sugar, which may possibly be produced on a less costly basis.

This is why we suggested that the Congress keep the situation under continuous review to determine whether or what action might be necessary at some later time to maintain a viable domestic industry, which we very much want.

Mr. FINDLEY. Thank you, Mr. Creed.

Mr. Quinlan, on one hand you castigated the House for terminating the Sugar Act, yet with the other hand you point to insufficient world supplies as the basic cause of runaway sugar prices.

The action of the House last summer did not affect, by even 1 pound, the world supplies of sugar, did it?

Mr. QUINLAN. You must mean Mr. Mack. We congratulated the House for terminating the Sugar Act.

Mr. FINDLEY. I am glad to have that correction.

Mr. Mack?

Mr. MACK. I said in my statement, Mr. Findley, that the comment that was made at the wage and price policy hearings that the voting down of the Sugar Act did not bring—we would not have had any more sugar had it been enacted. I commented on that statement that was made and said, let us assume that was correct without deciding that the price that we paid for it is entirely different than what we would have paid for it if the bill had passed for this very simple reason. If any foreign country which had been supplying the United States and was looking forward to continuing supplying the United States had facing it another 5 years of a quota that it would get, so long as it filled its quota this year, it would have had no question about sending the sugar to the United States close to the price objective of the Sugar Act. But once the House action told them no more, no more long-term agreements from the United States, they then were in the position of saying, you can have the sugar now. But if you get it now, you are going to have to outbid everyone else in the world. I have no incentive to protect this quota anymore, because you told me that I will not have it in the future.

Mr. FINDLEY. Yet the quota countries did not stop shipping the sugar.

Mr. MACK. They did change the terms.

Mr. FINDLEY. I will point out to you, Mr. Mack, that the quota countries did not abide by the price objectives of the Sugar Act in advance of the House action and as one who has taken intense interest in sugar legislation for a long time, I want to assure you that the action of the House came not as a total surprise to me, but it certainly was unexpected, and I had no clear signal that the House would turn down the act 24 hours ahead of the action.

I think it came as a surprise to other members on this panel; it certainly did to me. So you cannot really explain the rise in sugar prices in advance of the House action, because there is no way to predict that.

Mr. MACK. I did not expect the House vote. I was surprised, but the foreign suppliers had been in effect alerted that the administration had been considering abandoning it. So naturally, other countries who normally buy on the world market were also offering them attractive prices, they were more attracted knowing that this cloud was hanging over the U.S. Sugar Act than if this had not occurred at all.

Mr. FINDLEY. I realize that it is a great convenience to the private sector to have Government services in the form of long term contracting for supplies and prices which the Sugar Act provided.

Can you tell us why elements in the private industry cannot in the absence of the Sugar Act make their own long-term arrangements for supplies, both home and abroad. What stands in your way of doing that?

Mr. MACK. A lot of that depends on the size of the company, but I would doubt if there are any users in the United States without mentioning any names unless some of the very, very largest soft drink, bakeries and confectioners, the very, very largest, could do anything like that.

The raw sugar has to be brought in, it has to be refined. Most of our people are confectionery manufacturers. They pride themselves on making a good product and in marketing and hopefully making a profit. According to that, they would all have to be commodity specialists. They are not equipped to do that. They are in the manufacturing of confectionery. They are not in the futures and hedging markets. It would not be attractive to them at all.

Sugar is different from every other commodity. It is the only commodity that is used in quantity in the United States that is not produced entirely in the United States and imported entirely. Yet there is also another factor, that the term world market, when you refer to most items—soybeans, cocoa, what have you—that term really means what it says. It is the generally prevailing price in the world for that item.

In the case of sugar, that is not so at all. It is a very, very thin market. When the supply is abundant, it is a dumping price, and when the price becomes high, the supply becomes short, it becomes an unreasonably high prices. That is why sugar is different, and the Sugar Act is the one program that really has offered something for the consumer.

Mr. FINDLEY. The Sugar Act in the United States is one reason why sugar is an exceptional commodity and why the world sugar price does not have the meaning that world price does for other commodities. I have confidence that our own private sector that it can function efficiently and serve the American consumer in the absence of a gov-

ernment program under which supplies and prices are guaranteed years in advance.

Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Bergland?

Mr. BERGLAND. I just have one question, Mr. Chairman.

If I understand you all correctly, you agree that sometime early next year we should attempt to develop a consensus in formulating a new sugar policy.

Mr. CREED. That is not the position that we are taking, no. You misunderstand my statement if you drew that conclusion, sir.

Mr. QUINLAN. I made some reference to the probability of a start next year—I would not think that it would be early next year—but it would only be a start. It seems to me you are a long way off from a real national consensus on what new sugar legislation, if any, ought to be.

Mr. BERGLAND. Thank you very much.

Mr. CREED. Again, Mr. Bergland, we did say that Congress should keep the matter under review.

Mr. BERGLAND. Would you prefer to go onto the world market?

Mr. CREED. We made that decision, Mr. Bergland, last June when the bill was up before the House and the provisions which we recommended were deleted from them. We decided then that over the long term, even though prices at that time were rising, it would be better for the sugar using industries to go on the world market rather than confront another long term under the Sugar Act as this committee reported it to the House.

Mr. BERGLAND. Thank you.

Mr. MACK. If I may make one last statement.

While the world market has been only 12 percent, this has taught a lot of countries that did deal in the world market a lesson.

Apparently, there are negotiations going between Australia and Japan. Japan has been a world market supplier to buy long term, and they have learned their lesson. I recently understand that Iran, which had been a world market supplier, has arranged with Jamaica to send them 50,000 tons of sugar for the next 5 years.

These countries, the amount of sugar they use, the import is much less than the United States. And if they cannot live on that thin world market, I do not see how we can expect to. If we are going to get the bulk of our production from this country, we certainly have to provide the incentive, and we have to make a definite agreement where we are going to get it from abroad, or we are not going to get it there either.

Mr. DENHOLM. Mr. Chairman.

Mr. SISK. I just have one thing.

I cannot help but be somewhat amazed by the statement made by Mr. Creed and Mr. Quinlan. You gentlemen would rather ride the roller coaster than have a stabilized price, is that not what you are saying?

Mr. QUINLAN. No.

Mr. SISK. All the Sugar Act has maintained over the last 40 years, is a stabilized price. Sugar in this country has been over the world price many times, just as it would have been below the world price had we continued it.

Mr. QUINLAN. It is no good now.

Mr. SISK. You want to ride the roller coaster. Who gains except the gamblers on the speculative market in that situation?

Do you feel your industry gains?

Mr. QUINLAN. We are not saying that at all, Mr. Sisk, that we want to ride the roller coaster. We do not think the Sugar Act obviously maintained any stabilized price. The price ran away.

Mr. SISK. The record is there to read over.

Mr. QUINLAN. Not in this situation. When it is needed it did not function.

Mr. SISK. The Sugar Act has not been functioning since it was destroyed by observation from groups like yourselves. This destroyed any incentive.

Mr. QUINLAN. When the Sugar Act was still in effect, the price was still going up. Now we are at the point of the Sugar Act expiring and the price is going down. You might look at it from that point in time.

Mr. SISK. Until the Department itself pulled the rug out earlier in the year on the very position that was stated a little earlier by Mr. Mack, and indicating that they wanted to dump the Sugar Act, we saw very little fluctuation in the price. Then when we came along and the act was dumped by virtue of action of Congress, that is when the roller coaster started. I do not know what may happen in the future. Maybe next year it will drop to 5 cents a pound. I do not think it will do it that quickly.

The point I am making, according to what I understood Mr. Creed to say, was basically you are not interested in a stable price.

Mr. CREED. That is not what I said, Mr. Sisk. I believe you made the observation that the act has provided us with a stable price. Actually, over the years that the Sugar Act was in effect, it maintained a floor under the domestic price which was always quite substantially over the world market price, and we have always felt that the act was so set up that it worked to the disadvantage of the consumers. Every time it was up for extension, we offered various amendments to modify that somehow. We did it again this year. We gave an extensive program.

In fact, we were the only group of all that appeared before this committee, the full committee, that offered a program. It was rejected. We decided, as I said before, in view of the rejection of bringing equity into the act that we would rather take our chances on purchasing sugar in the world market even though we were well aware that currently the higher prices were hard to live with. We do not attribute those higher prices to the demise of the Sugar Act.

Mr. SISK. That is where you and I totally disagree.

Mr. CREED. We also find it hard to believe, Mr. Sisk, that foreign countries that have a product to sell need a national quota for an incentive. In most other commodities, if there is a market someplace, there are enterprising sellers of products who go out to sell in that market. We would expect this to occur with foreign countries, many more than under the Sugar Act, who would want to sell their product, namely sugar, in the United States.

This is still a good market for foreign countries.

Mr. SISK. You may not be aware of it, we are by having been around here for some 20 years and the contacts that are made, and I'm sure

my colleagues on the committee, others on the committee, have had the same kind of contact—I can assure you that the quotas in this country apparently were very, very valuable to countries all over the world. I am sure you must be aware of the kind of lobbying that went on every time the act went up in connection with the desire on the part of these countries.

To the extent that we furnished those quotas, I think we created a stabilizing effect. Again, although I do not have the figures in front of me, over the history of the Sugar Act, I think it has been good for the American consumer, because it has given stabilized prices. It just seems to me that people who are involved in the emergence of large quantities of sugar would prefer a stabilized price to what I call the kind of roller coaster we are on now, even though it may hit 5 cents 2 years from now. I do not think that is good for you or the American consumer.

Mr. CREED. May I respectfully disagree with you on that point.

Mr. SISK. I recognize that we are probably going to end up disagreeing, but go ahead.

Mr. CREED. I would say these assigned quotas to these foreign countries were indeed valuable to the countries that had them, but they were of absolutely no value to those countries who did not have them. Without a Sugar Act, you make available to this market a sugar market for a lot of countries who would like to ship us sugar and I find it very hard to accept the thesis that countries will not want to ship here because they do not have a legislative or a statutory quota assigned to them. They want our dollars and they have products to sell us, so they will make an effort to sell them here.

Mr. VIGORITO. May I make a comment here?

I cannot think of any major country exporting any major quantity of cane sugar that was not included in the quota except Cuba.

What country do you have in mind?

Mr. CREED. There were 33 quota countries, if I recall correctly, 3 or 4 major suppliers among that. There are other areas of the world that can supply us. Again, we still have Cuba as a potential supplier.

Mr. DENHOLM. I do not disagree with the option of having the opportunity in this country to go broke or to make a fortune. I do not object to riding the roller coaster if I can get off when I want to. You are on the roller coaster of price changes and you are asking us to help you off because the price is too high and you want us to underwrite you.

I agree with you, Mr. Quinlan, that it is important that small businessmen remain in business and that we retain national policy that provides for a highly competitive market in the interest of the consumers in this country. Now, if we fail to lead and leave ourselves open to the domination of countries elsewhere in the world that know the American people as the best cash market for sugar anywhere in the whole wide world then the price paid by American consumers will not be stipulated by this committee, this Congress, and this country.

Fidel Castro may be dictating price. That danger should be considered by you people in seeking a consensus on sugar policy in this country for the future.

Thank you, Mr. Chairman.

Mr. QUINLAN. Mr. Chairman, I think we all agree that we do not want the roller coaster. The disagreement seems to be about the effect of the act.

We believe that the act will not prevent the roller coaster. Apparently some believe it would. We cannot see that at all. We do not see the act as contributing any solution to this present situation.

Mr. MACK. Mr. Chairman, there was one comment made about the reason for the price drop and the fact that the act was expired.

My view is that the price drop has occurred because the Department of Justice, the Wage and Policy Board, and this committee is giving consideration to this problem. And I am sorry to see that this committee decided not to do anything.

Mr. VIGORITO. Thank you.

Mr. Murray, do you have any questions?

Mr. MURRAY. Mr. Chairman, one brief comment.

I guess I say I share the surprise, if not the joy, that some experienced on the floor the night the House took its action on H.R. 14747. I would like to direct my remark to Mr. Mack because he will be inclined to agree and give Mr. Creed and Mr. Quinlan an opportunity to comment.

The Agriculture Committee recognized that we are changing from the politics and economics of abundance into an era of the politics and economics of scarcity. Earlier this summer, when the committee worked for 6 months on the sugar bill it recognized that the old act had to be changed, it had to be reformed from what it has been in the past, since it functioned in a different time in a different way, and in an effort to meet its responsibility for consumers as well as for farmers and producers and all the rest of the elements in the sugar industry, the committee took several steps and adopted several positions specifically designed for consumer benefit.

The first was the one that has been discussed at length already today, to retain the quota discipline, because a quota in time of scarcity acts more as a contractual obligation than it does as a restriction or reduction of opportunity for entry into a market. A country which fails to fulfill a quota when the U.S. price is lower than the world price risks the official displeasure of the U.S. Government. That is no mean thing to a small country.

Mr. Mack has testified that consumer benefits this year were \$400 million over what they would have been without a Sugar Act. The Department has documented for us it would be \$240 million.

The bill that came out of the Agriculture Committee gave the Secretary of Agriculture power to use quarterly quotas, to require foreign countries to deliver sugar in the quantities and amounts at the ports and at the times that were needed to meet the objectives of the sugar law.

It established a 5-year program to give long-term stability to long-range investment and capital intrusion into the sugar industry so our domestic and foreign suppliers would be able to expand regularly and efficiently.

It repealed the half-cent excise tax on sugar that consumers ultimately have to pay.

It reduced payments to farmers down to a maximum of \$9,400 and the final version carried Mr. Findley's "trigger" that would stop payments at all, if there were sugar prices on the market more than 25 percent above the price objective, and it prohibited exports of U.S. grown sugar to foreign countries.

Since our country produces only about a half of our sugar, we should not be exporting it to others when we need it at home.

Finally, it allowed the Secretary of Agriculture the authority he needed to allow the importation of refined sugar into the United States, after hearings and due process, to meet the needs of consumers, not farmers, but consumers.

We think from a committee point of view that we tried to act responsibly in the public interest, and for consumers too, not just from the standpoint of farmers or processors.

MR. CREED. Mr. Chairman, may I comment just briefly on that?

We understand and we know that the Agriculture Committee was devoted in the work that it did on the Sugar Act. It worked hard, it worked long. We were in constant touch with the committee. We think it did a splendid job within the purview of what it was trying to achieve.

Unfortunately, all the things that Mr. Murray referred as constructive though they may have been within the framework of the act, very important elements which users had recommended were left out.

For example, we requested the widening of the price corridor in order to permit a viable futures market so purchasers of sugar could protect themselves over the long run. Unfortunately, this was deleted and this was the major reason the users who had no protection in that area had to oppose the act. We did that without denying any one moment the constructive work that this committee did.

MR. VIGORITO. We wish to thank you gentlemen for your testimony today.

Our next witness is Mr. Earle MacHardy, president, New York Coffee & Sugar Exchange, New York.

Would you stand please, and raise your right hand.

Do you solemnly swear that the testimony you are about to give to the subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

MR. MACHARDY. I do.

MR. VIGORITO. Let the record show that the witness is sworn in. Please be seated and present your statement.

STATEMENT OF EARLE MacHARDY, PRESIDENT, NEW YORK COFFEE & SUGAR EXCHANGE, INC.

MR. MACHARDY. Mr. Chairman, I have a prepared statement which has been distributed to the subcommittee and to the people who are in attendance here today, which I will read, and I also would like to read a supplemental statement which has been prepared in response to an inquiry from Congressman Findley, which was handed to me yesterday and which I have not had a chance to have typed and distributed, but I will read that supplemental statement after my prepared statement.

Mr. VIGORITO. Please proceed.

Mr. MacHARDY. My name is Earle MacHardy. I am president of the New York Coffee & Sugar Exchange, Inc., a not-for-profit corporation organized under the laws of the State of New York, located at 79 Pine Street, in New York City.

Before assuming my present responsibilities, I was the raw sugar buyer for a cane sugar refiner for more than 25 years. From 1934 to 1946, I worked in the Department of Agriculture's Sugar Division.

Our exchange does not buy or sell anything. For almost a century, we have maintained a marketplace in New York City where our floor broker members trade in coffee and raw sugar futures by contracts by open outcry in accordance with bylaws which have been approved by the membership and rules, regulations, and resolutions adopted by our board of managers.

Contract No. 11, the world raw sugar futures contract, provides for delivery of raw sugar to a vessel chartered by the buyer at a loading port designated by the seller in one of 29 specified foreign cane sugar producing countries. The buyer may sell the raw sugar in a market chosen by him, except that he may not sell it in the U.S. market for human consumption as long as the Sugar Act is effective. The contract price is in cents per pound, f.o.b. and stowed, foreign loading port.

Contract Nos. 10 and 12 are the domestic raw sugar futures contracts. Contract No. 10 commits the seller to deliver raw sugar at a cane sugar refinery designated by the buyer, located in New York or Philadelphia. Under contract No. 12, the buyer may call for delivery at a cane sugar refinery in New York, Philadelphia, Baltimore, or New Orleans. The contract price for domestic raw sugar is in cents per pound, duty paid, delivered at destination.

The unit of trading in all raw sugar futures is 50 long tons. Each point of price fluctuation—one point is .01 cent per pound—is equivalent to \$11.20 per contract.

Most raw sugar futures contracts are liquidated through offsetting trades prior to delivery time because most trading is for purposes of hedging and price protection and not for the purpose of delivering or receiving actual raw sugar.

However, a small number of futures contracts are held until delivery time. Therefore, exchange rules contemplate the possibility of default, even though defaults on raw sugar futures contracts have been extremely rare.

As a measure of the value of raw sugar in determining the loss due to a default, committees of the exchange consult daily and establish the daily "spot" prices for world raw sugar and for domestic raw sugar. The term "spot" refers to raw sugar for delivery during the period corresponding generally to the delivery period under the futures contract.

The matter being examined specifically at this hearing is sugar market conditions since June 5 of this year when the House of Representatives defeated a bill which would have extended the effectiveness of the Sugar Act beyond the end of this year. The world spot price of raw sugar at that time was 24.50 cents per pound, f.o.b. and stowed, loading port. The spot price of raw sugar in the U.S. market was 24.50 cents per pound, duty paid, delivered.

In the raw sugar futures market on that date, the closing quotations for July 1974, the nearest delivery month, were 24.30 cents per pound in contract No. 11 and 24.61 cents per pound in the domestic sugar contract. These futures quotations reflected the price situation in the commercial raw sugar market.

Futures quotations for positions beyond the nearest delivery month showed significant discounts compared with values of prompt arrival raw sugar because buyers and sellers anticipated that the high prices would stimulate availability of additional supplies and would slow down sugar consumption.

In contract No. 11, the closing quotation for October 1975, the most distant delivery month traded, was 12.75 cents per pound, 11.55 cents per pound lower than the quotation for July 1974. For the domestic futures contract, the most distant delivery month, November 1974, was quoted at 20 cents per pound on June 5.

During the summer and fall months, spot prices of raw sugar advanced dramatically, reaching highs on November 21 of 63 cents per pound, f.o.b., stowed, for raw sugar and 63.50 cents per pound, duty paid, in the U.S. market. Then the market turned down just as dramatically. Spot prices on December 9 were 46.50 cents per pound for world raw sugar and 49 cents per pound for U.S. market raw sugar.

I might add, since that date prices have declined further quite substantially. Raw sugar futures price quotations for the nearest delivery months followed closely the movements in commercial market values.

At all times, the lower quotations for more distant future delivery months reflected the opinions of buyers and sellers that supplies would improve during the coming year and/or that consumption will decline.

Some published comments have blamed excessive speculation in the raw sugar futures markets for the high prices this year. Total raw sugar futures trading volume this year has been averaging almost 1,000 contracts per day less than last year.

Our review of contract clearances this year and last shows that futures trading by sugar trade interests has not declined. Therefore, it is entirely reasonable to conclude that the decline in trading volume has been due to a decline in speculative trading.

Speculative participation in our futures market is a necessary ingredient in assuring liquidity in the raw sugar marketing process. It is generally recognized that speculative trading in commodity markets does not increase prices. Rather, it tends to moderate price fluctuations.

Opinions have been expressed that the defeat of the Sugar Act contributed to the recent dramatic sugar price increases because foreign sugar suppliers no longer have the incentive to sell raw sugar in the United States market at reasonable prices.

Assurance of market share may exert a psychological influence on long-term marketing policies of some exporters who visualize restoration of the world sugar surplus in a few years. In our opinion, however, developments in the sugar market since June would not have been different if the Sugar Act which was before the House of Representatives this year had been passed instead of defeated on June 5.

In our opinion, the recent dramatic happenings in sugar had their origins in the years when the efforts of both industry and Government were concentrated on management of the world sugar surplus. During

those years, the protected returns to sugar producers in large consuming countries, including the United States, were satisfactory. The returns to unprotected producers of "free world sugar" were below the cost of production.

In mid-1968, the free world raw sugar price, the effective price under our world war sugar futures contract, was 1.5 cents per pound. The price was that low because the need for free world sugar by consuming countries was much less than the available quantity.

Total annual world sugar production of about 80 million tons is made up roughly of 40 million tons of cane sugar and 40 million tons of beet sugar. Virtually all beet sugar and about 70 percent of all cane sugar is produced in the consuming country itself or under preferential price arrangements with consuming countries. The predominant price-determining influence is exerted by the availability of, and the demand for, the 30 percent of total cane sugar production, about 12 million tons, which is for sale at free world market prices.

The last four crops of sugar in the world have not been as large as the quantity consumer. By the end of 1973, world sugar stocks had declined to about 10 weeks supply, a very low working inventory. At the same time, the need for free world sugar by consuming countries increased to such an extent that the free world price rose to about 10 cents per pound at the end of 1973, a 600 percent increase in 5½ years.

The spectacular increase in raw sugar prices this year has been caused by low world sugar stocks and outturn of sugar during the present crop year dramatically lower than original expectations as a result of adverse weather conditions. Buyers in many consuming countries, including the United States and Russia, which is normally an exporter, have bid aggressively for the relatively small amount of free world sugar. The resulting high world raw sugar prices have been reflected in U.S. market raw sugar values and in costs of refined sugar to consumers.

It is not feasible to predict how low or how high sugar prices may go, or what constitutes a fair price for sugar. Sugar is an agricultural crop. Its production in the world is probably close to present realistic capacity, considering vagaries of weather and economic and political influences.

Along with other basic industries, the sugar industry needs substantial capital investments in production facilities. The industry is capital intensive. It takes at least 3 years for investments to bring about additional sugar production.

Hopefully, the very satisfactory returns to sugar producers this year, by demonstrating that sugar production can be profitable, will stimulate the substantial investments in new sugar production facilities required to assure the satisfaction of consumers needs at reasonable prices.

Mr. Chairman, may I now read my supplemental statement?

Mr. VIGORITO. You may proceed.

Mr. MACHARDY. Yesterday afternoon, in this hearing room, I was handed a telegram from Congressman Findley, which was addressed to me in New York, but since I was here, it was handed to me in person, and the telegram reads as follows:

Please send any records you have on major raw sugar operators, brokers, and names of their clients on New York market in sugar for the 6 months.

Please include major contact holders and numbers for the month of June. Please be prepared to answer relative questions in testimony before Domestic Marketing and Consumer Relations Subcommittee on December 12, 1974.

And it is signed Paul Findley, Member of Congress.

Because of the lateness of this inquiry, it has not been possible to obtain information in response to Congressman Findley's query by telephone in time to be included in my testimony today, and as I will explain, some of the information requested is not available to the sugar exchange.

The raw sugar futures trading process is divided into two phases: the execution of buy and sell order by open outcry on the trading floor is under the jurisdiction of the exchange of which I am president.

The matching of the trades made each day on the trading floor and the enforcement of financial disciplines which guarantee the integrity of the futures contracts is a function of the New York Coffee and Sugar Clearing Association, Inc., a related but separate corporation with its own officers and board of directors. I am not an officer or a director of the clearing association.

Major raw sugar operators and brokers are members of both the exchange and the clearing association. Each day the clearing association matches all buys and sells by its members who are then required to margin their net positions in each delivery month to the closing settlement price for that month.

The information received by the clearing association in the performance of the clearing function includes the names of the floor brokers who executed the trade on the exchange floor, but it does not include the names of the clients for whom the trades were made by the clearing members. The bylaws and rules of the exchange and of the clearing association provide that information regarding the trading and market positions of individual clearing members may be released by the clearing association to a control committee of the exchange to the extent that such information is required by the control committee to monitor any trading situation or a position which might possibly become a threat to competitive futures trading process.

The control committee monitors such a situation and reports to the board of managers of the exchange. It must be borne in mind that the control committee does not receive information concerning clients of clearing members, because such information is not reported to the clearing association.

Disclosure by the clearing association of trading and market positions of its members is not provided for under the bylaws and rules of the clearing association in any other circumstance.

However, when I return to New York, I will, in cooperation with the clearing association officials, gather and forward to the subcommittee the available data in response to Congressman Findley's inquiry. I wish to emphasize again that the information concerning clients of clearing members is not available.

I also wish to emphasize that since the inquiry covers data for the last 6 months, it may be quite voluminous, and we will have to arrange how to get the information to the subcommittee.

The following information concerning sugar futures trading between June 5 and the end of June may be relevant to this hearing. On June 5 there were 2,058 open contracts in all positions of contract No. 10, the

domestic raw sugar contract, and 17,862 open contracts in all positions of contract No. 11, the world raw sugar contract. The combined open positions were equivalent to almost 1 million long tons of raw sugar.

At the end of June, the open positions on contracts 10 and 11 totaled 2,334 contracts and 18,652 contracts respectively, equivalent to a little more than 1 million long tons of raw sugar.

Open positions for delivery in July of 1974 were closed out by the end of June, the 638 July 1974, contracts that were open under contract No. 10.

The domestic raw sugar on June 5 were closed out as follows: By transactions against actuals, 536; by issuance of delivery notices, 295. The 295 delivery notices were issued by Ackley Sugar Co., one of the major raw sugar operators, and the delivery notices were accepted by the following: 162 by Czarikon-Rionda Co., 93 by Amarot Corp., and 40 by Christman Commodities Associates.

The notices total more than the open positions on June 5 because the open position in July 1974, increased after June 5 and before the final liquidation.

In contract No. 11, 4,110 contract in July, 1974, were open on June 5. They were closed out as follows: by transactions against actuals, 1,148; by issuance of delivery notices, 218. The remaining open contracts were closed out by offsetting trades.

Delivery notices for July 1974, contract No. 11, were as follows, by country of origin: 12 from Argentina, 16 from the Dominican Republic, 132 from Guatemala, 58 from El Salvador.

The issuers of the notices were Amarot Corp., 187; Czarnikon-Rionda Co., 3; Forward Clearing Co., 28. All of the notices were accepted, or as we say, stopped by Woodhouse Drake Co.

Domestic raw sugar futures price quotations at the end of June were somewhat higher than on June 5. In contract No. 11, quotations for nearby months were lower, and for the end of the month were somewhat higher than they were on June 5.

That completes my statement, Mr. Chairman, and I am very sorry that I was not able to complete the supplemental statement in time to have it typed and ready for distribution.

Mr. VIGORRO. That is perfectly all right if we get the information requested as soon as possible.

Mr. Sisk?

Mr. SISK. Mr. Chairman, I would yield my time to the gentleman from Illinois if he wishes to pursue this.

Mr. FINDLEY. Thank you, Mr. Chairman, and thank you Mr. MacHardy for your very timely cooperation with the subcommittee.

Listening orally to your report, it has its limitations, and I am sure the chairman will enable us to examine this more completely in a short time, and perhaps there will be an opportunity to go into it further.

Mr. MACHARDY. The point I wish to make clear, Congressman Findley, is, you requested information on the clients of clearing members. That information is just not available to the exchange or to the clearing association.

Material with respect to the total clearing member operation is available, and we would be pleased to furnish that as soon as possible.

Mr. FINDLEY. I think it might be appropriate to take note of the fact that the New York Coffee and Sugar Exchange is not a regulated ex-

change, at least not under Federal regulation, but it will be like all other exchanges under Federal regulation when the new Commodity Act becomes effective about March 1, or thereabouts.

Mr. MACHARDY. April 21. We have that date.

Mr. FINDLEY. You have that firmly in mind?

Mr. MACHARDY. Firmly in mind.

Mr. FINDLEY. It should be noted that one of the advantages of the new Commodity Act will be, we will have data of this kind available to us on a current basis. We will not have to impose upon you for that information directly.

Mr. MacHardy, how many people are qualified members of your exchange?

Mr. MACHARDY. We have about 300 members.

Mr. FINDLEY. What financial requirements are imposed as a condition for membership?

Mr. MACHARDY. As a condition for membership in the exchange, they must submit regular, audited statements showing a net worth of \$25,000—\$25,000 for member who do not trade on the floor, and \$100,000 for members who trade on the floor and do trading for themselves and for customers.

Mr. FINDLEY. Do you have any restrictions on members who wish to trade for customers as well as for themselves, any special limitations on such activities?

Mr. MACHARDY. We do not have any limitations on the trading of members for themselves and for customers at the present time, other than that a broker who trades for himself may not take the other side of a customer's trade unless the transaction is authorized in advance by the customer and unless it is reported to the president of the exchange in each case.

Mr. FINDLEY. Could you tell us how recently you have rejected an application for membership?

Mr. MACHARDY. Well, as recently as 3 months ago.

Mr. FINDLEY. How recently has the exchange through its committees brought disciplinary action against a member for an infraction of rules?

Mr. MACHARDY. There are two types of disciplinary actions. We have a floor committee which is authorized to supervise the operations which go on on the trading floor, and the floor committee has the authority, and it does exercise it, to fine any floor broker up to \$200 for any infraction of the trading rules, anything which the floor committee considers to be undesirable conduct on the floor.

Those fines are sort of routine when the market is in a very active condition. They are made, and they are collected quite frequently.

Mr. FINDLEY. Would you say that it is a daily occurrence?

Mr. MACHARDY. I would not say it is daily, but it is a regular—weekly, I would call it a weekly occurrence.

Mr. FINDLEY. Can you give us some indication as to the extent to which the operators, as they are now, use futures contracts?

Mr. MACHARDY. The operators, as we know them, are merchants. They are raw sugar merchants, who buy raw sugar and take the risk of ownership from the original producers in Brazil or any other country, which offers raw sugar for sale, and they hold the sugar until they are able to sell it to a refiner or some other buyer.

They charter freight. They engage in insurance and do all of the things that are required to be done in the transportation and handling of raw sugar between the producing area and the refinery where it is refined.

As you can see, this involves a really substantial financial risk, and the operators have two choices. They can operate on the basis where they may have back-to-back arrangements with a buyer, which happens in some cases, or they can hedge their risk on the exchange. A very considerable portion of the risks are hedged on our exchange.

Mr. FINDLEY. What portion of the business of your exchange, would you say, involves an operator?

Mr. MACHARDY. At the present time, as nearly as we can calculate, since raw sugar prices have reached the levels that they have reached during recent weeks, at least 90 percent of the total trading volume on our exchange is by the raw sugar trade interests, in other words, raw sugar operators.

This is not true at lower, or if you will, more reasonable levels of sugar price because when those levels are in effect, there is a considerably greater participation in the market by speculative interests.

Mr. FINDLEY. Operators, by their nature and service, are not considered speculators?

Mr. MACHARDY. No.

Mr. FINDLEY. Why is it that the level of speculation declined during the last 6 months?

Mr. MACHARDY. Because prices fluctuated only in one direction, and when that happens, speculators do not participate in a market. There is very little leverage in a market that only goes one way.

Looking at it from hindsight, it might be said that if you could buy a raw sugar contract for March or May delivery in 1975, you could have done that about a year or more ago, at 7½ cents, and if you had held that contract until recently, you could have sold it for 66 cents or 65 cents.

The speculators, they do not operate that way because they do not have the gift of hindsight to look forward.

Mr. FINDLEY. Perhaps I missed it. Did you state what the average level of speculation is on your exchange?

Mr. MACHARDY. In the year 1973, it was for our exchange and for most commodity futures markets in the United States, it was the year of the greatest volume of trade, and on our exchange, we traded over a million contracts in 1973, which was just about 5,000 contracts a day.

I would say, in 1973, speculation was at a level which made the hedging of raw sugar reasonably feasible on a basis where you could place your hedge and undo your hedge because of the speculative ventures at a point where you wanted to do it. Do you see?

I would say in 1973, speculation was at a level which made the cent of the total trade.

Mr. FINDLEY. I have heard it said that a level close to 60 percent is considered desirable in order to maintain adequate trading. Would you agree?

Mr. MACHARDY. Yes.

Mr. FINDLEY. I understand you serve Canadian interests as well as United States. Could you, with your experience in the Sugar Division, as well as in your present capacity, give us your insight as

to why the U.S. price of sugar is substantially above Canadian prices?

Mr. MACHARDY. Canada traditionally is a world market buyer. Their prices for their sugar have fluctuated in the past along with the fluctuations, the daily fluctuations in the world sugar market prices.

I am not cognizant of what has happened recently to Canadian prices, but since the world sugar prices have declined in the last 2 weeks or 3 weeks by roughly 25 cents a pound, I would assume that the Canadian refiners have reduced their selling prices proportionately.

Mr. FINDLEY. The U.S. price of sugar has declined about 17½ cents a pound during the same period, am I correct?

Mr. MACHARDY. Yes.

Mr. FINDLEY. Why, in your opinion, has the U.S. price not followed more closely the world price decline?

Mr. MACHARDY. I would really have no opinion on that. I think that would better be commented on by a person who is in the business at the present time.

Mr. FINDLEY. You stated that Canada has been a world trader in sugar over the years. Does this also mean that it probably has more expertise in dealing with world price conditions than the United States, and this perhaps might account for some price differential?

Mr. MACHARDY. They certainly have had a greater amount of experience in coping with conditions in the world market. I think that our sugar refiners and the people in our sugar trade has the same expertise. I do not think there is a question of expertise. I think that we have been under a semiregulated system for a number of years, and it takes time to make a transition from that regulated system to a free market situation.

Mr. FINDLEY. Instead of expertise, I should have used the word "connections." Would it be a fair statement that Canada, because of its experience, has better connections than us, has been able to respond more effectively?

Mr. MACHARDY. Do you mean connections with producers?

Mr. FINDLEY. Yes, arrangements with world trade.

Mr. MACHARDY. I think that our buyer has just as good connections with producers as any buyers in the world.

Mr. FINDLEY. I have taken far too long. I am sure others have questions.

Mr. VIGORITO. Mr. Sisk.

Mr. SISK. Very briefly.

I notice in your statement, Mr. MacHardy, you say the total annual production—and I am paraphrasing—is about 80 million tons, roughly about half and half, 40 million of beet, and 40 million cane, and you say in the latter part, the predominant price-determining influence is exerted by the availability of and the demand for 30 percent of cane sugar production, or 12 million tons, which is for sale at free world prices.

In other words, actually, 70 percent of the world's sugar is then contrariwise controlled. Is that what in essence you are saying. Actually, the so-called speculative areas in which your market operates deals with only say 30 percent of the sugar, in this so-called free world sugar.

Is that basically where your trading occurs? It does not occur in so-called controlled countries?

Mr. MACHARDY. Our world sugar futures contract involves free world sugar, which, as you pointed out, is a very small percentage of total world sugar production, but the prices of that free world sugar are the significant price-determining factors in the world market, except to the extent that free world prices are modified by government action.

In our case, through the years of the sugar surplus, the Sugar Act, and the International Sugar Agreement on a world level, monitored the supply situation and tried to keep prices to producers at a reasonable level, so the quantity of free world sugar under those conditions was considerably greater than the amount which was needed by the consuming countries.

Does that answer your questions?

Mr. SISK. I am trying to follow you. I am not an expert in trading in these futures and dealing with that particular part of it, but I am trying to find out why the American consumer is paying the kind of price he is paying today.

As I analyze what you are saying, the world price of sugar—and that is what has led to the situation we are confronted with here, even though it is going down some now, I do not know when it is going up or what is going to happen—it is basically on that small percentage of free world sugar. I am concerned as to why that should be a determining factor, and if in fact you are correct when you say, our becoming a free market, as far as this country is concerned, by elimination of the Sugar Act back in June, had no effect on price causes me to question that consistency of that statement.

Do you follow me? I am not criticizing you; I am trying to get it clear.

Mr. MACHARDY. During the world sugar surplus you had a buyer's market in sugar, buyers controlled the factors which contributed to the pricing of sugar. Since the world production has fallen behind world consumption 4 years in a row and stocks are down to a very low level, the buyers market that did exist has disappeared and been replaced by a sellers market.

I do not think that the situation in sugar is too different from what happened in the grain markets some months ago when there is a large demand for a scarce commodity such as grain or such as sugar, prices rise, and in our competitive marketing system, the sellers in a sellers market try to achieve the best possible prices they can achieve under those conditions.

Mr. SISK. Can you give me any figures as to what occurred and the amounts of fluctuation that occurred in common market countries, let us say, that operate under the Common Market within the European sector?

For example, you gave the date of the highest price on sugar here.

The price tops some 66 cents a pound. Is that approximately where it topped out?

Mr. MACHARDY. Yes.

Mr. SISK. That occurred in November?

Mr. MACHARDY. Right.

Mr. SISK. What was the price of sugar in France?

Mr. MACHARDY. I do not have that figure but the Common Market has been able to control all of the pricing.

Mr. SISK. Is it not a fact that they have a Sugar Act?

Mr. MACHARDY. That is correct. The reason it is successful in the Common Market is up to this year they have not had to import any sugar to meet their own demands. They have been an exporter of sugar.

This year for the first time the production in Europe of beet sugar has fallen below expectations to such an extent that the Common Market has to import some sugar. They do control sugar prices in the Common Market and I might say it has been a very, very expensive program as far as the Government and presumably, the taxpayers are concerned.

Mr. SISK. I will conclude with this, Mr. Chairman. I am trying to find out what the differences are with the 70 percent. In other words, 70 percent of the world's sugar supply basically flows to and glides between control countries working under sugar acts of one kind or another. There are many of them in many parts of this world.

I am trying to get a comparison, if I may, of what has been happening in the last 6 months in those areas as compared to what has happened to the balance of the world. Basically, I want a comparison of what has happened here in a noncontrolled situation.

With the 70 percent under controlled situations, what is the comparison in prices? Do you have any information on that? Then I will yield.

Mr. MACHARDY. You mean why does this small amount of sugar deserve such an influence on the pricing mechanism, is that what your question is?

Mr. SISK. To some extent. I recognize that 5 percent of the supply, for example of almonds, if, in fact, that is the difference between a surplus and a scarcity because I come from an area where we deal in these items and I am aware of how a small percentage sometimes can affect the marketplace on surplus versus the shortage.

Is that what you are saying, that this 30 percent does?

Mr. MACHARDY. I do not think it is 30 percent of the total. It is 30 percent of the cane sugar, roughly 10 to 12 million tons.

When consuming countries own production and their arrangements with other countries' production falls below the amount that they have been depending on to meet their consumers needs and they have to buy a greater supply of this free world sugar, and when many countries are in the position, this free world sugar is in a position where it can become the price-determining factor in the whole world sugar marketing system, except for those countries which produce enough sugar in their own countries to be self-sufficient.

Mr. VIGORITO. At this point, Mr. MacHardy, we are going to have to declare a 10-minute recess. There is a vote going on on the floor. It is an important vote and we will be back.

[A brief recess was taken.]

Mr. VIGORITO. The subcommittee will resume its hearings. Who had the floor?

Mr. SISK. I was talking, and I am getting ready to yield to my friend from Minnesota.

One final question. I am not sure I ever got clear exactly on the other matter, but within the last few weeks there has been a substantial sudden drop in sugar prices. Why? You are a close observer of this.

Mr. MACHARDY. In competitive markets people are more aggressive and they bid the price up, and the price of sugar during the last, well, during the later days of November reached a level which either bidders just decided that it is too high and they just would not bid anymore, or they had achieved their purchase programs and did not have to buy any more.

In any event, when a market reaches that high level and the bidding stops, a reaction sets in.

Mr. SISK. What you are saying now is supply and demand did not have anything to do with it.

Mr. MACHARDY. It did; yes.

Mr. SISK. Apparently, they got it as high as they wanted to write it on the basis of speculation.

Mr. MACHARDY. I am not talking about speculation and I am not talking about the futures market. I am talking about bidding for actual sugar in the commercial raw sugar market. Those prices of 65 and 66 cents a pound were paid for many, many tons of actual raw sugar.

Mr. SISK. There has not been any sudden increase in supply over the last 30 days from anywhere.

Mr. MACHARDY. There has not.

Mr. SISK. Really, this in itself indicates that there really was never any justification for sugar to go to 66 cents a pound.

Mr. MACHARDY. Except that somebody and a number of buyers were willing to pay that price.

Mr. SISK. Based upon pure rumor and speculation. This goes back to the concern I had with what happened to this country with the defeat of the Sugar Act and the announcements early in the year from the administration, which I think started this situation:

No. 1, indicating a higher consumption substantially than we are going to consume; No. 2, a withdrawal of support for a sugar act.

Basically then, this gets back to what the rumor mill has produced, instead of an actual, factual situation in supply and demand.

Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Bergland.

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

Mr. MacHardy, are those trades time stamped?

Mr. MACHARDY. The orders which are given to the trading floor are time stamped. When the order is put into the floor broker, the floor broker time stamps the execution when it is made.

In our exchange, which does operate somewhat differently from the Chicago Board of Trade and the Chicago Mercantile Exchange, all trades made during the day by floor brokers are held by the floor broker and they are cleared after the close of the market. Each floor broker records all of the trades that he has made during the day on his clearance sheet and the trades are cleared by the clearing association. The brokers do time stamp the executions of the trades.

Mr. BERGLAND. How many delivery periods are there in the World Sugar Contract?

Mr. MACHARDY. World Sugar Contract delivery months are January, March, May, July, September, October.

Mr. BERGLAND. We had testimony from refiners who told us the price they charge their customer generally follows the New York spot, and so there is a good deal of market influence determined by that spot market.

I read your testimony very, very carefully in this matter of the system by which the spot market price is arrived at and I must confess I do not understand it.

Would you lead me through that in just a couple of minutes?

Mr. MACHARDY. The spot price of domestic raw sugar each day is determined by a committee of five members of the exchange who are in the domestic raw sugar market business. They consult with each other each afternoon at 2 p.m. and they consider all information concerning trading—not trading—but consider sales, bids, and offers which have been reported to them during the day and they come to a conclusion as to what the proper spot quotation is for that day.

Mr. BERGLAND. Sales, bids, and offers offered to them by whom?

Mr. MACHARDY. Members of the sugar trade.

Mr. BERGLAND. Not the cash market?

Mr. MACHARDY. There is a cash market.

Mr. BERGLAND. You do have a cash market?

Mr. MACHARDY. Yes; we have a cash market.

Mr. BERGLAND. At which people offer to buy and sell?

Mr. MACHARDY. Members of this committee are participants in this cash market.

Mr. BERGLAND. Do you have hedgers and operators participating in the cash market procedures?

Mr. MACHARDY. They may be hedgers in some other phase of their business but there are on the exchanges spot quotation committee because of their activities in the commercial raw sugar market.

Mr. BERGLAND. I am familiar with the Minneapolis Grain Exchange and its cash market functions. It is open, a competitive bidding cash market.

Mr. MACHARDY. We do not have that kind of market in the exchange itself. Ours is simply a futures raw sugar market.

Mr. BERGLAND. That is what I am trying to get at. You indicated that you have a cash market.

Mr. MACHARDY. There is a cash market for raw sugar in New York, you see, but it is not connected with the exchange futures trading.

Mr. BERGLAND. The cash market is where, sir?

Mr. MACHARDY. That market is the totality of the transactions which take place between sugar operators and refiners in the United States in the case of the domestic raw sugar. In the case of the world market, it is the totality of the transactions which occur between raw sugar operators and world raw sugar buyers.

Mr. BERGLAND. These transactions are privately negotiated and reported?

Mr. MACHARDY. Privately negotiated and reported to the members of these spot committees.

Mr. BERGLAND. Those negotiations are not on an open, competitive bidding process. They are private treaty, private arrangement between the buyer and seller.

Mr. MACHARDY. Privately negotiated raw sugar contracts.

Mr. BERGLAND. The results are reported to your spot committee?

Mr. MACHARDY. Yes, sir.

Mr. BERGLAND. That becomes the price for that day?

Mr. MACHARDY. That is considered. The spot committees have written criteria which are considered in the determination of the spot price, and they refer to purchases or sales of raw sugar. During the day any bids that they may know have been made or are being made, any offers which they know are being made. In the absence of any sales or bids or offers which could be stated to be in the spot market situation, they are authorized to make the spot price on the basis of the tone of the market.

Mr. BERGLAND. That becomes sort of an educated guess, does it not?

Mr. MACHARDY. Those are your words.

Mr. BERGLAND. My words.

Mr. MACHARDY. I would not call it an educated guess. I served several terms. When I was in the raw sugar business I served several terms on the domestic raw sugar spot quotation committee, and our telephone consultations were often controversial. We had differences of opinion. But eventually, we arrived at a figure which the majority of the committee could agree on.

Mr. BERGLAND. What kinds of safeguards have been developed by your market or anybody else to protect the integrity of that spot market?

Mr. MACHARDY. As far as the exchange is concerned, this spot quotation is solely for the purpose of determining the value of raw sugar. In the case of default, we understand and we have known that a large quantity of raw sugar in the commercial market is valued on the basis of this quotation. In making that determination the exchange is really performing a service to the sugar trade and we believe that the people, and we are confident that the people who are on our spot quotation committees are reliable and we have confidence in the integrity of their determination.

Mr. BERGLAND. How many private transactions are solicited typically in a day's time? How many of these private trades are negotiated and reported to the spot committee?

Mr. MACHARDY. I believe during my experience on the committee a majority of the transactions were reported to at least one member of the spot committee, or were known by at least one member of the spot committee.

Mr. BERGLAND. To put it in a context I can understand, how many—200?, 25?, 6?

Mr. MACHARDY. The raw sugar business is not that voluminous when you consider the units of trading in terms of 10,000 and 20,000 ton cargoes. The number of transactions which are involved in the commercial raw sugar market in any one day is not great. In some days and some weeks there are periods when there are absolutely no transactions whatsoever.

Mr. BERGLAND. No transactions whatsoever. So the spot committee has to make a judgment as to what the price would have been if there had been trade?

Mr. MACHARDY. Under those conditions the committee just carried over the determination for the preceding day.

Mr. BERGLAND. That becomes on their part a judgmental thing.

Mr. MACHARDY. Judgment.

Mr. BERGLAND. My point is much of the sugar trading in the United States falls on the New York market. Obviously, it is not a market arrived at in a true competitive sense of the word.

Mr. MACHARDY. I understand that but our position on the exchange is that we are not responsible for the actions in the commercial raw sugar market. If commercial buyers and sellers wish to use the spot quotation as a basis for determining their values, then we agree, we do not take any responsibility for the use of our spot quotation.

Mr. BERGLAND. Mr. MacHardy, I grant you that I am not questioning your integrity, and I understand the need to have a spot committee to determine the value of default, but this is a most unusual marketing arrangement on the part of sugar refiners in the United States who will follow the market that is arrived at in this fashion.

Mr. Chairman, that is all I have for now.

Mr. VIGORITO. Thank you.

Does counsel wish to ask any questions?

Mr. RAINBOLT. Mr. Chairman, I just thought for a moment I would develop one line of questioning.

Mr. MacHardy, going back to a question Congressman Findley asked you earlier about the percentage of speculative activity in your market, you answered 10 percent. In 1973, it got to 30 percent. It might be pointed out that it is my understanding that speculative activity, rather than encouraging wide price swings has a tendency to dampen it, does it not?

Mr. MACHARDY. Yes.

Mr. RAINBOLT. A degree of speculative activity running about 30 percent, is actually a low degree, is it not, say, to a gram contract on the Chicago Board of Trade or a similar contract.

Mr. MACHARDY. Yes.

Mr. RAINBOLT. If during 1973 or 1974, you had a degree of speculative activity that actually rose to something like 50 percent, would that not have had the effect of damping perhaps some of the wider market swings?

Mr. MACHARDY. A greater degree of speculative activity unquestionably would have tended to moderate that situation during this year, but the price situation was so overwhelming based on the small supply available and the large number of demands made on it, that speculators just were really turned off the raw sugar market this year.

Mr. RAINBOLT. Vis-a-vis London, how do the two exchanges compare in terms of volume?

Mr. MACHARDY. Approximately the same. Our volume may be greater some days, in London it is greater on some days. But approximately the same, I believe.

In 1973 our volume—London used to have considerably greater volume of trade than we had—but in 1973 our volume, at 5,000 contracts a day came up to whatever it was and very comparable to the volume in London.

Mr. RAINBOLT. The concluding point I wanted to make is sometimes people, and I think particularly in this situation, would assume that speculation would tend to be a bad activity, that speculation in and of

itself would tend to increase price swings and have a tendency to drive the price up. But in fact, if you had 30 to 40 percent, speculative activity in your market would probably be a healthier thing for the market now than at 10 percent.

Mr. MACHARDY. Yes.

Mr. RAINBOLT. I have no further questions.

Mr. VIGORITO. Mr. Murray.

Mr. MURRAY. Yesterday the committee was pursuing sugar operators, who they are and what they do, and we got some firms that were big operators and some that were smaller. We never did establish a parameter about what is meant by "big."

What is a big sugar operator in terms of U.S. and world participation?

Mr. MACHARDY. By operators, I have reference to the merchants who buy raw sugar in large quantities from original producers or original sellers and hold it for a sale to refineries.

I would say offhand that there may be eight, what I would call, big operators in the United States.

Mr. MURRAY. A big operator would handle how many tons of sugar or how many dollars in volumes with the sugar in a year?

Mr. MACHARDY. I would have no way of knowing that. I do know that the volumes that I handle are very large and the risks that are taken are very large.

Mr. MURRAY. I am trying to get a handle, I guess, on a ball park figure 100,000 tons? 500,000 tons a year? What would be a figure?

Mr. MACHARDY. Let me put it this way. The U.S. imports about 6 million tons of sugar a year. A very large percentage of that total of 6 million tons is handled through operators, what you will call raw sugar operators.

Mr. FINDLEY. Would it be as high as 90 percent?

Mr. MACHARDY. I would hesitate. I would just like to leave my statement at a very large percentage. I just do not think I could honestly under oath put a figure on that percentage. But a fairly large percentage of 6 million tons is a very considerable quantity of sugar.

Mr. MURRAY. Again getting back, in your mind picture what you perceive to be the largest operator, what kind of a volume would that firm be handling a year of U.S. sugar?

Mr. MACHARDY. I really could not comment on that. You see, they all compete for the tenders, of selling tenders, that are made by the raw sugar exporting countries. Each one of these operators bids to buy the quantity of sugar which is being offered.

Mr. MURRAY. Would it be fair to say that the published or public knowledge of operators is quite skimpy at the present time? There is not a great deal of published literature or known facts about it?

Mr. MACHARDY. I would say that their business is a business which is not widely known by the public, just as the business of sugar futures trading is a business which is not widely known by the public. But I do not think the public appreciates either the tremendous risks that are involved in the process of buying sugar in the Phillipines, for instance, holding it for 2 or 3 months, and finally selling it to a buyer in the United States.

Mr. MURRAY. Do any of the operators hold seats on your exchange?

Mr. MACHARDY. All of them.

Mr. MURRAY. Do they not file a report then to show that they have \$100,000 net worth? How do you know they have done \$100,000 net worth?

Mr. MACHARDY. They have to file. They do not have to file a \$100,000 net worth statement unless they trade on the trading floor. Most of them trade through brokers on the floor. They are members of our clearing association and as members they have to make deposits to the guarantee fund, which is maintained by the clearing association to insure the integrity of all the future trading and the effectiveness of the system is borne out by the fact that it has existed for almost 100 years.

Mr. MURRAY. Would it be your observation that during the past year the operators did quite well in the sugar business?

Mr. MACHARDY. I am sure some of them did quite well. I am sure that some of them took losses. I would have no knowledge or no inputs into the operations of any individual member of the exchange.

Mr. MURRAY. Thank you, Mr. Chairman.

Mr. VIGORITO. I wish to thank you very much, Mr. MacHardy, for your excellent presentation today. If I have any questions, I will write to you. Do not be surprised if someday I do not show up at the exchange.

Mr. MACHARDY. Any time you are in New York City, give me a call. I would like to show you our trading operation. Any member of the subcommittee or any member of the staff.

Mr. VIGORITO. Thank you very much.

Now there is a vote going on so we are going to have to adjourn the subcommittee until 10 a.m. Tuesday.

Is Barbara Bikofsky in the room?

This statement you have has been presented to the Council on Wage Stability, has it not?

Ms. BIKOFSKY. It has.

Mr. VIGORITO. Word for word the same one we have before us, and it is printed in the Council's blue books that they are putting out now and we will accept it as such.

There is no point in repeating, reading here or having it printed in the record what we will have available to us. I already have double volumes from the Council on Wage and Price Stability.

If you have any more to add or if you wish to have the subcommittee ask you questions, be here at 10 a.m. Tuesday.

Ms. BIKOFSKY. If you have any questions, I would like to be here to answer them.

Mr. VIGORITO. The subcommittee will stand adjourned until 10 a.m. Tuesday, December 17, at which time we will have further witnesses.

Thank you.

[Whereupon, at 5:35 p.m., the subcommittee adjourned, to reconvene on Tuesday, December 17, 1974, at 10 a.m.]

EXAMINATION OF SUGAR MARKETING CONDITIONS SINCE DEFEAT OF SUGAR BILL

TUESDAY, DECEMBER 17, 1974

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

The subcommittee met, pursuant to recess, at 10:12 a.m., in room 1301, Longworth House Office Building, Hon. Joseph P. Vigorito (chairman of the subcommittee) presiding.

Present: Representatives Vigorito, Foley, Sisk, Denholm, Findley, and Johnson.

Also present: Representatives Bergland and Zwach.

Staff present: John O'Neal, general counsel; John Rainbolt, associate counsel; Hyde H. Murray, associate counsel; L. T. Easley, press assistant; Steve Allen, staff consultant; Steve Pringle, staff assistant; and Anita Brown, staff assistant.

Mr. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations will now resume sitting for continuation of its hearings on the sugar industry, especially why prices have increased tremendously in the last 6 or 7 months.

In accordance with the powers and responsibilities of the U.S. House of Representatives and the Committee on Agriculture, the subcommittee has been examining the marketing conditions that existed in sugar during the past several years with particular emphasis on the dramatic price fluctuations that have occurred in 1974.

The purpose of these hearings has been first to obtain the facts as to what has happened to our sugar marketing systems and second to establish the basis for new sugar legislation, if any. There is at present a bill, H.R. 16879, by Mr. Madigan to extend and amend the Sugar Act of 1948, as amended now pending before the committee. So far the subcommittee has been able to establish that American consumers have paid about \$4.1 billion more for sugar in 1974 than in 1973.

We have heard and examined several explanations for this. Some of the factors that affected the spectacular price are in dispute but the fact remains that the American public has paid a very dear price both in direct consumer impact and in a substantial erosion of the Nation's balance of payments because of the conditions existing in the sugar market this year.

During the course of our hearings a news story written by the United Press International with a date line of New Orleans, La., November 15, 1974, and published in the Wisconsin Farmer came to our

attention. This news story read as follows, and it will be inserted in the record at this point.

[The article follows:]

SUGAR PRICES SOAR

NEW ORLEANS (UPI)—The price of a five-pound bag of sugar at Louisiana refineries soared to \$3.06 today with predictions of still higher prices.

Donald Cole, manager of Lamborn & Co., sugar brokers, suggested a possible manipulation of the world market.

"I suppose if you got back in the past year, you'd find the world supply has probably been very closely controlled by the half-dozen largest operators in the world," Cole said. "These are things nobody knows, but I do think there has been some manipulation. I think there has been some maneuvering.

"This thing is like a great, big, bubble. I think the market is going higher, but I think it is very dangerous, very vulnerable. Some large operators are holding back supplies and they are playing hard to get except at increased prices."

Thomas M. Warner, an American Sugar Cane League spokesman, said, "raw sugar prices in the United States and elsewhere are high because there is a worldwide scarcity of sugar. Worldwide consumption has exceeded production in each of the last four years."

Mr. VIGORITO. In another news article published in Business Week magazine dated November 30, 1974, a gentleman by the name of Maurice Varsano is quoted as saying, "Like all traders we have been making very big, very handsome profits for the past year or so."

Through our hearings we learned that Mr. Varsano is a prominent world sugar operator working through a French company called Sucre et Denrees.

I will make the entire article a part of the record at this point.

[The article referred to follows:]

[From Business Week Magazine, Nov. 30, 1974]

SUGAR: A SOUR STORY OF MISMANAGEMENT

As sugar prices continue to climb toward dizzying, nearly unbelievable heights, more and more perplexed citizens are asking: "How in the world did we ever get here?" One startling answer now coming out seems to be: by design of the U.S. Agriculture Dept.

"One of the grossest cases of government mismanagement I've ever seen—almost malfeasance in office," one House staff figure declares in outrage. "The rape of the consumer by people in government."

He and others are charging a deliberate USDA campaign to kill the 40-year-old sugar program and launch the U.S. on an uncertain sea of free trade in sugar. A senior sugar industry executive concurs: "Butz, Frick, and Calcagnini were the victims of misjudgment." His reference is to Agriculture Secretary Earl L. Butz, his commodities deputy (and one-time sugar beet grower) Kenneth E. Frick, and Arthur B. Calcagnini, now USDA sugar division chief, but 18 months ago president of Amerop, a subsidiary of France's Sucre et Denrees, the world's largest sugar trader.

Sugar prices are becoming a major political issue, and this week the Council on Wage & Price Stability held hearings on the subject. Meanwhile, charges are echoing within USDA that the campaign to kill the law involved "bullish" sugar decisions taken to blacken the program in the eyes of the public and Congress. In fact, the House last June voted down the sugar program, effective Jan. 1, 1975. This is the background:

When he became Agriculture Secretary in 1971, Butz set about "getting the government out of agriculture." He considered particularly onerous the sugar program, under which domestic cane and beet growers were subsidized for not overplanting, and the rest of the U.S. market was parceled out to some 30 privileged foreign suppliers. The act's only advantages seem to have been secure supplies and, not inconsiderably, stable prices.

PERSONAL CALLING

For Butz, it seemed like a heaven-sent opportunity when, in 1973, the Nixon White House sent him the 40-year-old sugar trader Calcagnini. Calcagnini, who was introduced to Washington by the computer magnate, H. Ross Perot, admits to having developed almost a calling to bring about the end of the sugar program. He particularly loathed the quota system, and for personal reasons: His father's sugar trading firm, Lombard & Co., a specialist in Cuban sugar, went down the drain when the U.S. wiped out Cuba's quota. Later, as president of Amerop, Calcagnini says quirks of the quota system cost his company "several hundreds of thousands of dollars" in situations in Peru and the Philippines.

As the situation came to a head, objections to the law were varied. But they centered on Butz's wish to shed the \$80-million to \$90-million a year that sugar supports cost, and the Administration's general antipathy to government intervention in the marketplace—especially from Butz and Calcagnini. However, Calcagnini also agreed with major industrial users, such as bottlers and canners, that U.S. sugar prices had to fluctuate more so big buyers could hedge future needs, as other commodity users do.

The USDA campaign was kicked off on Nov. 1, 1973. Industry was called in privately and told the department would no longer support the old act. Then began a series of public declarations by Calcagnini and Frick. In one, on Dec. 5, Calcagnini told Western beet growers the program would collapse, sugar rationing would follow, and the government would take over the industry "lock, stock, and barrel."

Dire predictions. Three years earlier, the House Agriculture Committee predicted that if the U.S. dropped its finely tuned sugar system and went shopping on the world market, the price consequences would be unforeseeable. The USDA campaign put the world on notice that precisely that might happen, and sugar prices began to rise. No longer certain of the U.S. market, the quota suppliers "took the top dollar" elsewhere, in the words of Tom O. Murphy, retiring president of the U.S. Beet Sugar Assn.

Ironically, as prices rose, the law—based on the supposition that rising prices mean short supplies—required Butz to raise the U.S. sugar procurement target. Between December, 1973, and last January, he raised it an incredible 700,000 tons to a total of 12.5-million tons. "It was the most illogical action ever taken. We didn't need that sugar," says one USDA sugar specialist. The argument was not with the required increase, but the bullish volume, which forced up world prices.

Prices rose again in July and September of this year after Butz reallocated some 700,000 tons of production to foreign suppliers because of crop shortfalls both in the U.S. and abroad, resulting primarily from later crop forecasts. The argument is that he could have reduced the procurement target instead of keeping the U.S. on world books for sugar it will not consume. The target had been reduced 14 times in the past 40 years.

Today Calcagnini gets a lot of letters from irate citizens protesting soaring sugar prices. "I think it's awful. I'm petrified at the consequences," he responds, but he would not hesitate to work against "that anachronism"—the sugar law—if he had it to do over again. Insinuations. Calcagnini calls "shabby" and "rotten" the "behind the hand" insinuations that his sugar views were conditioned by working for Amerop, a French trading subsidiary, and denies holding any interest in it or the parent. Maurice Varsano, Sucre et Denrees chief, confirms that Calcagnini has severed all connections. But Varsano makes no secret of the boon brought by soaring sugar prices. "Like all traders, we have been making very big, very handsome profits for the past year or so," Varsano emphasizes. He is jubilant over an "open" U.S. market, effectively open for the first time to foreign refined sugar (now only a token 65,000 tons are let in). An economist for a major U.S. refiner sees this a definite threat: "If we are flooded with 'whites' [refined sugar] we will have to close down plants," he says. Meanwhile, U.S. growers get the bonanza. The USDA figures a mere 12.7¢ per lb. covers costs and a fair return.

How did the USDA campaign succeed when the Nixon Administration itself proclaimed it wanted to retain the old law? Watergate produced a leadership vacuum. And, says an industry executive: "Art [Calcagnini] was not very sophisticated and Butz and Frick used him." Also, last June sugar prices were already up, and some Congressmen thought consumers wanted them to kill the program. House Agriculture Committee Chairman W. R. Poage [D-Tex.] warned futilely that if they did, "six bit" sugar would come. He was wrong: Dollar-a-pound sugar is in sight.

Mr. VIGORITO. In the course of our hearings the subcommittee began to question various witnesses about the size and the extent of market participation by the segment of the sugar system that is cataloged as "International Sugar Operators" or "sugar traders".

None of our previous witnesses were able to provide very much detail to the subcommittee about this segment of the sugar industry so I, acting as the chairman of the subcommittee, invited what I perceived to be seven companies that appeared to be of the international sugar operators group to appear before us today.

Accordingly, I sent the following telegram to each of them.

[The telegram referred to follows:]

On December 17 my Subcommittee is conducting hearings to examine sugar marketing conditions since defeat of sugar bill in June. Request your appearance as sugar operator at this hearing at 10:00 a.m. in Room 1301 Longworth House Office Building. Please be prepared to discuss the volume of your business both in United States and world markets, your participation in futures trading activities and your profit or loss status in last three years. Any additional comments you may have will be made part of the hearing record. Witnesses will be put under oath at hearing.

JOSEPH P. VIGORITO,

*Chairman Domestic Marketing and Consumer Relations Subcommittee,
House Agriculture Committee, Longworth House Office Building, Wash-
ington, D.C.*

Mr. VIGORITO. I also sent the following letter to Secretary Butz.

DECEMBER 12, 1974.

HON. EARL L. BUTZ,
*Secretary of Agriculture,
Washington, D.C.*

DEAR MR. SECRETARY: On Tuesday, December 17, the Domestic Marketing and Consumer Relations Subcommittee will continue hearings on sugar marketing conditions since defeat of the sugar bill in June.

Prior to that hearing, I would appreciate your furnishing me the following information:

1. The names and addresses of principal officers of the sugar operators doing business in the United States and world markets.
2. A list of the ten largest sugar operators and the volume of business expressed in terms of tonnage and dollar value during each of the past three years.
3. The nations and amounts of sugar each of the ten largest operators deals in and any information relative to the profit margins and net income and dividend declarations of these ten largest operators and their American subsidiaries during each of the past three years.

Please furnish this information as soon as possible but prior to our Tuesday hearing on the 17th when our hearings on this subject resume.

Thank you for your consideration of this request.

Sincerely,

JOSEPH P. VIGORITO,

Chairman Domestic Marketing and Consumer Relations Subcommittee.

Mr. VIGORITO. I have received the following reply:

U.S. DEPARTMENT OF AGRICULTURE,
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE,
Washington, D.C., December 16, 1974.

To: Mr. Joseph P. Vigorito, Chairman, Domestic Marketing and Consumer Relations Subcommittee.

From: Arthur B. Calcagnini, Director, Sugar Division.

In reply to your letter of December 12, to Secretary Butz we are enclosing the following material:

1. Names, addresses and the principal officers of all firms which imported raw sugar into the United States during 1974.
2. Tables showing the total volume of raw quota sugar imported by each importer and by country of origin for 1972, 1973 and to date in 1974.

Information on the value of sugar imports, profit margins, net income and dividend declarations of the sugar importers are not available in the USDA. The volume of trading by the U.S. sugar importers in foreign sugar for destinations other than the United States is also not known.

We hope the enclosed information will be satisfactory.

A. B. CALCAGNINI.

[Information referred to in paragraph 2 is considered confidential material.]

SUGAR IMPORTERS DOING BUSINESS IN THE U.S. MARKET DURING 1974

FIRM	SOME PRINCIPAL OFFICERS
ACLI Sugar Co. (Div. of ACLI INT.), 110 Wall Street, New York, N.Y. 10005, 212-943-8700.	Mr. Gerry Ascher, President. Mr. W. R. Coles, Vice Pres.
Cargill, Inc., Sugar Department, Two Broadway, New York, N.Y. 10004, 212-747-9600.	Cary Humphries, Asst. Vice Pres. Rick Frame, Manager—Sugar Dept.
Christman Commodity Associates, Inc., Five Hanover Square, New York, N.Y. 10004, 212-422-9550.	Mr. James Garry, President. Mr. Robert Haller, Vice Pres. Mr. Robert Christman, Vice Pres.
Czarnikow-Rionda Sugar Co., 120 Wall Street, New York, N.Y. 10005, 212- 422-8220.	Mr. Reed Clark, President. Mr. J. L. Fraites, Exec. Vice Pres. Mr. Dwight Massey, Vice Pres.
Davies, Theo. H. Co., Ltd., One World Trade Center, Suite 2863, New York, N.Y. 10048, 212-432-0890.	Mr. Milton Pickup, President. Mr. Charles Farley, Office Manager.
Dyer Trading Corp., One World Trade Center, Suite 1531, New York, N.Y. 10048, 212-432-0800.	Mr. Daniel Dyer, President.
Farr-Man & Co., Inc., 120 Broadway, Room 2735, New York, N.Y. 10005, 212-349-2744.	Mr. Richard McCare, President. Mr. Lawrence Dixon, Vice Pres. Mr. Kenneth Dougherty, Vice Pres.
Golodetz, M. & Co., 666 Fifth Avenue, New York, N.Y. 10019, 212-581-2400.	Mr. David Ginzberg, Vice Pres. Mr. Nat Gold, Vice Pres.
Gulf & Western Americas Corp., One Gulf & Western Plaza, New York, N.Y. 10023 212-333-4740.	Mr. C. S. Lowery, President. Mr. E. C. Spaeth, Vice Pres.
Guimaras, Inc., 245 East 87th Street, Mayflower Apt. 7B, New York, N.Y. 10028, 212-722-3433.	Mr. Ramon Nolan, Jr. (Principal officers not known).
Hogan & Co., Inc., 120 Wall Street, New York, N.Y. 10005, 212-344-4276.	Mr. Anthony Hogan, President.
Lamborn & Co., Inc., One Dag Hammer- skjold Plaza, New York, N.Y. 10017, 212-754-0600.	Mr. William D. Lamborn, President. Mr. Leon Salerno, Exec. Vice Pres. Mr. H. P. Lopez-Miranda, V. Pres.
Marubeni-Iida (America), Inc., 200 Park Avenue, New York, N.Y. 10017, 212-973-7184.	Mr. K. Haruma, President. Mr. I. Araki, Exec. Vice Pres. Mr. T. Sugiyama, Vice Pres.
Mitsubishi International Corp., 277 Park Avenue, New York, N.Y. 10017, 212-922-6780.	Mr. T. Kido, President. Mr. Tomabechi, Exec. Vice Pres.
Missho-Iwai American Corp., Inc., 80 Pine Street, New York, N.Y. 10005, 212-943-7840 or 7857.	Mr. M. Nishimura, President. Mr. T. Takemoto, General Manager.
Westway Trading Corp., Amerop Divi- sion, 464 Hudson Terrace, Englewood Cliffs, N.J. 07632, 201-569-1700.	Mr. Tabah, President. Mr. A. S. Falcon, Vice Pres. Mr. Walter Cornell, Vice Pres.

Mr. VIGORITO. I asked the Department of Justice to supply information and received the following reply.

[The material referred to follows:]

DEPARTMENT OF JUSTICE,
Washington, D.C., December 16, 1974.

HON. JOSEPH P. VIGORITO,
Chairman, Domestic Marketing and Consumer Relations Subcommittee, Cannon
House Office Building, Washington, D.C.

DEAR CONGRESSMAN VIGORITO: Enclosed, pursuant to conversation with your staff, is an Antitrust Division economic staff report on the structure of the sugar industry.

We understand that this will be included in the record of hearings before your committee in lieu of testimony by a Department of Justice representative.

Sincerely,

THOMAS E. KAUPER,
Assistant Attorney General, Antitrust Division.

The Market for Sweeteners

The sugar industry is the major segment of the overall sweetener industry, which also includes the corn sweetener industry and the synthetic sweetener industry. Sugar's share of the total sweetener market was 84.4% in 1968, but has fallen to about 70% in 1974. The different sweeteners are substitutes for sugar in the production of some, but not all, products. Among those products in which sugar can be substituted, the degree of substitution depends upon the relative prices of the various sweeteners. Non-sugar sweeteners can be used as sugar substitutes, without substantially changing the character of the final product, in the production of most bakery products, canned and frozen fruits, and to a lesser degree dairy products including ice cream. The price of corn syrup (dry basis) was 63% of the price of an equivalent amount of sugar during the 1969-1973 period. From November 1973 through October 1974 the price of corn syrup, while increasing, only equaled 47% of the price of sugar. If this ratio continues to fall, further substitution of non-sugar sweeteners can be expected. Refined sugar is a homogenous product. Competition in this market is extremely sensitive to price.

Sugar Production

Commercial sources of refined sugar are sugar cane and sugar beets. Once refined, the sugar from cane and from beets is chemically and physically identical. Unlike cane, the quality of each beet crop is uncertain. Beet crops contain varying degrees of sugar. Sugar cane refiners locate at seaports, where they are close to the raw cane that is supplied by off-shore sources. Domestic sugar beet processors generally locate in the western part of the country, getting as far east as Chicago. Beet processing plants locate near the growers with which they deal. It should be noted that sugar is the only agricultural product not stockpiled by the United States government.

Sugar Market—Customers

Refined sugar is marketed to three general classes of customers. These classes of customers are industrial, grocery, and institutional. 1972 data show that industrial users purchased between 70% and 88% of all sugar sold.

Large industrial users occasionally buy directly from the refiners and processors in minimum truckloads of 10,000 lb. Most sales are not made directly with the refiner or processor, but are made through a broker. Large users generally buy sugar from several sources to hedge against the drying up any one supply source. Small industrial users buy their sugar through jobbers, who obtain their sugar at a discount from the refiners and processors and normally resell the sugar at the same list price offered by the refiners and processors.

Grocery buyers of sugar buy almost all their sugar through brokers. Brokers may represent one or several different refiners. In addition to branded sugar, private label sugar has been available since the early 1960's. Private label sugar sells for a few cents less than branded sugar.

Sugar Market—Producers, National

On a national level, sugar production is only moderately concentrated. 1973 data show that the four largest firms account for 47.2% of national sales. The ten largest firms account for 73.2% of sales. Amstar is by far the largest sugar producer, accounting for 27% of 1973 sugar sales. Amstar is the only company active in both the cane and beet segments of the market. About 50% of the raw sugar used in the United States is imported, with the Philippines being the largest supplier in recent years. There were 17 companies, operating 24 plants, engaged

in the refining of cane during 1973. Eleven companies, operating, 53 plants, engaged in the processing of beets during 1973. Unlike cane, in which producers deal on a straight cash basis, beet producers normally contract for a stated percentage of the crop of particular growers. The growers are usually guaranteed a minimum payment plus a percentage based on refined sugar sales.

Sugar Market—Producers, Regional

The United States is divided into nine marketing regions, with the East subdivided into three regions. These regions are a result of the process by which refiners and processors locate their plants. In each region, base prices are established, with the basing point often being the seaport where offshore cane is received or the area where the greatest amount of beets is grown. The price charged a particular customer is usually base price plus the cost of freight from the base point to the point of delivery. This method of pricing means that if the factory is closer to the point of delivery than the base point, the factory owner receives additional profit in the form of "phantom freight." Currently there is a private suit questioning the validity of the basing point system.

Concentration data for all nine marketing regions are unavailable.¹ However, U.S.D.A. does have concentration data for five similar regions. These regions, in most cases, include parts of more than one of the nine marketing regions. The data show the percentage of sales accounted for by the four largest producers of the refined sugar in each region. The ratios are: Northeast—94%, Mid-Atlantic—83.1%, North-Central—51.8%, South—65.8%, and West—78.5%.

THE U.S. SUGAR PROGRAM

Historically sugar has been regarded as a dietetic staple. For this reason the governments of many countries have taken steps to stabilize the world sugar market. Importing countries have been concerned with obtaining ample sugar supplies at stable prices while exporting countries have been concerned with ensuring their producers a stable demand and adequate price.

The United States is both a large producer and the world's largest importer of sugar. The U.S. sugar program, therefore, has had the somewhat contradictory goals of protecting the welfare of the domestic U.S. sugar industry, providing the U.S. consumers with ample supplies at reasonable prices, and, additionally, promoting the export trade of the U.S. This program has been guided by a collection of legislative acts known as the Sugar Acts.

The U.S. sugar program prior to 1934 consisted of a series of import tariffs to protect domestic producers. The tariffs helped restrict imports but did not completely insulate producers from volatile price fluctuations of the world sugar market. Moreover, the tariffs afforded no guarantee of supply to U.S. consumers. In 1934, in recognition of the increased complexity of the price and production relationships among U.S. and foreign producers and consumers, the Congress enacted the Jones-Costigan Act. This Act, which was superseded by the Sugar Acts of 1937 and 1948, set the tenor for the present U.S. sugar program. The provisions of the current Sugar Act, an amended version of the 1948 Act which is scheduled to expire on December 31, 1974, provide for the following actions.

During the fourth quarter of each year the Secretary of Agriculture would determine the quantity of sugar which would be needed during the coming calendar year by consumers in the Continental United States. This determination established the amount of foreign sugar that could be imported and the amount of domestic sugar that could be marketed in the United States during that year.

After the overall requirements had been determined, each domestic and foreign producing area supplying the U.S. was assigned a quota which could be marketed in the U.S. The quotas for both foreign and domestic producers were set according to statutory formulas specified in the Sugar Act. These quotas were designed to protect U.S. producers and at the same time provide U.S. consumers with adequate supplies.

Direct government subsidy payments were made to domestic producers to maintain farm incomes from sugar crops. In order to qualify for these payments farmers had to comply with quota requirements, not employ child labor, pay fair prices for beets or cane purchased from other producers, and pay fair wages.

¹ Concentration ratios can be construed for five of the nine marketing regions, using U.S.D.A. data. The four firm ratios are: Intermountain-Northwest—99%, Chicago-west—54%, Southwest—80%, California—95%, and Northeast—99%.

In general the program appears to have worked reasonably well in achieving its goals. The U.S. has protected its domestic industry and U.S. consumers have, until the recent world turmoil, enjoyed ample sugar supplies at relatively stable prices. The cost of this success has been that U.S. sugar prices have generally exceeded the world sugar price. This premium U.S. price differential, which has averaged 2-3¢ in the post-World War II period, ensured that exporting countries would eagerly fulfill their U.S. quota and that domestic producers would be aided.

Effects of the Sugar Acts on Domestic Industry Structure

As a result of the Sugar Acts U.S. producers have received high stable prices for their sugar. Additionally, sugar farmers have received direct government subsidies. The effect of this protection has been that farmers, beet processors, and cane refiners who may have been high cost operators by world standards have been protected. At the same time inefficient producers were protected, new entry into the sugar industry appears to have been discouraged. Since farmers had growing quotas and refiners and processors had marketing quotas, new entry was limited to the extent that these quotas could be obtained. This appears to have been a particularly limiting restriction on the processing and refining industry. The large capital expenditures necessary to build a beet processing factory or cane refinery could only be justified if assurances were available that new marketing quotas would be forthcoming for the increased production from the new plants. The quota system did not automatically provide these assurances. Thus it appears that the Sugar Act, through its support of inefficient producers and its discouragement of new producers, has served to preserve the existing structure of the sugar industry.

Future Structure without the Sugar Act

The current high world price coupled with the expiration of the Sugar Act will probably lead in the short run to increased entry into the U.S. sugar industry. Land suitable for sugar beet farming is generally available in the U.S. and increased sugar beet plantings should be expected next year. Increases in processing capacity as well as increases in cane farming and refinery may also result.

In the long run, the picture is less clear. Without the insulation provided by the Sugar Act, U.S. producers will be subject to the volatile world sugar market. Depending upon what happens to long run world price, this could mean that marginal U.S. producers will be forced out of the market by world competition.

WORLD SUGAR MARKET

The current magnitude of world sugar consumption is approximately 80 million tons. The United States represents a significant part of the world sugar picture. The United States is the world's largest consumer (12 million tons) as well as the largest importer of sugar (6 million tons). Given that about $\frac{1}{3}$ of world sugar production is internationally traded, U.S. imports represent 20 to 25% of total international sugar trade.

The great majority of countries intervene in their domestic sugar markets and arrange the terms of their internal sugar commerce. Prior to 1974 the bulk of the international sugar trade was made under the terms of special bilateral arrangements not unlike those characterizing the U.S. Sugar Act. The volume of world free market production, i.e. not traded under special agreements, is only about 12% of world production. In the past, the world free market was characterized by a substantial volume of transactions in "surplus" sugar or distress sales, and the world free market price was usually lower than the U.S. price (the U.S. under the Sugar Act pays its foreign suppliers roughly its domestic price). Likewise, the world price was generally lower than the price under which other "arranged" trade occurred.

Under these world market conditions, the U.S. Sugar Program had a rationale and was able to function. Through import and planting quotas the domestic price was supported. The threat of reducing a nation's import quota for failure to meet it in any one year insured the U.S. supplies at low prices even when world supplies were thin and world prices high.

In the 20 years preceding 1970 the world price of raw sugar ranged between $1\frac{1}{2}$ cents per pound to $11\frac{1}{2}$ cents per pound. In the period from 1966 to 1968 the world price averaged under 2 cents per pound, the low for the twenty year period. Perhaps in 1970, but certainly by 1971 world sugar demand began to grow relative to world production. The level of world price doubled from the $4\frac{1}{2}$ cent level in 1970-1971 to the 9 cent level for the 1972-1973 era.

Late in 1973 the U.S. Department of Agriculture apparently concluded that with world sugar stocks having been run down by a succession of years in which production was exceeded by consumption, the U.S. Sugar Program was obsolete. With a tighter world market higher world prices were assured, and with high world prices, a domestic price support program would be unnecessary. Moreover, to the degree that the world price rise was regarded as more than transitory, the threat of import quota withdrawal could no longer guarantee low or stable sugar prices to the American market.

The current Sugar Act was scheduled to expire December 31, 1974. In late 1973 the Department of Agriculture made known its intention not to support renewal of the Sugar Act. In June of 1974 Congress voted not to renew the act. World price jumped from 9 cents to 21 cents per pound by February of 1974 and to 23 cents by June. Between June and August, the price rose to 31½ cents and peaked at close to 70 cents per pound in mid-November. Currently the price is just under 50 cents.

Mr. VIGORITO. It is my understanding that several if not all the witnesses this morning have chosen to appear in the presence of their own counsel.

This is, of course, proper, but I would like to establish for the record the perimeters of law and House rules that I believe apply.

Under House rule XI, clause 1, paragraph (G) the Committee on Agriculture is granted specific jurisdiction over "agricultural production and marketing and stabilization of prices of agricultural products." This clearly includes sugar.

Under House rule XI, clause 27, the procedures of this committee, like all other committees, are required to conform to the rules of the House. This is a lengthy and thorough rule, and I will not cite it completely, but I would point out that I believe we have followed it diligently.

I do, however, wish to cite several provisions about which counsel for some witnesses have already raised questions with members of the committee staff.

Paragraph (F) (2) which is known as the "Sunshine Rule" states as follows:

(2) Each hearing conducted by each committee or subcommittee thereof shall be open to the public except when the committee or subcommittee, in open session and with a quorum present, determines by roll call vote that all or part of the remainder of that hearing shall be closed to the public because disclosure of testimony, evidence, or other matters to be considered would endanger the national security or would violate any law or rule of the House of Representatives.

Mr. VIGORITO. Paragraphs (i) through (q) read as follows, and this will be inserted as insert No. 8.

[The paragraphs referred to follow:]

(i) The chairman at an investigative hearing shall announce in an opening statement the subject of the investigation.

This paragraph was adopted March 23, 1955, pp. 3569, 3585.

(j) A copy of the committee rules, if any, and this clause of this rule shall be made available to the witness.

This paragraph was adopted March 23, 1955, pp. 3569, 3585, and amended by the Legislative Reorganization Act of 1970 (84 Stat. 1140).

(k) Witnesses at investigative hearings may be accompanied by their own counsel for the purpose of advising them concerning their constitutional rights.

This paragraph was adopted March 23, 1955, pp. 3569, 3585.

(l) The chairman may punish breaches of order and decorum, and of professional ethics on the part of counsel, by censure and exclusion from the hearings; and the committee may cite the offender to the House for contempt.

This paragraph was adopted March 23, 1955, pp. 3569, 3585.

(m) If the committee determines that evidence or testimony at an investigative hearing may tend to defame, degrade, or incriminate any person, it shall—

(1) receive such evidence or testimony in executive session;

(2) afford such person an opportunity voluntarily to appear as a witness; and

(3) receive and dispose of requests from such person to subpoena additional witnesses.

This paragraph was adopted March 23, 1955, pp. 3569, 3585.

(n) Except as provided in paragraph (m), the chairman shall receive and the committee shall dispose of requests to subpoena additional witnesses.

This paragraph was adopted March 23, 1955, pp. 3569, 3585.

(o) No evidence or testimony taken in executive session may be released or used in public sessions without the consent of the committee.

This paragraph was adopted March 23, 1955, pp. 3569, 3585.

(p) In the discretion of the committee, witnesses may submit brief and pertinent sworn statements in writing for inclusion in the record. The committee is the sole judge of the pertinency of testimony and evidence adduced at its hearing.

This paragraph was adopted March 23, 1955, pp. 3569, 3585.

(q) Upon payment of the cost thereof, a witness may obtain a transcript copy of his testimony given at a public session or, if given at an executive session, when authorized by the committee.

This paragraph was adopted March 23, 1955, pp. 3569, 3585.

Mr. VIGORITO. In addition, the full committee and this subcommittee as an instrument thereof have the power to issue subpoenas under House Resolution 72, 93d Congress, and I have here the appropriate forms to carry out that power if it be the desire of the subcommittee to do so.

Let us then get on with our search for the truth and our business as legislators and hear from our first witness.

Let the record show a quorum is present.

At this point in the record, I would also like to insert a letter from Mr. Earle T. MacHardy, president of the New York Coffee and Sugar Exchange, with an accompanying statement. Some information that Congressman Paul Findley asked for is in this statement.

[Mr. MacHardy appears in the Thursday, December 12, hearing. The statement referred to by Mr. Vigorito was read into the record at that time.]

Mr. VIGORITO. I also have another letter from the National Sugar Beet Growers Federation signed by Mr. Richard W. Blake, executive vice president. It will be inserted at this point in the record.

[The letter referred to follows:]

NATIONAL SUGARBEET GROWERS FEDERATION,
Washington, D.C., December 13, 1974.

Chairman JOSEPH P. VIGORITO,
Subcommittee on Domestic Marketing and Consumer Relations, House Agriculture Committee, Longworth Building, Washington, D.C.

DEAR MR. CHAIRMAN: I want to express my appreciation to you and to the members of your subcommittee for the kind reception and attentiveness to me before your committee hearings on sugar prices.

There was one question directed to me. I believe it was Mr. Findley who asked our position with respect to an extension of the Sugar Act. As I recall, I stated we would have to oppose an extension of the Sugar Act at this time. I was under the impression that we were talking about a short extension of 90 days or 6 months. I do not want to leave the impressions that we would oppose a Sugar Act in the future. We believe some form of legislation will be necessary and are hopeful the new Congress will make an in depth study of the problem and arrive at a long term sugar policy which would provide stability

to the producing industry, both domestic and foreign. We would, however, be opposed to any program which continued the excise tax and payment provisions. Again, thank you for your kind consideration.

Respectfully,

RICHARD W. BLAKE,
Executive Vice President.

Mr. VIGORITO. I have a letter from the Imperial Sugar Co. dated December 13, 1974, by H. L. Williams, president, in which he replies to my request for information on how many times the inventory turned over.

[The letter referred to follows:]

IMPERIAL SUGAR Co.,
Sugar Land, Tex., December 13, 1974.

HON. JOSEPH P. VIGORITO,
*Chairman, Subcommittee on Domestic Marketing, House Agriculture Committee,
U.S. House of Representatives, Longworth House Office Building, Wash-
ington, D.C.*

DEAR MR. VIGORITO: In accordance with your request at the hearing conducted on December 11 concerning raw sugar inventory turnover, I submit herewith the turnover of raw sugar inventor for the Imperial Sugar Company.

For the ten month period ending October 31, 1974, our raw sugar turned 6.95 times or 8.34 times on an annualized basis. This computation was based on the average of beginning and ending inventories divided into the cost of sales for the period.

Yours very truly,

H. L. WILLIAMS, *President.*

Mr. VIGORITO. Our first witness, I would like to go back and call someone from the consumer group. My idea is not to omit consumers by any means. I want to go through this in a logical sequence, and the consumers in logical sequence I believe would be last. I do not know why they got so excited that I did not have them listed in the first part of these hearings. So, Miss Barbara Bikofsky from the National Consumers Congress.

Would you please summarize your statement and then take it from there, Ms. Bikofsky.

**STATEMENT OF BARBARA BIKOFSKY, RESEARCH COORDINATOR,
NATIONAL CONSUMERS CONGRESS**

Ms. BIKOFSKY. Yes, I would like to explain that we were not aware of your intent, Mr. Chairman, as to when consumers would testify. We were just informed that consumers would not be testifying at all.

Mr. VIGORITO. Just excuse me. I made an oversight here.

Ms. BIKOFSKY. OK. Thank you.

Mr. VIGORITO. I omitted to swear you in. What is your full name?

Ms. BIKOFSKY. Barbara Bikofsky.

Mr. VIGORITO. And you are representing?

Ms. BIKOFSKY. The National Consumers Congress.

Mr. VIGORITO. And would you stand and raise your right hand? Do you solemnly swear that the testimony that you are about to give to this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Ms. BIKOFFSKY. I do.

Mr. VIGORITO. Thank you. Be seated. And let the record show the witness is sworn in.

Will you proceed.

Ms. BIKOFFSKY. My name is Barbara Bikofsky, research coordinator of the National Consumers Congress. NCC is a grassroots, mass membership consumer organization which grew out of the meat boycotts of 1973. Since its inception, NCC members all over the country have worked continuously to bring economic equity into the Nation's agricultural production, processing and food distribution systems. It is in accordance with that effort that I come here today to explain our analysis of the sugar industry, and its spiraling prices.

The basic problem confronting the sugar consuming public by now is well known. The retail price of a 5 pound bag of sugar 1 year ago was 79 cents. Today it is close to \$3.79. The monthly average price for domestic raw sugar (New York duty paid) in 1973, was \$10.29 cents a pound. At present, it is approximately 63 cents a pound.

While dramatic price increases may force a beneficial reduction in the consumption of sugar, they are unquestionably not beneficial to the wallets of American consumers. The question this committee must address is whether or not these increases are justified by natural economic forces. Available evidence suggests that they are not.

In the past year, world sugar production increased 3 percent over 1973; during that same period, world consumption increased 10 percent. The USDA contends that this shortage-induced price rise will not be remedied until mid-1975 when we see the results of a new harvest. They further contend that the frenzied buying of the Soviet Union, the Arab countries and the large U.S. industrial users have forced the world price of raw sugar to skyrocket. A vital aspect of the problem which they fail to address is the possibility that sugar companies have used this supply shortage to maintain artificially higher prices. For an investigation of the current price of sugar, two steps are essential: (1) A careful examination into the extent of vertical integration, the high level of market concentration, the pricing policies, and the high profits being reaped by the sugar companies; (2) an examination into the possibility that manufacturers of food products containing sugar have passed through price increases incommensurate with their increased costs. Our findings and questions about these areas account for the bulk of this testimony.

By examining available data, we found that domestically produced and imported sugar each account for approximately half of U.S. sugar consumption. Beet sugar supplies about 60 percent of the domestic production with the remainder filled by cane sugar. The vertically integrated posture of our domestic industry, in conjunction with the quota provisions of the Sugar Act have served historically to guarantee sugar refiners a stable supply at a favorable price. According to a USDA report,¹ over half the sugar cane grown in Louisiana and three-fourths of the sugar cane grown in Florida is "administrative cane." That is, cane grown directly by large processors. All of the sugar cane grown in Hawaii is delivered to a cooperative whose members are the sugar cane processing companies of Hawaii. The Co-op in turn oper-

¹ Agricultural Economic Report No. 213, U.S. Department of Agriculture, "The Structure of the U.S. Sweetener Industry," by Roy A. Ballinger, agricultural economist.

ates a large refinery in San Francisco, which is the only refinery on the Pacific coast. This completes the integration of the Hawaiian sugar industry and also points to an amazing degree of concentration in the production of refined sugar cane.²

This pattern of high concentration is repeated throughout the country. In 1969, the two largest refiners manufactured nearly one-half of the refined cane sugar produced in the United States. None of the other refiners supplied more than 6 or 7 percent. Thus, the ability of the refinery to command favorable prices is insured by the degree of concentration in the production cycle.

In evaluating the extent of concentration within the beet sugar industry, one discovers initially that sugar beets must be grown in rotation with other crops. Therefore, the domestic beet sugar industry does not exhibit the same degree of integration as the cane sugar industry. However, beets are grown under the terms of annual contracts between grower and processor and few beet growers have more than one outlet for any of the sugar beets they produce.

The lack of competition becomes even more obvious when we consider that the four largest companies accounted for 65 percent, and the six largest for over 96 percent of the total beet sugar manufactured in the United States in 1969. Furthermore, production concentration in the hands of one or two companies is considerably greater in certain producing areas than for the United States as a whole. For instance, sugar production in the northeastern United States, nearly all of it by cane sugar refiners, accounted for approximately one-third of total output in 1968. More than one-half of this sugar cane from five northeast plants owned by Amstar. Amstar is the Nation's largest refiner and their regional output is four times greater than that supplied by any other company in the area.

The inevitable conclusion one must draw is that U.S. sugar companies have enough market power to exert considerable leverage on the prices paid for their goods. The question then becomes, have they exerted that power, and, if so, to what extent? Before answering those questions directly, it is important to make several observations.

(1) The price of sugar has been amazingly stable in the past, particularly in comparison with other agricultural commodities. In October 1972, before sugar prices broke, the University of California Extension Bulletin stated:³

U.S. sugar prices have been unusually stable. This stability has resulted from the manner in which the sugar quota law has been administered. Prices have been maintained at a relatively high stable level by increasing and decreasing annual sugar marketing quotas needed to prevent all but minor price fluctuations. These characteristics have undoubtedly been of great economic benefit to producers of beet and cane sugar in domestic areas. Generally higher prices in the United States have been reflected in higher prices paid for sugar by consumers.

(2) The Sugar Act, up until December 1973, served to maintain high U.S. prices relative to the world price of raw sugar. (The specific data on these prices is found in appendix 2 of our statement, reproduced from the USDA's Sugar Report of January 1974.)

² Appendix I gives a more detailed account of vertical integration in major cane sugar areas of the United States.

³ "Economic Behavior in the United States Sugar Market," University of California, Bulletin 859, Division of Agricultural Sciences, October 1972.

In an attempt to lower the price of domestic sugar by increasing supplies, the U.S. sugar quota was raised by 700,000 tons to a total of 12.5 million tons for the 1974 calendar year. This decision, however, had an effect opposite to its intention. The result was that the United States moved into the world market, an action that may have had a bullish psychological effect conducive to speculation and price increases. (The sugar prices quoted in appendix III attest to this fact.)

With this background, we are now in a position to return to our original question—the extent to which the sugar industry manipulated the already high raw sugar price to their own advantage. The available evidence of price manipulation is provided in appendix IV. The quoted wholesale price for a 100-pound bag of refined sugar (as mentioned in the Sugar Reports on September 20, 1974), is identical in five regions and a penny off in another. The same is true of the quoted price for October 1974. The wholesale prices became identical only after the Sugar Act was repealed. Whether that is purely coincidence or cause and effect, we leave up to the Council to determine. The ability of large sugar companies to manipulate prices at will, irrespective of supply and demand, is highlighted in an article in the Wall Street Journal of November 11, 1974 (appendix V).

The amazing aspect of all these statistics is in regard to the price of refined beet sugar, which accounts for approximately 30 percent of the sugar consumed in the United States. If the Washington Post of November 11, 1974, can be believed, the United States imports no beet sugar and the processing of sugar beets require only one step as opposed to two for cane sugar. These facts logically indicate that beet sugar should cost less than cane sugar. Historically, this has been the case. However, the price of beet sugar during 1974 has exactly paralleled the dramatic jump in cane sugar. It comes as no surprise that Robert T. Quittmeyer (president of Amstar, the Nation's largest refiner), when questioned about his company's 250 percent rise in net income and 59 percent advance in sales, answered in the New York Times of November 1, 1974:

“. . . More than 50 percent of it (profits) came from higher prices of beet sugar, which competes with cane sugar for the same market.”

What Mr. Quittmeyer neglected to mention is that the Spreckels division of Amstar controls about one-sixth of the beet sugar market, and thus effectively negates competition. Again, it comes as no surprise that the same New York Times article states that Amstar and Holly Co. believe that they and other processors will be indicted by a San Francisco grand jury for beet sugar price fixing. High prices incommensurate with increased costs lead us to suspect that abnormally high profits are being made.

The question we must answer for consumers is, where does their sugar dollar go? Business Week of November 9, 1974, gives a pretty good hint when it quotes Patrick McDonald, an analyst at Besworth Sullivan & Co. in Denver:

“Each 1 cent per pound increase in the price of sugar adds more than \$2.6 million to Great Western United Corp., the Nation's largest beet sugar refiner, income.”

The average return on common equity for five of the largest sugar refiners in the 12-month period ending September 30, 1974, was 26.1

percent. The average for U.S. industries as a whole was only 14-15 percent.

The sugar substitute industry seems to be taking advantage of this scarcity of sugar. Because the demand for these substitutes has increased, so has the price. From September 1973 through June 1974, the price of substitutes had remained constant. In July 1974, when sugar prices began to jump, dextrose increased 44 percent and corn syrup 24 percent. The question here is whether or not these prices are justified or whether the consumer is paying exorbitantly higher prices to further increase the industry's profits.

Analyzing the structure, the degree of concentration, pricing policies, and the profits of the industry produces two major implications. First, current prices being paid by consumers are substantially higher than economic factors dictate they should be. Second, the price being paid by consumers will continue to be excessively high. Although it has been estimated that sugar prices should decline to approximately 20 cents per pound (which is still a 20- to 30-percent increase above last year), we felt that the industry's power will maintain them at a substantially higher level.

To remedy this situation, three things are essential:

(1) Production must increase, which at times is dubious since it falls prey to the whims of weather and dictate of the industry.

(2) Demand must decrease, which is presently occurring because of the ridiculous prices. However, this is the least desirable solution to an industry-manipulated problem.

(3) The pricing power of the U.S. sugar industry must be dismantled.

A balanced look at the sugar problem must include an analysis of the frenzied international buying patterns as well as the structure of the domestic industry. We have chosen to emphasize the latter, not because the international situation is not important, but because discussions in the public forum have rarely mentioned industry structure as a major contributive factor.

We have presented the problems and some potential solutions to the present sugar pricing situation. It is up to the Congress to initiate further steps to help control the future prices of sugar.

APPENDIX I

EXTENT OF VERTICAL INTEGRATION

Examples of the extent of industrial concentration are presented in: "The Structure of the U.S. Sweetener Industry," U.S.D.A. Report 213.

State-wide, the control of sugar is extremely concentrated. In Louisiana, the companies with the five largest allotments supply 31% of the State's output. In addition to the considerable integration of cane growing and processing, there are three cases of an integrated raw sugar-refined sugar operation. The two companies with the largest cane processing capacity are controlled by larger corporations not otherwise engaged in the sugar business.

As of 1967, only eight companies were growing and processing sugarcane in Florida. One of these companies owned two mills and accounted for more than one-third of the State's output that year. It appears that a larger proportion of the cane grown in Florida is controlled by companies operating cane processing plants than is the case in Louisiana.

The cane sugar not directly grown by processors might as well be. Smaller growers do not have much freedom in selecting the mill to which they sell their

product. Frequently, only one or two mills may be situated close enough to their farms to permit economical delivery. In any event prices offered are likely to be identical.

In 1969, the three largest refining plants in New Orleans received about three-fourths of the off-shore sugar unloaded at that port. Another 11 percent went to plants in St. Louis and Chicago, leaving only the remaining 14 percent for the three smaller refiners.

In this same year, sugar beets were processed in 59 plants in 19 states. These mills were owned and operated by twelve companies of which five had one mill each. The largest sugar beet processor had 17 mills.

All the mills in Washington, Oregon, Idaho, and Utah are owned by two companies. California has four mills. Arizona only has one mill; the company owning this mill produced 53% of the beet sugar manufactured in Arizona and California in 1969.

One large processing company that produces about 13 percent of the beet sugar manufactured in the United States is a subsidiary of the largest refiner of cane sugar.

In analyzing regional production: one-fourth of U.S. sugar was produced in the following western states: Arizona, California, Oregon, Washington, and Idaho. Almost two-thirds of this was beet sugar produced by five companies. The remaining third was cane sugar from Hawaii which was refined in California.

East of this area: Minnesota, Colorado, Montana, Wyoming, Nebraska, Kansas, Texas, and North Dakota, sugar processors produced about 13% of the U.S. supply in 1969. About one-half of this was manufactured by one processor.

One-fourth of the U.S. sugar supply came from the Southern States. The two largest producers provided about 40 percent of the areas total output.

For information on the Northeastern region refer to the main body of the testimony.

APPENDIX II

TABLE 14.—SUGAR PRICES

[Cents per pound]

Year and month	Raw cane sugar spot price			Refined beet sugar—quoted (wholesale gross) ⁴		
	Domestic ¹ sugar at New York (duty paid)	World sugar ²	Quota premium and discount ³	Eastern	Chicago— West	Pacific Coast
1968 to 1972 monthly average.....	8.19	4.21	+2.91	10.93	10.93	10.80
1971 monthly average.....	8.52	4.52	+2.87	11.59	11.59	11.87
1972 monthly average.....	9.09	7.43	+ .56	11.81	11.82	11.65
1973:						
January.....	9.38	9.40	-1.28	11.55	11.65	11.45
February.....	9.14	9.06	-1.20	11.55	11.65	11.45
March.....	9.45	8.89	- .75	11.55	11.55	11.69
April.....	9.65	9.06	- .72	11.75	11.75	11.85
May.....	10.06	9.67	- .93	11.87	11.87	11.94
June.....	10.25	9.77	- .88	11.95	11.95	12.10
July.....	10.25	9.81	- .96	11.95	11.95	12.10
August.....	10.75	9.09	+ .25	11.95	11.95	12.10
September.....	10.97	9.01	+ .53	12.99	12.99	13.01
October.....	11.15	9.56	+ .12	13.95	13.95	13.60
November.....	11.10	10.14	- .54	13.60	13.69	13.60
December.....	11.34	11.83	-2.01	13.64	13.64	13.64
Last 12-month average.....	10.29	9.61	- .70	12.36	12.38	12.38

¹ Spot prices are for bulk sugar under contract No. 10, duty paid or duty free, full duty rate 0.625 cent per pound.

² Spot prices are for bulk sugar under contract No. 11, which, beginning on Jan. 1, 1971, replaces contract No. 8. The terms of these contracts are f.o.b. and stowed at greater Caribbean ports including Brazil.

³ The No. 10 domestic bulk contract has been adjusted by deducting duty (0.525 cent) computed freight from the greater Caribbean ports (including Brazil), insurance and unloading charges before calculating the differential from the world contract spot prices.

⁴ These are basis prices in 100-lb paper bags, not delivered prices. To obtain delivered prices, add freight prepayments and deduct discounts and allowances. For illustration see sugar reports No. 230, July 1971, pp. 6 to 23.

⁵ Revised.

APPENDIX II—Continued
TABLE 14.—SUGAR PRICES
[Cents per pound]

Year and month	Refined cane sugar—quoted wholesale (gross) ¹						Retail United States
	[Northeast	Southeast	Gulf	Chicago—West	Pacific Coast	United States	
1968 to 1972 monthly average.....	11.96	11.53	11.14	10.93	10.86	13.01	
1971 monthly average.....	12.48	12.07	11.57	11.59	11.37	13.61	
1972 monthly average.....	13.09	12.74	12.14	11.82	11.65	13.91	
1973:							
January.....	13.15	12.75	12.20	11.65	11.45	14.12	
February.....	13.18	12.75	12.03	11.65	11.45	14.24	
March.....	12.94	12.55	12.00	11.55	11.69	14.34	
April.....	13.30	12.95	12.40	11.75	11.85	14.42	
May.....	13.55	13.20	12.65	11.87	11.94	14.58	
June.....	13.96	13.61	13.06	11.95	12.10	14.84	
July.....	14.05	² 13.68	13.12	11.95	12.10	14.92	
August.....	14.50	14.15	13.48	12.36	12.10	15.06	
September.....	14.80	14.50	13.75	13.48	13.01	15.36	
October.....	² 14.95	14.85	14.10	13.95	13.60	15.98	
November.....	15.13	15.03	14.28	13.84	13.60	16.50	
December.....	15.33	15.30	14.55	13.80	13.64	16.78	
Last 12-month average.....	14.07	13.78	13.14	12.48	12.38	15.10	

¹ These are basis prices in 100-lb paper bags, not delivered prices. To obtain delivered prices, add freight prepaes and deduct discounts and allowances. For illustration see sugar report No. 230, July 1971, pp. 6 to 23.

² Revised.

APPENDIX III

TABLE 14.—SUGAR PRICES
[Cents per pound]

Year and month	Raw cane sugar spot price			Refined beet sugar—quoted (wholesale gross) ⁴		
	Domestic ¹ sugar at New York (duty paid)	World sugar ²	Quota premium and discount ³	Eastern	Chicago—West	Pacific Coast
1969 to 1973 monthly average.....	8.74	5.74	+1.86	11.41	11.42	11.27
1972 monthly average.....	9.09	7.43	+ .55	11.81	11.82	11.65
1973 monthly average.....	10.29	9.61	- .70	12.36	12.38	12.38
1973:						
October.....	11.15	9.56	+ .12	13.95	13.95	13.60
November.....	11.10	10.14	- .54	13.60	13.69	13.60
December.....	11.34	11.83	-2.01	13.64	13.64	13.64
1974:						
January.....	12.63	15.32	-4.24	14.51	14.64	14.79
February.....	17.09	21.28	-5.74	17.85	17.80	19.02
March.....	18.11	21.27	-4.75	20.30	20.18	22.23
April.....	19.25	21.77	-4.15	22.96	21.99	23.35
May.....	23.05	23.65	-2.35	25.65	26.65	26.78
June.....	26.30	23.67	+ .90	30.76	30.40	29.88
July.....	28.35	25.40	+1.29	32.20	32.15	30.10
August.....	32.60	31.45	- .48	35.02	33.93	33.15
September.....	33.71	34.35	-2.24	36.42	36.19	35.00
Last 12-month average.....	20.39	20.81	-2.02	23.07	22.93	22.93

¹ Spot prices are for bulk sugar under contract No. 10, duty paid or duty free, full duty rate 0.625 cent per pound.

² Spot prices are for bulk sugar under contract No. 11, which beginning on Jan. 1, 1971 replaced contract No. 8. The terms of these contracts are f.o.b. and stowed at greater Caribbean ports including Brazil.

³ The No. 10 domestic bulk contract has been adjusted by deducting duty (0.625 cent) computed freight from the greater Caribbean ports (including Brazil), insurance and unloading charges before calculating the differential from the world contract spot prices.

⁴ These are basis prices in 100-lb. paper bags, not delivered prices. To obtain delivered prices, add freight prepaes and deduct discounts and allowances. For illustration see sugar report No. 230, July 1971, pp. 6 to 23.

APPENDIX III—Continued
 TABLE 14.—SUGAR PRICES—Continued
 [Cents per pound]

Year and month	Refined cane sugar—quoted wholesale (gross) ¹					Retail, United States.
	Northeast	Southeast	Gulf	Chicago— West	Pacific coast	
1969 to 1973 monthly average.....	12.61	12.17	11.68	11.44	11.27	13.60
1972 monthly average.....	13.09	12.74	12.14	11.82	11.65	13.91
1973 monthly average.....	14.07	13.78	13.14	12.48	12.38	15.10
1973:						
October.....	14.95	14.85	14.10	13.95	13.60	15.98
November.....	15.13	15.03	14.28	13.84	13.60	16.50
December.....	15.33	15.30	14.55	13.80	13.64	16.78
1974:						
January.....	15.65	15.55	14.80	14.87	14.81	16.96
February.....	18.49	18.49	18.09	18.09	19.06	17.76
March.....	20.90	20.90	20.50	22.12	22.51	20.80
April.....	23.78	23.78	23.38	23.73	23.80	22.96
May.....	27.61	27.27	27.12	27.07	27.56	24.84
June.....	31.04	31.16	31.16	31.16	30.01	28.32
July.....	32.50	32.40	32.40	32.25	30.65	32.14
August.....	36.83	36.83	36.83	36.30	33.15	34.88
September.....	40.74	40.74	40.74	40.74	35.00	37.16
Last 12-month average.....	24.41	24.36	24.00	23.99	23.12	20.66

¹ These are basis prices in 100-lb paper bags, not delivered prices. To obtain delivered prices, add freight prepay and deduct discounts and allowances. For illustration see sugar report No. 230, July 1971, pp. 6 to 23.

APPENDIX IV

WHOLESALE SPOT PRICE QUOTATIONS

Price quotations on September 20, 1974, for refined sugar sold at wholesale in 100 pound bags:

Region:	Hundredweight bags
Northeast	\$40.85
Midcentral	40.84
Western Ohio-Lower Michigan.....	40.85
Southeast	40.85
Gulf	40.85
Chicago-West	34.95/40.85
Intermountain northwest.....	33.75
Pacific coast.....	35.00

Price quotations on October 15, 1974, for refined sugar sold at wholesale in 100 pound bags:

PRICE QUOTATION IN CENTS PER POUND

Region	Hundred- weight bags	Bulk dry
Northeast.....	42.20	41.80
Midcentral.....	42.20	41.80
Western Ohio-lower Michigan.....	42.20	41.80
Southeast.....	42.20	41.80
Gulf.....	42.20	41.80
Chicago-west.....	38.50/42.20	38.20/41.80
Intermountain Northwest.....	41.00	40.75
Pacific coast.....	41.00	40.65

APPENDIX V

[From the Wall Street Journal, Nov. 11, 1974]

SUGAR PRICES RAISED AGAIN AT WHOLESALE BY SUCREST, AMSTAR

(By a Wall Street Journal Staff Reporter)

New York—Two Northeastern sugar refiners announced wholesale price increases on their industrial sugars.

Early Friday, SuCrest Corp. said it was raising the wholesale price of its industrial sugars in all territories by \$11 per 100 pounds. Later that afternoon, however, SuCrest backed off on the amount of its boost when a competitor, Amstar Corp., announced a \$3.35-per-100 pound increase on its industrial sugars.

Effective by the close of business Friday then, both Amstar and SuCrest had raised the price of their 100-pound bundle of extra-fine granulated sugar to \$56.60 from \$53.25, and the price of their 100-pound bundle of bulk granulated and No. 2 liquid sugar to \$56.20 from \$52.85.

In addition, Amstar said it was increasing the wholesale price of its grocery sugars, effective at the close of business Friday. Amstar's new price raises a bundle of 12 five-pound bags to \$36.90 and the price on its six 10-pound bundles to \$36.84 from \$34.44.

An Amstar spokesman said the boosts reflect part of the increased price of raw sugar. "We're going as slowly on the increases as we can," the spokesman said. "But we're carefully watching the raw market and still studying the matter."

Other sugar refiners, CPC International Inc.'s industrial division and National Sugar Refining Co., said they were studying the situation. National said its refinery workers were still on strike, so that it wasn't in a position to respond immediately.

Amstar's and SuCrest's latest price move follows a \$3.35-per-100-pound price increase on industrial sugars announced Oct. 29 and Oct. 30. Amstar's price boost on its grocery products is the second such move within a week; on Nov. 4, it raised prices \$3.96 a bundle.

APPENDIX VI
U.S. SUGAR COMPANIES: SALES, PROFITS AND EARNINGS

Company	Sales				Profits				Return common equity 12 months ending Sept. 30	12 months earnings per share
	3d quarter 1974		9 months 1974		3d quarter 1973		9 months 1973			
	(million dollars)	(percent change from 1973)								
Anistar.....	544.4	146	1,171.9	110	16.7	228	37.8	186	25.1	10.81
Brewer (C).....	91.0	85	207.7	56	11.7	571	18.9	205	20.4	4.77
*CPC International.....	665.4	36	1,842.0	39	20.3	17	59.3	18	15.6	3.58
Great Western United.....	122.9	74	252.8	31	14.3	NM	19.7	NM	35.4	8.22
Southern Industries.....	100.0	94	233.6	76	3.1	232	7.1	205	30.0	5.56
Average for sugar industry.....	.....	87	62.4	62.4	.....	262	.....	153.5	26.1	6.58
Average for all U.S. industry.....	.....	29	26	26	.....	24	.....	21	14.7	3.55

NOTE: CPC is not strictly a sugar company; they are engaged in several areas of food processing.

Source: Business Week, Nov. 9, 1974.

OTHER SUGAR COMPANIES—SALES AND PROFITS

[Data based on different time period than preceding table]

Company	Sales				Profits (after tax)			
	2d quarter 1974		6 months 1974		2d quarter 1973		6 months 1973	
	(million dollars)	(percent change over 2d quarter 1973)	(million dollars)	(percent change over 6 months 1973)	(million dollars)	(percent change over 2d quarter 1973)	(million dollars)	(percent change over 6 months 1973)
Savannah Foods.....	100.5	95	168.6	73	0.7	17	1.5	18
Amalgamated Sugar.....	()	()	121.3	36	()	()	11.1	138
U.S. Sugar #.....	()	()	96.2	86	()	()	25.4	155
Sucrest #.....	()	()	143.7	24	()	()	1.6	322

Not available.

* Figures represent 9-month period ending July 31, 1974.

Figures represent 9-month period ending Mar. 31, 1974.

Source: Business Week magazine and Wall Street Journal Digest of Earnings Reports.

APPENDIX VII

CONCENTRATION RATIOS: ANNUAL SURVEY OF MANUFACTURERS—1970

[From U.S. Department of Commerce; Bureau of Census]

	Number of companies	Market percentage of—	
		4 companies	8 companies
Processors (cane):			
1970.....	(1)	45	63
1967.....	61	43	65
1963.....	50	47	65
Refiners (cane):			
1970.....	(1)	59	86
1967.....	22	59	82
1963.....	16	63	83
Beet processors:			
1970.....	(1)	65	(2)
1967.....	15	66	96
1963.....	11	66	97
1958.....	15	64	94
1954.....	15	66	96
1947.....	17	68	94
1935.....	(1)	68	89

1 Not applicable.

2 Deleted.

Ms. BIKOFSKY. Let me encourage that you examine the attached appendices carefully for more detailed analysis and documentation of the industry concentration. And I thank you for your time.

Mr. VIGORITO. Thank you very much for a well-presented statement. You merely have repeated what I have been saying ever since I flunked a quiz 25 years ago in economics, that we have administered prices in most of our major industries. The professor claimed we did not. He claimed, he still thought that everything was based on competition, and to this day I say we have administered prices in most major industries, and also in most industries several companies control 80 to 90 percent or better of the total output. There is no question about that.

I do not remember, did the National Consumers Congress and its affiliates testify when we had hearings on the extension of the Sugar Act?

Ms. BIKOFSKY. Yes; we did.

Mr. VIGORITO. Were you in favor of it?

Ms. BIKOFSKY. No; we were not.

Mr. VIGORITO. You were not?

Ms. BIKOFSKY. No. We feel that the American consumers have been paying a substantially higher price for their sugar due to the Sugar Act. The premiums that consumers have been forced to pay have amounted to between \$500 and \$700 million during several years for the past decade. And spokesmen have said that the Sugar Act has saved the consumers \$400 million during the first few months of this year because of its enactment, while in effect in past years they have paid a lot more for this act than they would have lost had it not been in effect.

Mr. VIGORITO. If we were having hearings today on the extension of the Sugar Act, would your testimony and the position be exactly the same?

Ms. BIKOFSKY. As being opposed to the Sugar Act?

Mr. VIGORITO. Yes.

Ms. BIKOSFSKY. Yes; it would be. We feel that the problem is not one that is the result of the Sugar Act not being in effect as of December 31. The problem is one of a worldwide situation where not only the Sugar Act is going out of effect December 31, but the International Sugar Agreement is going out, and the British Commonwealth Agreement is going out, and the Russians have come into the market in 1971, and that is when market consumption first started exceeding production. The Arab countries have exerted considerable buying power. There are many numerous effects that have increased the price of sugar. Poland and the Philippines embargo on sugar imports. I just do not think that the Sugar Act can be the sole cause of all of this.

Mr. VIGORITO. I did not say it was the sole cause. I did not even say that it was the cause.

Ms. BIKOSFSKY. I am just, you know, presenting the National Consumer Congress' stand, as you did ask for it, and we take the position that allowing natural economic forces to take their path, that this is just something that has to do with the whole international situation as far as the high prices on the international world market is concerned; and that is why in our testimony we dealt with the domestic situation, because we feel that especially in the area of beet sugar, where it is not on the international market, that the prices are unduly high.

Mr. VIGORITO. Well, you know that only about 55 percent of our sugar consumption is produced by domestic beet and domestic cane?

Ms. BIKOSFSKY. I know that.

Mr. VIGORITO. How are you going to isolate it or separate it from the world sugar problem?

Ms. BIKOSFSKY. Well, questions of that nature have been used in the oil industry now with prices on domestic oil, and oil bought in international markets. It is something where something can be done. It is something that should be done because the price, the profits being made by selling beet sugar at the same level as cane sugar is unreal and it is unfair to the American consumer.

Mr. VIGORITO. Again, at the end of the pipeline production the sugar is the same whether it comes from beets or from cane.

Ms. BIKOSFSKY. I realize this.

Mr. VIGORITO. Are you inferring that we should have a separate price control on sugar, and we should have two different prices, one price control on beets and one price control on cane because of the difference in the cost of production, if there is a difference?

Ms. BIKOSFSKY. I am saying that this is an idea. I am saying this is one area to look at with the price of sugar being so high, and erratic, and because it is due to the international forces, that perhaps we should look at what we can do on the domestic level to decrease these prices.

Mr. VIGORITO. If the sugar crop for 1975, next year, is a bad crop, where should we go from there? What do you think would happen to the price? Would it decrease, stay where it is, or increase?

Ms. BIKOSFSKY. Well, the price would most likely increase. I think that the substitute industry should be explored. American consumers are learning, and they are buying less sugar, and that perhaps will have some effect on the 1975 prices, as it is beginning to effect the market now.

Mr. VIGORITO. That raises another point. You mention that we put price control only on the sugar industry, and then you would have

to put price control on the sweetened substitute industry, would you not? The price there would then come up to the legal price of sugar, would it not?

Ms. BIKOFSKY. I am not sure of that. I know that—

Mr. VIGORITO. It has to because the domestic production is only 55 percent of our total consumption.

Ms. BIKOFSKY. Yes.

Mr. VIGORITO. So I cannot picture that a substitute sweetener in this case would be selling at a lower price if the price for domestic cane and beet is high. This other substitute sweetener is going to move pretty close to that unless we also have a price control on the substitute sweetener at a lower level, assuming that the cost would permit that.

Ms. BIKOFSKY. That depends on the market policies of the industry.

Mr. VIGORITO. Well, the market policy—

Ms. BIKOFSKY. I know certain manufacturers have said that they would not be raising the prices of sugar substitutes as of now with the increased demand. They are keeping a steady price. What happens in the future I cannot predict. But I am saying that is one area to be explored when the price of sugar or if the price of sugar goes further up.

Mr. VIGORITO. Do you think that we should—the full Committee on Agriculture this next year—should have as its priority, and as its first order of business, to go over this whole sugar question and see if we can come up with some legislation? Bear in mind that our jurisdiction is related to production and quotas and so forth. We could not enforce any tax or price controls—that would be in the jurisdiction of other committees. What should we do at the beginning of the 94th Congress?

Ms. BIKOFSKY. Perhaps if it is not under this committee's jurisdiction, perhaps it should be reviewed by another committee that can have that effect of taxing, or price controls or something that is needed, if, as we feel, the quota system would not be to the advantage of the American consumer.

Mr. VIGORITO. Well, that is all I have.

Mr. SISK, do you have any questions?

Mr. SISK. No questions.

Mr. VIGORITO. Mr. Findley?

Mr. FINDLEY. Ms. Bikofsky, I would like to thank you for appearing, and I hope that your organization will continue its interest in the work of this committee. In my years here consumer interests have not been directly represented as often as they should be. The material you put in your statement deals with some very important aspects of the sugar policy, and frankly, I am going to take the time to examine it very carefully. I had already observed the heavy concentration of power in cane sugar refining, and it seems to me on page three you draw attention to the concentration of power in the refining of beet sugar. You state there is a lack of competition which becomes even more obvious when we consider that the four largest companies accounted for 66 percent, and the six largest for 88 percent of the total beet sugar manufactured in the U.S. in 1969. I presume you are referring to the refining of beet sugar, not the production of beets.

Ms. BIKOFSKY. Uh huh.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Denholm.

Mr. DENHOLM. Thank you, Mr. Chairman.

Ms. BIKOFSKY, you have made an excellent statement but I remain in doubt as to why you opposed the extension of the Sugar Act in the summer of 1974. Can you explain the reason that your organization opposed the extension of the Sugar Act?

Ms. BIKOFSKY. Well, the Sugar Act was, in effect, inactive in times of surplus, in that it protected the domestic industry by guaranteeing them a certain price in order to sell their goods. Now that market condition is not in effect, and the domestic industries do not need that protection.

With the profits increasing about 300 percent, industries are still going to be getting a \$85 million subsidy from the Sugar Act when they are getting an enormous—the businesses are doing very well as everyone knows. And it just seems that in times where the markets are guaranteed, guaranteeing consumers a certain amount of sugar is not the issue right now, because they will get that amount. The issue now is whether or not consumers are going to pay a higher price for the same sugar that would have normally been lower priced with competitive forces, which the Sugar Act does not encourage.

Mr. DENHOLM. The Sugar Act was self-sustaining from revenues generated from tariffs. Have you considered that in respect to your opposition to the act?

Ms. BIKOFSKY. I am not substantially—I did not testify regarding the Sugar Act, but I have studied it because I knew I had been researching sugar for the past few months. I do know that we have been paying a higher price than we would have had the Sugar Act not been in effect. And studies have shown, as I mentioned earlier, that it would be between \$500 and \$700 million per year on several different years. Not consistently, but for several years during the past decade.

Mr. DENHOLM. Excuse me. Did you say the consumers have been paying higher prices because of the Sugar Act?

Ms. BIKOFSKY. Yes.

Mr. DENHOLM. During the past decade?

Ms. BIKOFSKY. Uh huh.

Mr. DENHOLM. How do you rationalize that statement?

Ms. BIKOFSKY. How do I document it?

Mr. DENHOLM. Do you have it documented?

Ms. BIKOFSKY. I have the testimony and the research that was done earlier, and I took the statement from that. If you would like I can get you a copy of it.

Mr. DENHOLM. You said we have been paying higher prices and I ask you compared to what?

Ms. BIKOFSKY. Compared to world market prices, compared to—

Mr. VIGORITO. Would the gentleman yield at this point?

Mr. DENHOLM. Yes; I will yield.

Mr. VIGORITO. On world prices, you know, of course, that probably 90 percent of world sugar that moves across international boundaries has been moving under some kind of an agreement or quota system?

Ms. BIKOFSKY. I realize this.

Mr. VIGORITO. So the world sugar, then, is what is left over, what no one else wants, is that correct?

Ms. BIKOFSKY. Uh huh.

Mr. VIGORITO. And when that drops to 2 cents a pound, that does not mean that if we did not have the Sugar Act that the Americans would start paying 2 cents a pound for sugar, does it?

Ms. BIKOFSKY. No. But that is not what I mean, and that is not—as I said, I would like to submit that testimony as I am not as familiar with this as I could be and as other people are.

Mr. VIGORITO. Well, I wish to point out for the record that this 2 cents a pound for world sugar is sugar in periods in high inventory and high carryover that no one wants that sugar. That is why it drops. In fact, there have been times when it dropped even below 2 cents a pound. But now when there is a shortage of sugar, and it has been building up for the last 4 years, then it is a pretty different ballgame. So, you cannot speculate that if we did not have the Sugar Act that we would be paying world prices for sugar during the period of the Sugar Act. The purpose of the Sugar Act was to have ample supply at more or less stable prices, and I think the record shows that in the last 40 years we have had that, even though as you suggested, the American consumer has been paying through the nose because you are comparing it with the 2-cent sugar, which is not a fair base of comparison.

Ms. BIKOFSKY. Well, let me—I would like to be able to submit an answer for the record, because I came prepared to discuss the domestic industry pricing situation and the concentration of the industry, and that is what my statement dealt with.

Mr. VIGORITO. And it is an excellent statement and I agree with it.

Ms. BIKOFSKY. And I would like to be able to prepare the information that I know I have available to me from past testimony and submit it.

Mr. VIGORITO. I will be happy to receive that statement, and it will appear in the record following your presentation today.

Ms. BIKOFSKY. Thank you.

NATIONAL CONSUMER CONGRESS,
December 18, 1974.

HON. JOSEPH P. VIGORITO,

*Chairman of the Subcommittee on Domestic Marketing and Consumer Affairs,
Longworth Office Building, Washington, D.C.*

DEAR CONGRESSMAN VIGORITO: I am enclosing the information which I requested be submitted to the record of the recent hearings of the Subcommittee on sugar. The first two statements regard NCC's position in relation to their opposition of the Sugar Act. Please include them in the record. The last document I am sending is in direct response to the Subcommittee's questions regarding the estimation that the American consumer was being forced to pay a premium price which amounted to \$500-700 million during several years of the past decade. The formula and the formula's explanation are included in the chapter by D. Gale Johnson. I hope these documents answer any of the Subcommittee's questions. If you need and further information please contact our office.

Sincerely,

BARBARA BIKOFSKY,
Research Coordinator.

STATEMENT OF LEONARD C. MEEKER, NATIONAL CONSUMERS CONGRESS

Mr. Chairman, Members of the Committee: I appreciate this opportunity to appear before the Committee on Agriculture and present views on behalf of the National Consumers Congress. This Congress is the grassroots consumer organization which grew out of the meat boycotts of last spring. Representing consumers, the Congress has an interest, affirmed at its founding convention and by its Board of Directors subsequently, in seeing that American food industries

are not subject to agreements that support inflated prices, protect inefficiencies in production, and permit sugar producers to avoid the normal and humane requirement of paying a living wage and providing decent conditions to sugar workers.

I wish to state this morning considerations in favor of terminating the Sugar Act on the date of expiration set by the legislation now in force, which is December 31, 1974.

During the last 4 decades, sugar in the United States has been subject to a special statutory regime not applied to other agricultural commodities. This regime has comprised an excise tax, subsidies to growers, and quotas; the quotas have limited domestic production and also imports into the United States of foreign-produced sugar. The Sugar Act was adopted in the early 1930's when there were chronic world surpluses and low prices for sugar. The legislation thus provided unusual protection to the United States sugar industry. In most years the world market price was below the U.S. price. Thus, the quota system established by the Sugar Act caused the consuming public in this country to pay a substantial premium for sugar—a differential estimated at \$500-\$700 million annually during several years even in the last decade.

Today, the conditions of chronic surplus and depressed prices—which led to enactment of the special regime for sugar—have entirely changed: world consumption has outdistanced world production; world stocks have been drawn down to less than 20% of one year's world consumption; and prices—both in the United States and on the world market—have sky-rocketed, the world price now standing five cents a pound above the U.S. price.

This is not all that has changed. World requirements for agricultural commodities generally have risen so that the United States is no longer a land of unused surpluses; instead, it has become a major agricultural exporter in world trade. Under new agricultural policies, American farmers are called upon to respond to market forces, to plant what they can grow most efficiently and with comparative advantage.

The Sugar Act has become obsolete. The National Consumers Congress believes this legislation should be terminated entirely. The present appears the optimum time for changing to free trade in sugar, assimilating its treatment to that of other agricultural commodities generally. Our reasons may be summarized as follows:

(1) The American consuming public is entitled to buy agricultural commodities, including sugar, at prices derived from free trade and competition among world sources of supply. Specifically, the imposition of premium costs on American consumption of sugar cannot be justified during those times when the world market price is lower than a U.S. price kept artificially high by a special regime for sugar.

(2) The United States remains committed to free trade as the soundest approach in our international economic policy; free trade best safeguards and promotes the interests of the largest number of Americans—not only the general consuming public, but the labor force and farmers as well. For the United States to be consistent, persuasive, and credible in international trade policy and negotiations, a special protectionist regime for sugar embodying import quotas should not be maintained—particularly when we are urging Japan and the European Common Market to remove their quota restrictions on U.S. agricultural exports.

(3) At present the world market price is significantly higher than the U.S. price, owing to rising worldwide consumption of sugar (especially in developing countries) and to failure of production to expand correspondingly. Of course, we cannot predict that the situation will be reversed promptly, as it was after the 1963 temporary rise in the world market price. A high rate of consumption relative to production and an elevated world price may continue for a few years. In this event, we could not expect foreign suppliers to furnish their quotas to the U.S. sugar market at a significant discount from world prices. If foreign producers should make the assessment that over-all shortage in world sugar supplies will persist for some time, the existence of a quota system in the United States with its guaranteed market for limited import quantities would probably not exert continuing magnetic effect so as to draw sugar exports to the United States at relatively low prices. American consumers are not going to be helped by the Sugar Act in a time of high world prices.

(4) If the United States ends its quota system, this action could benefit the consuming public both in the near term and for the longer run. Ending the quotas could (a) lead to a reduction in the present inflated world market price since

dealers and growers would at once appreciate that the United States had moved definitively away from a restrictive policy on sugar, and (b) ending the quota system could stimulate increases of production in areas where sugar growing is an optimally efficient and economic use of agricultural land.

(5) Terminating the regime of the Sugar Act could be expected to have limited, indeed minimal, effect on the U.S. sugar industry while the world price of sugar remained relatively high. Not only would sugar cane production in the continental United States continue at least present levels, but sugar beet production would probably be maintained. In the event of eventual decline in the world price to levels lower than the U.S. price, some domestic acreage might be shifted to other crops such as wheat, sorghum, corn, soybeans, and cotton. Substantial economic arguments would favor some conversion from domestic sugar growing to these alternative crops that could be grown with greater efficiency and comparative advantage in the United States, thus leaving this country to draw a larger share of its sugar from abroad.

(6) In such a case we would not be faced with the spectre of a foreign cartel withholding supplies of raw sugar or raising the price out of sight. Sugar—unlike petroleum—is not limited to particular geographical areas: it can be grown, as cane or beets, in any temperate, sub-tropical, or tropical climate, and in fact is grown in many countries around the world. The ending of American quotas could stimulate new and increased production in countries where sugar growing constitutes optimal use of agricultural land and can be carried on with maximum efficiency.

Suggesting termination of the special Sugar Act regime is not to propose an end to the domestic industry in the United States. A substantial part of our industry would remain competitive in a free market even in the event of a decline in world prices. The size of the domestic industry to be retained could be regulated through a program of income support to growers based on a target price.

Stress has sometimes been laid on the importance of a large assured supply of sugar for American consumption. An argument based on "national security" considerations has even been advanced. This argument might once have stemmed from the World War I technology in which explosives were manufactured from alcohol derived from sugar. There are no "national security" grounds today. Indeed, scientific and medical studies increasingly point to sugar as an element that has become excessive in the American diet, and indicate that heavy consumption of sugar—most of it now in processed foods—is harmful to health.

In conclusion, I would recommend (a) terminating the Sugar Act this year—including the elements of excise tax, subsidies, and quotas; (b) enacting legislation that would authorize income support to domestic sugar growers; and (c) giving agreement in sugar governing exports by producing countries, purchases by importing countries, and the maintenance of adequate world stocks of sugar.

STATEMENT OF CONSUMER GROUPS ON H.R. 14747—SUGAR ACT AMENDMENTS OF 1974

The undersigned organizations oppose passage of H.R. 14747, the Sugar Act of 1974.

Rather than reforming a forty-year-old program of producer protection and consumer abuse, H.R. 14747 extends and amplifies that system. The prospective cost to the American consumer is estimated at over \$500 million a year.

In advocating that H.R. 14747 be defeated, and existing sugar control legislation expire, we are opposed to: (1) the maintenance of arbitrary quotas for foreign and domestic market shares; (2) inflationary "price objectives" with a narrow "corridor" providing a floor but no ceiling on returns to domestic growers; (3) the continued use of direct payments to growers even while the price of raw sugar doubles the price objective; (4) continuation of the ban on importation of refined sugar; and (5) the extension of all or any part of the Act for a period as long as five years. The reasons for our opposition are explained below.

The Act maintains a complex set of quotas for both foreign and domestic producing areas; a system which capriciously allocates portions of the U.S. demand among producing areas based on their output during the previous year. Foreign producers must petition the Congress for their share of the market. In a costly spectacle doing no credit to the producers or Congress, foreign countries and U.S. private groups seek from the public's representatives assured

access to enhanced U.S. prices and guaranteed shares of U.S. consumers' dollars.

When supplies are short and prices are high producers need no such guarantees. When supplies are ample and prices low foreign producers are limited in the amount which they can sell to U.S. citizens. In addition to raising consumer prices, this has the effect of diverting land in the United States from other crops, such as soy or wheat, into production of cane or sugar beets when the actual economic and nutritional yield would be greater in non-sugar crops. In a world constantly clamoring for more food, the Congress has an obligation to insure that U.S. farmers produce those crops which they most efficiently grow. The quota system should be ended; either immediately or by an assured phasing out.

The bill's "price objective" is guaranteed to rise with the domestic cost of living, even if foreign producers have lower costs and could thus contribute to moderating our continued domestic inflation. The Secretary of Agriculture is required to keep prices no more than 4% below the price objective, but has no obligation to respond immediately when prices exceed an upward bound above the price objective. In fact he may not be able to hold prices to the objective when world supply is short. Thus the United States consumers would pay more for sugar when prices go up, but cannot pay less for sugar when world prices go down.

If any "price objective" system is to be employed, that system should respond to lower world prices, when they obtain, with lower U.S. "price objectives". Ample room should be allowed for fluctuations around such price objectives, both up and down, to allow for some measure of competition, and efficient futures markets.

The bill would remove the \$.53 per hundredweight excise tax on domestically manufactured sugar but raise the "price objective" by \$.49 per hundredweight and thus pass on the bonus to the grower. Thus the Treasury loses \$.53 cwt on domestically refined sugar, but the private grower gets \$.49 cwt more. In addition, sugar producers continue to get extra payments directly from the U.S. Treasury.

Elimination of excise taxes should inure to the benefit of the American household, not sugar producers. In addition any payment to sugar producers should be rapidly phased out, if not immediately terminated. Current high world prices provide producers all the cushioning they need or should have.

The bill extends the protection scheme for five years at the precise time when world market conditions permit us to end the system with no immediate dislocation to either domestic or foreign sugar producers. Even a bill with phased out controls should operate for no more than two years.

The entire producer protection system, designed forty years ago, no longer serves a useful function. It now costs consumers over \$500 millions annually and involves Congress in a most unseemly division of the public purse among competing private and foreign interests. Current world sugar shortages permit us to end this system with no immediate discomfort to sugar producers. If the present system were ended, U.S. consumers could benefit from a competitive sugar market when world supplies increase.

The following is taken from an analysis of the Sugar Act by D. Gale Johnson, Eliakim Hastings Moore Distinguished Service Professor of Economics, and Chairman, Department of Economics, University of Chicago.

This chapter contains an explanation of the statement that the American consumer has had to pay somewhere between \$500-\$700 million in premium payments due to the Sugar Act in the past years.

The first three cost components represent costs to consumers. However, the second and third provide revenue to the government and thus represent a benefit to taxpayers, assuming a constant size of federal government expenditures. The fourth component—the benefit payment to producers—represents a cost to taxpayers, but the payments have been less than the taxes (excise tax and import duties) collected, so there has been a net benefit to the taxpayers from the program.

In the following sugar program cost estimates, it is assumed that the alternative to the current sugar program is free trade in sugar by the United States and all other industrial countries. Obviously there are a number of other alternatives that could be considered. One such program might be a return to a modest level of tariff protection for both raw and refined sugar. Another might be to permit the free importation of sugar but to make deficiency payments to domestic

producers in order to maintain sugar production at some specified level or percentage of U.S. consumption. These alternatives will not be considered in this chapter, but in Chapter VIII I shall consider some of the important implications of such alternatives.

It should also be noted that the sugar program cost estimates are the gross money costs. In effect what is being estimated are the gross income transfers, measured in money terms, from consumers and taxpayers to sugar producers, both domestic and foreign. The welfare costs—the losses in consumer welfare and excess production costs—are not measured. No account is taken of the fact that a lower domestic price of sugar would result in increased consumption. Since the price elasticity of demand for sugar in the United States is quite small, about -0.2 , the loss of consumer surplus due to the current program is much smaller than the income transfers involved. If the decline in the retail price of sugar were from fourteen cents to eleven cents per pound, and the consumption level prior to the price reduction were 11.4 million short tons, the value of the increase in consumers' surplus would be \$15 million. As will be seen later, this is a relatively small part of the total cost to consumers.

THE QUOTA PREMIUM

The quota premium is defined as the difference between the return from raw sugar sold to the United States and raw sugar sold to the world market, with the difference calculated for sugar f.o.b. in greater-Caribbean ports, including Brazil. The price of sugar sold to the United States is estimated from the price of raw sugar in New York by subtracting the U.S. tariff duty and the cost of transportation and insurance from the Caribbean area to New York. In recent years the cost of transportation and insurance has averaged about 0.4 cents per pound.

If a change in the U.S. sugar program would not result in any change in the quota premium, the average quota premium for a period of years could be used to estimate an important component of what the sugar program costs U.S. consumers. But if the United States adopted a free trade policy for sugar, the price of sugar in the world market would be increased. There are two reasons why the world market price—and thus the quota premium—would increase: First, U.S. imports would be increased due to an increase in consumption and a decline in domestic production, and, second, the world price of sugar does not represent a supply price that is reflected directly back to sugar producers.

Table 6 provides estimates of the quota premium for raw sugar for 1961 through 1973. The series starts with 1961 because that was the first year in which we received no sugar imports from Cuba. The table gives the two price series from which the quota premium is calculated—the return from sugar shipped to the United States and sugar sold on the world market. For the thirteen-year period the average return from sugar sold to the United States was 6.62 cents, the average world price 4.35 cents, and the average quota premium 2.27 cents. The range in the quota premium was very large—from a maximum of 4.56 cents in 1968 to a minimum of a *negative* 1.23 cents in 1963—a range of 5.79 cents per pound.

THE WORLD SUGAR PRICE

The world sugar price is not what one would call an ideal, competitive price that fully reflects underlying cost and demand conditions. A considerable fraction of sugar sold on the market is sugar that cannot be absorbed by preferential systems, such as the U.S. sugar program or the British Commonwealth scheme, or consumed in the producing countries, often in highly protected markets. Most sugar producing countries have considerable government control over the production and marketing of sugar. When a country has access to a preferential market, its government is likely to encourage a level of production that will always or almost always permit the sale of the country's full preferential quota and supply its domestic market as well. In most years there is some sugar in excess of the requirements for these two outlets, and much of the sugar that enters the world market is produced under such circumstances.

TABLE 6.—UNITED STATES AND WORLD SUGAR PRICES, 1948-73¹

[U.S. cents per pound]			
Year	United States	World	Quota premium
1948.....	4.64	4.23	0.41
1949.....	4.94	4.16	.78
1950.....	5.09	4.98	.11
1951.....	5.07	5.67	-.60
1952.....	5.35	4.17	1.18
1953.....	5.43	3.41	2.02
1954.....	5.21	3.26	1.95
1955.....	5.00	3.24	1.76
1956.....	5.10	3.48	1.62
1957.....	5.30	5.16	.14
1958.....	5.41	3.50	1.91
1959.....	5.35	2.97	2.38
1960.....	5.35	3.14	2.21
1961.....	5.36	2.91	2.45
1962.....	5.56	2.98	2.58
1963.....	7.27	8.50	-1.23
1964.....	5.98	5.87	.11
1965.....	5.80	2.12	3.68
1966.....	6.03	1.86	4.17
1967.....	6.32	1.99	4.33
1968.....	6.54	1.98	4.56
1969.....	6.75	3.37	3.38
1970.....	6.94	3.75	3.19
1971.....	7.39	4.52	2.87
1972.....	7.99	7.43	.56
1973 ²	8.65	9.31	-.66

¹ The prices represent the returns from sugar shipped from Cuba for 1948-1960 and for 1961 to date from greater Caribbean ports (including Brazil). The column for the United States is calculated from the New York duty-paid price for raw sugar minus the duty and shipping costs to New York. The column called World represents the world market price. For further details, see source.

² January through September only.

Source: U.S. House of Representatives, Committee on Agriculture, History and Operations of the U.S. Sugar Program, 87th Congress, 2d session, May 14, 1962, p. 15, and Agricultural Stabilization and Conservation Service, U.S. Department of Agriculture, Sugar Reports, August 1973, p. 16, and later issues.

There are four countries that have or have had U.S. sugar quotas in recent years that sell significant amounts of sugar on the world market: Brazil, Australia, Taiwan, and South Africa. The first two sell less in the world market than they do to preferential markets, whereas Taiwan and South Africa have sold most of their sugar on the world market. But these two countries appear to be exceptions among the sugar producers.

In recent years approximately 12 percent of the world's sugar supply has moved on the world's market. The rest has been consumed within the country where produced or sold under one of the preferential arrangements. As noted above, the world market absorbs the fluctuations that occur because of the relatively stable demand for sugar in generally highly protected markets and worldwide variations in the supply of sugar. Since the world market has had an average volume of about eight million tons in recent years, a variation of only one million tons in the world demand and supply relationship for the remaining 65 to 70 million tons of raw sugar could increase or decrease the supply in the world market by more than 12 percent from one year to the next. Between 1968 and 1969, for example, the countries that export sugar to the U.S. decreased their exports to the world market by a million short tons or about 30 percent. These countries supply approximately 40 percent of the sugar that goes onto the world market. The price in the world market in 1968 was 1.98 cents per pound; in 1969 it was 3.37 cents per pound.

Because so many countries control the price of sugar, the effects of variations in supply are not permitted to influence consumer prices, thus cushioning part of the effects of supply variations. When sugar supplies increase relative to the increase in demand, most countries do not permit their consumers to take advantage of the lower raw sugar price. Similarly, when sugar prices are high in the world market, consumer prices in the majority of the consuming markets change little, if at all, and thus, consumer prices do not serve to ration the available supplies.

One rather odd characteristic of the world market for sugar is that exporters have sold substantial quantities of sugar to the United States at prices below the world market price. This occurred in 1963 and again in 1973 (see Table 6). Such

seemingly irrational behavior occurs because these exporters want to maintain long-run access to the U.S. market, as on the average, the returns from exports to the U.S. have been substantially greater than those on the world market. The exporters also know that the world market is "thin," that is, any significant diversion from the U.S. market to the world market would result in a major reduction in the world market price.

There are some countries that acquire all or nearly all of their imported sugar from the world market. Included in this group are Japan, with imports of 2.6 million short tons, Canada, with imports of about one million short tons, and several African and Asian countries that together import about 4 million tons. Since Japan maintains a high and stable price of sugar in its domestic markets, it contributes directly to the instability of prices in the world market by preventing variations in the world price from being reflected in its domestic prices. On the other hand, Canada, displaying rare enlightenment, does permit its internal price to vary with the world market.

The world price for sugar is influenced by the pricing practices followed in most, if not all, sugar exporting countries. Generally the exporters pay producers the average price that is received for all sugar produced and sold. The producer price, net of refining and marketing costs, is thus an average of the price in the domestic market, exports to preferential markets, and exports to the world market. For example, in 1968 the average price in U.S. dollars received for raw sugar in Australia was \$90.50 per metric ton. This was an average of a home consumption price of \$157.85 and an average export price of \$69.49. The average export price reflected the world price of \$42 and the higher prices received for sales in the preferential markets of the United States and the United Kingdom.

The world price for sugar cannot be said to be the supply price that brought forth the quantity of actual exports in recent years. Some part of the supply to the world market has been forthcoming because of the higher prices received in the preferential markets. Because of its importance as a sugar consumer and importer, any significant change in the U.S. sugar program would have an effect on the world price. There would be some effect on the world price even if the United States limited total sugar imports to the same volume as it would under the Sugar Act but taxed away the potential gain from foreign access to our market through a variable levy. The variable levy would reduce returns to sugar exporters, result in a reduction in the quantity supplied to the world market, and generate a higher world price.

In 1969 the countries that exported sugar to the United States exported a total of 10.55 million short tons. Of this amount 4.90 million tons went to the United States, 3.06 million tons to other preferential markets, and 2.60 million tons to the world market. In that year the world price was \$67.40 per ton; the return from sales to the United States was \$135.00 per ton. If the U.S. taxed away the quota premium, the exporters would have lost \$67.60 per ton or a total of \$331 million. This would have reduced their average return on all sugar exported by \$31.40 per ton. For the sugar exported to the U.S. plus the sugar sold on the world market the loss in average return would have been \$44.16 per ton. Assuming that there were no change in the prices in the other preferential markets, the sugar exporters who supplied the U.S. imports would have required a world price of \$111.56 per short ton to have provided the same total return for sugar as they received in 1969 from the U.S. preferential market and the world market. As indicated above the world price in 1969 was \$67.40 per short ton.

The above calculations are a rough indication of what the world price of sugar would have had to be in 1969 if the United States imported the same quantity of sugar and taxed away the value of the quota premium. The calculation assumes that none of the current suppliers of sugar limit production and that there are no low-cost suppliers of sugar who could have expanded their total exports for a marginal return of \$111.56 per short ton. As will be noted later, Brazil and other important producers have been limiting sugar production and could expand production substantially. While the foregoing can hardly be considered conclusive, it does indicate that current or past values of the quota premium do not provide an accurate indication of the cost of the sugar program to U.S. consumers and taxpayers.

CYCLES IN SUGAR PRODUCTION AND PRICES

There is a world sugar production cycle that varies in length from six to nine years. In the past two years we have witnessed a production trough and a price peak. The previous price peak was in 1963. For 1971 through 1973 the world

consumption of sugar exceeded world production, and the difference has been made up by a draw down of stocks. It now appears that we are entering a new phase in the sugar cycle, with world production for 1973-74 now projected by the U.S. Department of Agriculture as greater than projected world consumption for the year. World production in recent years has averaged about 71 million metric tons.

There are several factors affecting the sugar production cycle. The near stagnation in world production from 1971 through 1973 was a consequence of the very low world prices in 1966 through 1968. The price increases that occurred during 1969, 1970, and 1971 were hardly sufficient to encourage additional plantings of sugar cane. The plantings of sugar cane that were undertaken in response to the high sugar prices in 1972 are just now entering production. In most parts of the world the first harvest from newly planted sugar cane does not occur until fifteen to twenty-four months after planting.

Another factor contributing to the sugar cycle is that in most production areas sugar production from a single planting may occur over periods of from two to ten years duration. Consequently, new plantings can fall to a very low level while sugar cane output is maintained at a nearly constant level for a number of years by harvesting cane from fields planted a number of years before. However, cane fields reach a peak yield within a few years and then, as the cane plants grow older, yields decline. Thus sugar cane output will gradually decline after one or two years if there are no new plantings.

The U.S. Department of Agriculture projects that world sugar production in 1973-74 may be as much as 82 million metric tons, up from 76 million metric tons in 1972-73. It thus appears that the world sugar cycle is entering a new phase of increased output and declining prices. The rebuilding of stocks may limit price declines over the next year, but once stocks have been rebuilt, it is reasonable to expect a substantial decline in world sugar prices.

ESTIMATES OF THE WORLD PRICE WITH FREE TRADE

A review of the literature has revealed four estimates of the effect of free trade in sugar on the world price. R. W. Snape estimated that for 1959 the world price would have been increased from approximately three cents per pound to between 4 and 4.5 cents per pound. It appears that Snape did not give sufficient consideration to the actual prices received for sugar by the exporting countries because he neglected the price benefits that exporting countries received from the preferential market.

A second estimate was made by Thomas H. Bates. He estimated that in 1970 the average cost of sugar to the U.S. would have been 6.7 cents per pound with the sugar program and 4.8 cents in a free trade situation. These estimates were in terms of 1959 price levels. Bates's estimate of the average cost with the program was not far from the actual 1970 average price of raw sugar, which was 7.4 cents (excluding duty) in New York. Bates's estimates reflected the anticipated effects of population and income growth on the demand for sugar as well as the effects of free trade. Thus one cannot directly compare his projected 1970 world price of 4.8 cents per pound to the actual 1959 world price of 3.4 cents (delivered in New York, excluding duty).

The third set of estimates is for 1980, and was made by FAO. Two projections of the world price were made, the first assuming a continuation of present policies and the second assuming free trade. In the first case, the world export price of sugar was estimated at five cents per pound; under free trade the estimate was 8.2 cents per pound.

The fourth estimate of the world price was made in the Flanigan report—a report prepared in the U.S. Department of Agriculture called *Agricultural Trade and the Proposed Round of Multilateral Negotiations*. The estimate is a judgmental one made by knowledgeable persons. With free trade for sugar a world price of six cents per pound was projected. The estimate was based on the average world price of sugar for the most recent sugar cycle from 1963 through 1971 of 3.8 cents per pound plus something over two cents per pound to cover the full costs of production.

If there were free trade in sugar generally or if only the United States among the major industrial countries removed its import barriers, there would be a dramatic change in the world market for sugar. The amount of sugar moving in that market would at least double and could easily treble. Some of the increase would consist of a transfer from preferential markets while the rest would be a real increase in import demand. Thus it does not seem reasonable to use a single

world price or a single quota premium as the basis for estimating the costs of the U.S. sugar program. In the next section I have used three different quota premiums, and I believe that the range of costs estimated gives a reasonable approximation of what the costs of the sugar program would have been in recent years if there had been time to adjust to an expansion in demand in the world market.

ALTERNATIVE ESTIMATES OF CONSUMER AND TAXPAYER COSTS

The estimates in Table 7 are based on actual U.S. sugar prices and consumption levels in 1972. During that year the U.S. price of raw sugar was 9.09 cents per pound, duty paid. The price received by foreign producers in greater-Caribbean ports (including Brazil) for sugar sold to the United States was 7.99 cents per pound. The total consumption of raw sugar in 1972 was 11.4 million short tons. The tariff rate was 0.625 cents per pound and the excise tax 0.50 cents per pound, both in terms of raw sugar.

The critical element in the estimate of sugar program costs is the long-run supply of sugar as of the price and cost conditions of 1972. The projections of the world price of sugar summarized above assume worldwide free trade in sugar. The United States, of course, can only determine its own actions. The world price would be different if only the United States changed its sugar program. There are strong interests in the European Economic Community (EEC) that want to expand production within the EEC to displace part or all of the sugar imported by the United Kingdom.

TABLE 7.—ALTERNATIVE ESTIMATES OF THE COST OF THE U.S. SUGAR PROGRAM, 1972

[Millions of dollars]

	Quota premium		
	2.5 cents per pound	2 cents per pound	1.5 cents per pound
Consumer cost:			
Quota premium cost.....	570.0	456.0	342.0
Tariff cost.....	142.5	142.5	142.5
Excise tax cost.....	114.0	114.0	114.0
Total.....	826.5	712.5	598.5
Taxpayer cost: Receipts:			
Tariff.....	64.1	64.1	64.1
Excise tax.....	114.0	114.0	114.0
Total receipts.....	178.1	178.1	178.1
Less payments.....	82.0	82.0	82.0
Net cost, taxpayer.....	-96.1	-96.1	-96.1
Net cost.....	730.4	616.4	502.4

In choosing the long-run supply price used to estimate the costs of the U.S. sugar program I quite deliberately selected a conservative base for the upper limit estimate, with two higher prices for the middle and lower estimates. Thus I believe that I have probably underestimated the long-run costs of the U.S. sugar program in Table 7. The higher estimate of cost is based on the projection of the 1970 world price of sugar made by Bates adjusted upward to reflect the change in U.S. wholesale prices between 1959 and 1972. Between 1959 and 1972 wholesale prices increased by 25.6 percent. Thus the projection of the landed cost of raw sugar for the United States of 4.78 cents in 1959 prices is increased to 6.0 cents per pound. This implies a world price at greater-Caribbean ports of approximately 5.5 cents per pound for raw sugar and a quota premium of 2.5 cents under 1972 conditions. The middle estimate of the quota premium of 2.0 cents is based on a price of 6.0 cents per pound at the greater-Caribbean ports and is approximately the projection made in the Flanigan report. The lowest estimate of costs of the sugar program is based on a quota premium of 1.5 cents per pound.

The middle estimate of the quota premium implies a world price of raw sugar of \$120 per ton. The higher quota premium implies a world price of \$110 per ton and the lower quota premium \$130 per ton. The landed price in the United States would be approximately \$10 per ton greater than the world price, prior to the

imposition of my duty. The "natural" protection of sugar that is provided by the cost of transportation from the major exporting area to the United States is not included as a factor in the cost of the sugar program.

As shown in Table 7, the estimates of annual consumer and taxpayer costs—the long-run annual cost of the U.S. sugar program for conditions as of 1972—range from \$502 million to \$730 million. It should be noted that during 1972 the quota premium was less than any included in Table 7, namely, 0.56 cents per pound. The world price of sugar in 1972 was 7.43 cents per pound, 66 percent above the 1971 price, which was in turn the highest world price of sugar since 1964.

Mr. VIGORITO. And I yield back to the gentleman.

Mr. DENHOLM. Thank you, Mr. Chairman.

I join the chairman in congratulating you on your statement. I am not quarreling with what you have said but I am challenging the rationale of the people that you represent. Why do you oppose the extension of the Sugar Act?

One of the purposes of this hearing is to try to find solutions. What caused the prices to become erratic? Mr. Murphy and Mr. Godfrey have submitted some reasonable solutions that merit further attention of this committee and of the Congress as a matter of public policy in the interest of all of the people. Do the consumers have suggestions or solutions for ample supplies at reasonable prices? I realize that times have changed and that we must prepare for the future.

If we do not lead, we are about to be led. We will be led by other nations in an organized effort to control the world market price on sugar. We are the best market, and I do not believe that it is in the public interest or in the national interest to permit that sort of situation to occur. I am hopeful that we can achieve a consensus from you folks and the people that you represent, as well as the producers of this country in acceptable national policy that will permit America to lead rather than to only react to an organized cartel of countries that may not be friendly to us. I cannot think of a situation that would be worse than to have Fidel Castro dictating the policy and the price of sugar to the people of the United States. Now, when you oppose legislation you ought to propose constructive alternatives. Some 40 years of history indicates that people of this country have had an ample supply of sugar and at reasonable prices. It is not enough to criticize and to be against the status quo unless it is proven wrong and so wrong that the status quo is of less merit than nothing.

I hope that we can achieve constructive alternatives for the future. Thank you very much for being with us today.

Mr. VIGORITO. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

Ms. Bikofsky, did you go back and examine the profit margins that the companies made over the last 5 years and then compared just with this year?

Ms. BIKOFSKY. The profit margins? We have examined them, and they have been much greater this past year than they have been in the past.

Mr. JOHNSON. Do you think that over a 5-year period they have been exorbitant, taking the total 5 years as a sum?

Ms. BIKOFSKY. Well, you are coming to definitions as to what is exorbitant.

Mr. JOHNSON. That is what I am asking you.

Ms. BIKOFKY. That is why we presented the facts as we saw them, as they were. We do not know what exactly constitutes exorbitant prices. We just saw the percentage increases and presented them as we saw them, and it is something to look at.

Mr. JOHNSON. Do you think that that is really a fair evaluation then?

Ms. BIKOFKY. Yes; I do.

Mr. JOHNSON. Is that a fair way to do it if a company lost money last year, or broke even, for example, had no profit or loss and this year it makes any kind of profit, obviously the profit increased a thousandfold, or you know, several thousand percentage points, but that really is not a fair way of evaluating their return on equity, evaluating whether they had made money or lost money over the past 5 years, whether they are making too much or not enough, is it?

Ms. BIKOFKY. But I do not think that was the case.

Mr. JOHNSON. But you do not know, do you?

Ms. BIKOFKY. Yes; I do. But I do not have the figures.

Mr. JOHNSON. Could you tell me then what the rate of return for the major refineries has been over the last 5 years? What has been their operating margins over the last 5 years prior to 1974?

Ms. BIKOFKY. I cannot come up with that answer right now.

Mr. JOHNSON. That is my point. We have not been able to get any of that kind of testimony from anybody, and I am not necessarily picking on the consumer groups. But it seems to me that the consumer groups have not really taken a fair look to see what has been the operating margins over the last few years. Some of the testimony that we got from C. & H. for example, indicated that their profit margin on the refining process has been steadily declining as the price of sugar has gone up. Actually they have lost money. The testimony from C. & H. indicated that they lost money as the price of sugar went up. Of course, they are a co-op, and their primary interest is marketing their raw sugar, but their refining process lost money.

Now, as you apply this to the rest of the sugar industry, or if you try to analyze that to come up with a real understanding of the process, I do not know whether there might be too much money or not, and I have not found any consumer group that really is looking at this from that kind of basis.

Ms. BIKOFKY. I would like to answer that in two ways.

First of all, C. & H. does not have to, from what I understand, their market, their processing market is from Hawaii and they do not have the international sources to contend with raw sugar cane prices on that market, so that they are not up against the same forces, and they are a cooperative. They can have savings, and that accounts, so if you look at the refining process and you are looking at the percentage that they are making, I think you should go back and look at the integration of the entire industry and see if they are saving somewhere else, if that is why their margins are showing that.

Another answer I would like to respond as far as consumer groups go, we have a very hard time finding information. We have no authority to get information. Most industries when we call them and ask, they respond to us that this information is confidential. Most of the information that we have gotten for our testimony has been from the Department of Agriculture, from studies that they have made, from

analyzing different facts we have gotten from different testimony at the Wage and Price Stability Council, and we do not have the information as available to us as Members of the Congress would have. We have no authority to get this information. And there is no reason why any of these industries would submit it to us.

Mr. JOHNSON. For example—

Ms. BIKOFSKY. So we work with what we have.

Mr. JOHNSON. You have not gone down and gotten the financial reports of the various companies then over the last 5 years and analyzed their profit, their rate of return, their rate on investment capital or anything of that nature?

Ms. BIKOFSKY. We have gone as much as we could in the time that we have had. We do not have a staff. We are volunteers and we do, you know, we do the best we can. And what we are saying is this is what we have found, and we would like Members of Congress to do what they can with this information and investigate it further. If we have not done a deep enough investigation, we would like you to continue it for us.

Mr. JOHNSON. Thank you. No further questions.

Mr. VIGORITO. Does counsel have any questions?

Mr. MURRAY. No, Mr. Chairman.

Mr. VIGORITO. Mr. Bergland, any questions?

Mr. BERGLAND. No.

Mr. FINDLEY. Could I ask one question?

Mr. VIGORITO. Yes.

Mr. FINDLEY. Ms. Bikofsky, I have in my hand an article from the Journal of Commerce, December 17, a report from London about a study that Sucres et Denrees firm completed, and this discloses that in 31 countries out of 37, government policy has indirectly encouraged domestic demand. In other words, in most of the major sugar consuming countries of the world, government policy has sought to protect the consumer from price increases. Therefore, there has not been the consumer resistance or the reaction of the market disciplines that would normally occur. And what I fear from is that unless the United States does provide some leadership away from government control or influence on sugar prices there will not be any moderating influence on consumer demand, which would tend to bring down prices, and, therefore, I congratulate your group on getting into this, and I hope that somehow you will find the resources to do a still more thorough job than you have in the past.

I think your voice is a very vital one here that needs to be heard in the highest councils, not only of this Government but other major nations. We have been stuck with a control program, worldwide on sugar for many years, and I think that the interference of Government with the normal reactions of the marketplace is, by and large, a bad influence and against the interests of consumers. And I think that your organization can help balance the record as it does develop.

Mr. VIGORITO. We wish to thank you very much for being here, and when you go back to your group and other consumer groups, if you will check the record you will find that I have about a 100-percent record in favor of the consumer.

Thank you very much.

Ms. BIKOFSKY. Thank you, Mr. Chairman.

Mr. VIGORITO. It appears that we will run into an afternoon session, and this afternoon we will reconvene at 2 p.m. I believe it will be in 1302, in room 1302. So the meeting will have to end promptly at 5 p.m. as we have other business at that time. It will not be any later than that.

Our next witness is Walter Cornell. Mr. Cornell is vice president of Westway Trading Corp. of Englewood Cliffs, N.J., and he is accompanied by Walter Surrey, counsel.

Mr. SURREY. That is correct, sir.

Mr. VIGORITO. Will you two gentlemen please stand and raise your right hand. Do you solemnly swear the testimony that you are about to give to this subcommittee will be the truth, the whole truth and, nothing but the truth, so help you God?

Mr. CORNELL. I do.

Mr. SURREY. I do.

Mr. VIGORITO. Thank you. Let the record show the witnesses are sworn in at this point.

All right, Mr. Cornell, you have a statement here and you may proceed.

STATEMENT OF WALTER CORNELL, VICE PRESIDENT, WESTWAY TRADING CORP., ENGLEWOOD CLIFFS, N.J., ACCOMPANIED BY WALTER SURREY, COUNSEL

Mr. CORNELL. Mr. Chairman and members of the committee, my name is Walter Cornell. I am a vice president of Westway Trading Corp., a Delaware corporation, with its principal office in Englewood Cliffs, N.J. I am accompanied by counsel, Walter Surrey. I am here today in response to your telegram of December 12, 1974, requesting Westway Trading Corp. to appear before this committee.

Mr. Chairman, since there appears to be some confusion in the previous testimony before this committee, I believe it is important to explain the role of our company in the United States and world sugar trade, which role, I believe, is comparable to the other companies you have requested to appear today.

However, before I discuss with you our role in the sugar industry, I would like first to acquaint you with Westway Trading Corp. Like the other companies appearing here today, we are a private, not a publicly held, company. We are a diversified service company, and I stress the word service. We have an industrial molasses division which purchases, transports, stores, and delivers both beet and cane molasses throughout most of the eastern half of the United States. This division has sales offices in Minneapolis and New Orleans. It has 14 molasses storage terminals, stretching from Florida to Buffalo, N.Y., from Louisiana to the Red River Valley of Minnesota and North Dakota. It owns and operates three factories, located in North Dakota, Ohio, and Iowa which produce a dried molasses for animal feed.

We also have a wholly owned subsidiary, Westway Farms Inc., which operates approximately 9,000 acres of Mississippi farm land, devoted mainly to cotton, soybean, hog production, and a dairy herd.

Our sugar activities are conducted by the Amerop Division, located

in the main office in Englewood Cliffs, N.J. It is our sugar operations in which this committee is most interested and to which I will address my remaining remarks.

I think it is first necessary to explain why a sugar merchant or sugar operator exists. In the United States raw sugar is imported by refiners. These refiners buy sugar for their own operations as their requirements justify such purchases. They usually carry inventories to cover a relatively short period of their own operations. What happens, therefore, is that when they want to buy may not be the time when a foreign source producer wants to sell; conversely the time when a foreign source producer wishes to sell may not coincide at all with the time when the refiners have a requirement justifying such purchase.

In addition, the terms under which a producer sells his sugar are generally very different from the terms under which a refiner is prepared to buy sugar. To cite a simple example, a seller may wish to sell f.o.b., country of origin, while the refiner wishes to buy c.i.f., delivery at the refinery. There are other differences in the practice of the buying refiner and the selling producer which encumber direct transactions between them. It is, therefore, in the sale of foreign source sugar to U.S. refiners that the sugar merchant plays a role.

It is the function of the sugar merchant to be ready to bid for the purchase of sugar when the producers request such bids—and I might note that most sugar purchased for delivery to the United States is offered under a public bid system—and to be able to sell the sugar when the refiner wishes to buy it. The time difference can be very short or very long. The bid request to which I have referred will state the terms when the sugar must be shipped. Thus, when we are the successful bidder, we are bound by the bid terms as to the date when that sugar must be shipped. Since we do not inventory sugar, this equally binds us to the delivery period in which we must sell.

Thus, once we have entered into a purchase contract with a foreign supplier, we have obligated ourselves to financing the transaction, chartering the vessels, arranging for loading, export documentation, import documentation and delivery to the refinery's dock.

Our transactions in the world sugar market are similar to those in the U.S. market today. Trading in world sugar, of course, gives us greater flexibility in the sense that we have many options available for final destination of the sugar that is bought by us.

From all of the above, you can realize that when we buy sugar we are not only undertaking obligations, but we are also taking the risk of market fluctuation. It is the policy of our company to minimize this risk to the maximum extent possible, by utilizing the futures markets on both the New York Coffee and Sugar Exchange and the London Sugar Terminal for hedging purposes. By hedging, I refer to the normal practice of buying and selling futures contracts in a quantity and for a delivery period equal to our commitment to sell or purchase.

I think from the above description that it is clear we are not speculators. A speculator does nothing more than buy sugar futures contracts, just as he might buy stock; he undertakes no obligations.

Mr. Chairman, I submit to you that if the sugar merchant did not exist, it would have to be invented by the industry. Our function is very comparable to the function of a banker financing an international

transaction. Just as international trade in produced goods cannot exist without credit instruments, international trade in sugar cannot exist without the sugar merchant and his services.

Mr. Chairman, you have asked us for certain specific information concerning our business operations over the past 3 years. Our corporation maintains its records on the basis of a fiscal year ending September 30. During this 3-year period we have traded approximately 1 million tons a year: 900,000 tons in fiscal year ending September 30, 1972; 1,200,000 tons in fiscal year ending September 30, 1973; and slightly under 1 million tons in fiscal year ending September 30, 1974.

I remind you, Mr. Chairman, that the world consumes about 80 million tons of sugar per year.

Of these total amounts, in the fiscal year ending September 30, 1972, we delivered 470,000 tons to the U.S. refineries; in the fiscal year ending September 30, 1973, we delivered 536,000 tons and in the fiscal year ending September 30, 1974, we delivered approximately 700,000 tons.

You have asked us to discuss our participation in futures trading activities. This is best done by giving you the numbers of contracts we have entered into in the futures market.

As I mentioned earlier, we hedge our sugar purchases and sales on futures exchanges. During the fiscal year ending September 30, 1972, we traded approximately 15,000 contracts in sugar futures; in the fiscal year ending September 30, 1973, the comparable figure is approximately 13,000 contracts; and in fiscal year ending September 30, 1974, the comparable figure is approximately 16,000 contracts.

Our participation in futures trading activities therefore represents a very, very small part of the total number of contracts traded in that market, which I estimate totals over three quarters of a million contracts on the New York exchange alone.

Mr. Chairman, you have also requested that we submit to you our profit and loss status from the last 3 years. Naturally, as a private company we do not publish these figures. However, since we understand that this committee is interested in the impact of our earnings upon the ultimate price of sugar to the consumer, we believe it will help you to know the following: In the fiscal year ending September 30, 1972, our profit was equal to approximately one-half a cent per 100 pounds of sugar; in the fiscal year ending 1973, our profit was equal to approximately 2 cents per 100 pounds; and for the fiscal year ending September 30, 1974, while we do not have final audited figures, our estimate is that our profit will be 7 cents per 100 pounds of sugar. It is obvious from the figures that our profit results in only a fraction of a cent of the total price of a pound of sugar.

Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you, Mr. Cornell.

While I still have it fresh, you say in 1972, for the year, fiscal year ending September 30, 1972, that your profit is one-half cent per 100 pounds, and then it jumps from one-half to 2 cents which is what, a 300-percent jump? Would that be a 300-percent jump from one-half to 2 cents?

Mr. CORNELL. Your arithmetic is quicker than mine, Mr. Chairman, but it jumped from one-half to 2 cents.

Mr. VIGORITO. Right, so it is a 300-percent increase. And then you go from 2 to 7 cents per 100 pounds.

Mr. CORNELL. That is correct.

Mr. VIGORITO. So another 350-percent jump.

Mr. CORNELL. That is correct.

Mr. VIGORITO. And from one-half cent per 100 pounds to 7 cents per 100 pounds, that is a factor of 14, which is a 1,400-percent increase.

Mr. CORNELL. That is correct.

I would like to comment briefly on that if I may.

Mr. VIGORITO. Of course if those figures are accurate, I know how much you buy and sell in sugar, I mean, I can find that out in the Department of Agriculture, I believe. Do you not submit statements of what you import and sell in tonnage?

Mr. CORNELL. Mr. Chairman, I have given you those figures right in my statement.

Mr. VIGORITO. Yes.

Mr. CORNELL. You have to go no further.

Mr. VIGORITO. Is that short tons, this 2,000 or is that long tons?

Mr. CORNELL. Short tons or long tons.

Mr. VIGORITO. So it would be very easy to calculate the profit.

Mr. CORNELL. Our figures are usually expressed in long tons, though I was not specific in my statement.

Mr. VIGORITO. All right. Will you name your principal officers, and who are your principal officers and directors?

Mr. CORNELL. Our board chairman is Mr. Bernard Faure; our vice chairman is Mr. Arthur W. Huguley, Jr.; our president is Mr. Joseph Tabah; our executive vice president is Mr. Arthur W. Huguley III. He is responsible for our eastern molasses division. Mr. Richard R. Lacy, also an executive vice president, is responsible for our western molasses division. Mr. Carl B. Rohwetter is vice president and secretary. Mr. Alfred J. Eckhardt, Jr. is vice president. Mr. David I. Sternman is treasurer and assistant secretary. And Mr. Joseph A. Barrows is assistant secretary and comptroller and I, of course, am a vice president.

Mr. VIGORITO. How many shareholders are there?

Mr. CORNELL. We have three.

Mr. VIGORITO. Three shareholders?

Mr. CORNELL. Yes, sir.

Mr. VIGORITO. Would you name them, please?

Mr. CORNELL. Yes, sir. Sucrex at Denrees is a shareholder.

Mr. VIGORITO. This is the French company that keeps popping up?

Mr. CORNELL. It might be. It is a French company.

Mr. VIGORITO. And they are headquartered where?

Mr. CORNELL. Sucrex et Denrees is headquartered in Paris. They own 100 shares, or 10 percent of our company. Multiproduct, SA owns 369 shares, or 36.9 percent of our company. That is a company located in Switzerland. The third owner is Copripa, a Luxembourg company that owns 531 shares of 53.1 percent. We have a total of 1,000 shares outstanding.

Mr. VIGORITO. How do you spell that last name?

Mr. CORNELL. Copripa, C-o-p-r-i-p-a.

Mr. VIGORITO. Now, in turn, or well, you stated I believe in your statement that the Westway Trading Co. in turn owns other companies. That is already stated in your statement; correct?

Mr. CORNELL. Yes, sir. We actually function with two basic divisions, the molasses division and the sugar division, plus the wholly owned subsidiary of the farmer. That is correct.

Mr. VIGORITO. This public bid system, would you go into that in a little more detail for someone like myself who has never participated in this type of activity, and just what are the mechanics of it, where is this done?

Mr. CORNELL. Well, I will do my best, Mr. Chairman. Basically, what happens is that in many sugar selling countries, particularly many of them who have either governmental agencies or the governments themselves handling the selling of the product for them, they will call a tender, they will notify the agents, perhaps, of the companies known to do business in that area, or they will contact the companies directly in their headquarters. When they are ready to sell, they will say that on *x* date we will sell to the world market, or to the U.S. market, they will be specific, *x* many tons, 10,000, 20,000 tons of sugar from this year's crop. They would receive bids by a time deadline and then invariably they will open the bids, make the bids public, and whoever has bid the highest price will become the buyer of the sugar. I would say that the vast majority of the sugar in the world is sold that way.

Mr. VIGORITO. Do you and other operators in the market, do you buy and sell among yourselves?

Mr. CORNELL. Sometimes; yes.

Mr. VIGORITO. Do you bounce the ball back and forth like a snowball rolling downhill so the price keeps going up?

Mr. CORNELL. No, we don't do that, sir. I would say that the selling that is done between us—well, I could give you an example of selling between us. We may own 5,000 tons of sugar, or have a commitment to purchase 5,000 tons of sugar in a particular location. One of our competitors might have 2,000 or 3,000 tons of sugar in that same place. We may charter an 8,000-ton vessel and buy from him his portion, so we could fill our vessel. I think that would be an example of the type of selling between merchants that occurs.

Mr. VIGORITO. Do you share vessels? I think a vessel carries what, 20,000 tons?

Mr. CORNELL. Well, I was using the example of an 8,000-ton vessel. If I had used one of a 20,000-ton vessel, I would have given you a different set of numbers. I was being hypothetical, Mr. Chairman.

Mr. VIGORITO. The vessel carriage, if you have a half a vessel, you have enough sugar to move in half a vessel, then you try to get someone else to take the other half? I mean, is there any working arrangements there, or is that up to the shipping company to see that they have a full cargo?

Mr. CORNELL. No, it is up to us as the charterers of the vessel. This is one of our responsibilities in the merchandising process. We have the responsibility of chartering the vessel. This is one of the services we must perform in order to earn our keep.

Mr. VIGORITO. There is only about 12 cane sugar refiners in the United States that import in fact. In other words, you have 12 customers or thereabouts?

Mr. CORNELL. That is about right. Yes.

Mr. VIGORITO. Well, I am sure that what you say is correct, that the operators do act like a middleman, but it is hard for me to fathom

if you have 12 refiners and they import 5 to 6 million tons of sugar a year, and there are only what, 30 odd countries that have sugar to export, that these 12 companies cannot go directly to South Africa or the Philippines and buy the sugar and eliminate your 2 cents a hundred pounds.

Mr. CORNELL. I would expect that if we did not perform our function they would have done that long ago.

Mr. VIGORITO. They would have. You mean they are willing to pay 2 cents 100 pounds for your services?

Mr. CORNELL. I believe we save them more than that 2 cents, because of the flexibility that we have that any one individual company, with perhaps one exception, would not have. And that is the fact that we can keep a steady flow of sugar to all of the refineries in the United States. We can sometimes redirect a cargo that we may have planned to go to one place to another place because we know a refinery is running low on sugar. Most of the refineries are small refineries in the sense they have one refinery, and I frankly think, and I would guess that they think, that they would be quite hard pressed to be initial buyers.

For example, if they bought sugar in a particular location and tried to contract for freight, the freight market would know exactly who they were and why they needed freight, and I think it is entirely possible they would pay more for freight. We can go into the freight market with a certain amount of anonymity. They could not do that.

Mr. Chairman?

Mr. VIGORITO. Yes.

Mr. CORNELL. There is always that time gap in between—which is another reason why they do not do it. When the seller is ready to sell, it doesn't mean the refiner is ready to make a purchase or commitment, so we do bridge that time gap, as well as the service gap, of chartering vessels.

Mr. VIGORITO. Well, I imagine being a successful businessman, and a sharp one—I mean you are right on top of everything—when the secretary, last year and the beginning of this year, kept increasing the estimates of domestic consumption from 11.7 and 12.5, you must immediately have realized that it was a tremendous statement. Is that correct?

Mr. CORNELL. A tremendous what, sir?

Mr. VIGORITO. A tremendous statement to make, that something big was going to break in the international market, where you have a shortage of sugar of 3 to 4 percent, and then all of a sudden we go on the world market for an additional 700,000 or 800,000 tons. If you guessed right, you would immediately buy as much sugar as you could possibly buy for future delivery.

Mr. CORNELL. I am not sure I understand your question. We are not in the business of guessing.

Mr. VIGORITO. When you buy futures, are you not guessing?

Mr. CORNELL. We do not buy futures by guessing. That is not our purpose. Our purposes, and our function as a merchant, is to buy and sell sugar. Unfortunately, because the price of sugar fluctuates and can very well fluctuate the wrong way as well as the so-called right way, we find ourselves forced to sell futures. We have to minimize our risk. We are not speculators, Mr. Chairman. We do not speculate in futures. We buy and sell sugar. We are in the sugar business.

Mr. VIGORITO. In New York there is the so-called spot market. Is there not a committee there that gets together to determine what the price is going to be at any given time?

Mr. CORNELL. They get together every day that the Coffee and Sugar Exchange is open for trading. Yes, get together, I believe, refers to telephone calls that they make to each other.

Mr. VIGORITO. Do they lead the market or do they follow the market?

Mr. CORNELL. I do not believe they do either. There are gentlemen in this room that probably could answer that better than I. Basically the purpose of establishing a spot price under the rules of the exchange is in the event of a default or problem, whereby somebody would have to settle a claim against somebody else. There are two spot committees. One is responsible for the world spot and is responsible for the domestic spot. The domestic spot committee, I believe, has two refiners and three merchants on the committee, and I think that initially if you accept the fact that one is on one side and the other is on the other side, you have a built-in integrity in their decision as to what the spot price will be—aside from the fact that the gentlemen all have high integrity of their own anyway. So they determine what the spot value of sugar is that day, right there, and that is the spot price.

Quite often there have been trades of sugar that day that are either known to them or reported to them, and they communicate that back and forth. That determines the spot for the day.

Mr. VIGORITO. Thank you, Mr. Cornell. I believe that is all I have at the present time.

Mr. Sisk?

Mr. SISK. Thank you, Mr. Chairman.

As I understand, Mr. Cornell, your company operates a service—that is, you render a service, or sell a service—in essence. Is that your comment, sir?

Mr. CORNELL. That is exactly the way we feel about our business; yes.

Mr. SISK. In connection with the sugar industry, we have two basic service groups, or functions. You operate in one area. You actually buy and sell sugar. Then you have the broker, the sugar broker, who operates a little differently, is that correct?

Mr. CORNELL. Well, we are not sugar brokers.

Mr. SISK. Would you explain to me the difference between what you call a sugar operator and a sugar broker? We have had this explained, but just again to make it clear, how do you distinguish your operation from that which we normally think of as a sugar broker?

Mr. CORNELL. I think I have explained how I define an operator, or in my case a merchant.

Mr. SISK. Yes.

Mr. CORNELL. Usually when I hear the terminology sugar broker, I usually associate it with a refined sugar broker. I do not know, sir, if that is the same sense that you think of it.

Mr. SISK. No; in connection with the buying and selling of raw sugar from offshore countries, the broker is not generally involved too much. Is that what you are saying?

Mr. CORNELL. Right. They have not been involved in raw sugar dealing to any great extent. I think there certainly are some people who do this, but I am not privy to their methods of operation or how they

function. I would assume that they do it for a commission, only because of the definition of the word broker, sir.

Mr. SISK. Well, I am not here to condemn you or to find fault in one way or the other. I am just really trying to get this clear.

Now, let me ask how this thing works. Let us say under the Sugar Act, as it has existed for many years—unfortunately, in my opinion, it is going out of existence now—we have allocated, for instance, South Africa with an American quota, say 60,000 tons or thereabout, I believe that is the South African quota. Now, do you fulfill any kind of a service, or deal directly in any way in connection with the handling of the South African sugar? I am only using this as an example—I am not trying to pin down exactly what countries. But how do you function in connection with the delivery of offshore quota countries to this country under the Sugar Act? Do you go in and bid for that sugar at a given price?

Mr. CORNELL. In many cases; yes we do, sir. Unfortunately, Mr. Sisk, South Africa is one of the countries that deals on an exclusive arrangement, on a broker-type arrangement or transaction with someone else, so it is an unfortunate selection.

Mr. SISK. Well let's take—

Mr. CORNELL. Let's take Brazil.

Mr. SISK. All right, I was going to say let's take Brazil.

Mr. CORNELL. Sugar in Brazil is sold by the institute, the IAA, which I think is well known to all of you gentlemen on the committee.

Mr. SISK. Right.

Mr. CORNELL. They make determinations based on their own market judgments as to when they want to offer sugar for sale to the U.S. market. We, and I believe our competitors, have agents or representatives in Brazil who are there and are advised of the facts. They communicate this information to us. They tell us what the quantities are, what the shipping periods are. The rest of the terms, you know, are standard. They do not change time after time, such as quality of the sugar, the shipping, ports, so they will give us until a certain time to offer them a price. And our bids will go to our representatives in Brazil, along with our competitors doing the same thing with their representatives.

They will take it into the office of, I believe, the manager of the institute, the man responsible for the sale. They will open the bids, and they will declare who the winner is. Or sometimes they may not sell at all. They may feel that prices are too low. But that basically is the operation.

From that point on we will open up, if we are the winner, we will open a letter of credit through our banks in New York in favor of the institute in Brazil, and we will proceed to charter a vessel, if that is part of the terms. Lately Brazil has been using her own flag ships, so the bidding is adjusted to the fact that the shipping will be in a Brazilian-type ship, and if that is the case, then we will proceed to try to sell that sugar to a refiner from that particular position.

Mr. SISK. Do you deal exclusively, in connection with purchases of the sugar, with American refineries, or do you also buy sugar for, let us say, other countries?

Mr. CORNELL. Yes, sir. We will deal in the world sugar market; yes.

Mr. SISK. What is the situation then in connection with these quota countries under the act? For example, let us go back to the Brazilian situation where I think they have a much larger quota. I forget what their quota is, a couple of hundred thousand tons or whatever it is, which they are committed to deliver to us under the act. Now, do they at the time that they sell you that, do they stipulate that this is sugar which must go to the United States?

Mr. CORNELL. Yes, sir; yes, sir.

Mr. SISK. That is a part of the understanding?

Mr. CORNELL. Yes.

Mr. SISK. So when you bid on that you know in essence where the destination, or at least the area where that must go?

Mr. CORNELL. Exactly; we know if it is U.S. quota sugar or free world market sugar; yes.

Mr. SISK. In other words, other times in a sale of sugar they will stipulate that there is no quota sugar; in other words, this is free sugar and it can go anywhere then?

Mr. CORNELL. That is right. They will specify it is free world sugar.

Mr. SISK. Mr. Chairman, I think that will be all for now. Thank you very much.

Mr. VIGORITO. Mr. Denholm.

Mr. DENHOLM. Thank you, Mr. Chairman.

Mr. Cornell, you testified that you are incorporated under the laws of the State of Delaware; is that correct?

Mr. CORNELL. Yes; it is, Mr. Denholm.

Mr. DENHOLM. And your home office is in Englewood Cliffs, N.J.?

Mr. CORNELL. Yes, sir.

Mr. DENHOLM. And that you have three stockholders?

Mr. CORNELL. Yes, sir.

Mr. DENHOLM. One is in Luxembourg, one is in Paris, and one is in Switzerland?

Mr. CORNELL. Yes, sir.

Mr. DENHOLM. Do you have a subsidiary corporation that is in the farming business in the United States?

Mr. CORNELL. Yes, sir.

Mr. DENHOLM. How many acres?

Mr. CORNELL. It operates about 9,000 acres in the vicinity of Edwards, Miss.

Mr. DENHOLM. Do you maintain separate accounts on the farm operations?

Mr. CORNELL. Oh, yes; we do. It is a subsidiary and operates accordingly.

Mr. DENHOLM. Do you grow beets or cane sugar?

Mr. CORNELL. No, sir. All we can do in Mississippi is soybeans and cotton.

Mr. DENHOLM. Based on my rough computations and using short tons and not long tons, it appears that you have testified to a profit of more than \$5 million in 1972; is that correct?

Mr. CORNELL. No, sir; no sir. I would like not to go into the specifics in public, sir, but that number is wrong. Could I request to answer that in executive session, sir?

Mr. DENHOLM. Well, I can just ask you if the figures you have given us are factual figures as to your profits in 1972, based on the tonnage that you handled?

Mr. CORNELL. Yes, sir.

Mr. DENHOLM. Is that true for 1973?

Mr. CORNELL. Yes, sir.

Mr. DENHOLM. With reasonably accurate arithmetic having been accomplished, then that would reflect the profit that you received as a broker in trading in sugar?

Mr. CORNELL. Yes; yes, sir.

Mr. DENHOLM. And would the same thing be true for 1974?

Mr. CORNELL. Yes, sir. I point out that our books for the fiscal year are not yet closed. We feel fairly confident that the figures we have so far, they are not audited, but certainly subject to that audit of those figures, that would be the number; yes, sir.

Mr. DENHOLM. Now, Mr. Cornell, did your firm expand the capacity of refining and the delivery of sugar during that same period of time?

Mr. CORNELL. Well, I think in each of the 3 years in question, we have delivered more sugar to the United States than in the year before it. Our volume in this direction has increased. Our total corporate activity in the United States has increased tremendously, but particularly since the creation of Westway, Industrial Molasses, our new beet plants for molasses production, our farm is a new operation. This is our direction and our goal.

Mr. DENHOLM. Well, is it reasonable to conclude that your profits increased in the last 3 years approximately 600 percent?

Mr. CORNELL. That is correct, sir.

Mr. DENHOLM. And how much additional capital did you invest during the same period of time?

Mr. CORNELL. We have reinvested all of our earnings here. We have never paid dividends to our stockholders.

Mr. DENHOLM. Well, I suppose that the public record in the State of Delaware would indicate what you are capitalized at, would it not?

Mr. CORNELL. I would expect it would, sir.

Mr. DENHOLM. Do you know what your firm is capitalized at?

Mr. SURREY. We do not have it here.

Mr. CORNELL. I do not have it. We can supply it, sir.

Mr. DENHOLM. Do you know what the book value of the outstanding stock is?

Mr. CORNELL. No, sir.

Mr. DENHOLM. Do you know the rate of return on investment?

Mr. CORNELL. No; I don't. But these are things that we could supply to the committee.

Mr. DENHOLM. Do you know what the rate of growth of that return investment has been in the last 3 years?

Mr. CORNELL. No, sir.

Mr. DENHOLM. Has it been satisfactory to your stockholders?

Mr. CORNELL. I assume so, sir.

Mr. DENHOLM. I am not opposed to profit but it is obvious that something has occurred that has given you as a broker in the international market a substantial profit increase since 1972. It may have been reasonable in 1973, but I question 1974. Was it beyond all expectations of your stockholders in 1974?

Mr. CORNELL. I do not believe that I could say it is beyond the expectations of our stockholders. This was a year of rising prices.

Mr. DENHOLM. Why?

Mr. CORNELL. I think we are all aware of that.

Mr. DENHOLM. Excuse me for interrupting, but why?

Mr. CORNELL. Well, I have heard an awful lot of theories and ideas on that one.

Mr. DENHOLM. Was it anything that you did that caused those prices to increase?

Mr. CORNELL. No, sir.

Mr. DENHOLM. Was there anything done by others in the same and similar kinds of business that caused those prices to increase rapidly?

Mr. CORNELL. I don't believe that could be, sir.

Mr. DENHOLM. Do you believe it is reasonable to conclude that a 3-percent shortfall in the global supply should cause prices to increase 600 percent?

Mr. CORNELL. Not necessarily by itself. But I think that there has been a continual decline in the year end balances. We have been going through this for 5 years now. Production just has not been keeping up with consumption, and I think that this can explain the price increases to x -level. And I do not know what that x -level would be. I do not know what anybody would put as the x -level of the true value, intrinsic value of sugar today. I would believe, like in any other commodity market, there is a certain point in time where the market does feed upon itself. I think this has happened in almost every commodity market at one time or another.

I would make an observation, Mr. Denholm, that in the past month or so the market shot up 20 some odd points in a matter of days. It was limit up day after day. Since then it has been limit down day after day.

Mr. DENHOLM. May I ask you, based on the evidence and testimony of the hearings—does the public policy of this government have anything to do with the international price changes?

Mr. CORNELL. I do not know if I am qualified to comment on that question, Mr. Denholm.

Mr. DENHOLM. What happened to the price in January 1974 when the U.S. Department of Agriculture announced an 800,000-ton shortfall in domestic use?

Mr. CORNELL. Well, the price has been going up.

Mr. DENHOLM. What happened to the global market when the extension of the Sugar Act failed in June 1974?

Mr. CORNELL. Well, the market went up.

Mr. DENHOLM. What happened in July and August 1974 when the U.S. Department of Agriculture announced again an additional 600,000-ton shortfall in supply for domestic use?

Mr. CORNELL. The market has been going up, but may I also comment, Mr. Denholm, that the market started going up before all of this.

Mr. DENHOLM. Did it go up—

Mr. CORNELL. You go back before to the time of the failure of the international sugar agreement, to reach an agreement if you will.

Mr. DENHOLM. Are you referring to the meeting in Switzerland?

Mr. CORNELL. I believe they met in Geneva, if my memory is correct, back in 1973.

Mr. DENHOLM. And participants failed to achieve an agreement between the sugar producing countries?

Mr. CORNELL. That is correct, sugar producing and sugar importing countries.

Mr. DENHOLM. The fact is the market was more or less stable until 1974, as shown by the results of your profits in brokering in the international market. Is that true?

Mr. CORNELL. Well, the prices were moving up, as I say, in late October, early November 1973.

Mr. DENHOLM. The price increase was not objectionable in 1973 and there was a reasonable increase in the trade but a noticeable increase in profit. Now, in 1974 the prices skyrocketed, and so did your profits; didn't they?

Mr. CORNELL. Yes, sir.

Mr. DENHOLM. Now, that is why we are conducting these hearings. Now why did the global market changes occur?

Mr. CORNELL. Why did we make the profits?

Mr. DENHOLM. No.

Mr. CORNELL. Why did the prices skyrocket in 1974?

Mr. DENHOLM. I am asking you in general what happened in the world market? Did the production go down substantially in 1974 and did the consumption substantially go up?

Mr. CORNELL. There is a combination of both factors, Mr. Denholm.

Mr. DENHOLM. I understand.

Mr. CORNELL. We have problems in production reported around the world, and we have had consumption increasing. And as I indicated, there was a point where I think the market may have fed on itself. This, of course, has been self-corrected.

Mr. DENHOLM. I am concerned about the relativity of consumer demand and global supply. It appears that in 1974 the prices were not in balance with supply and demand. Is that true?

Mr. CORNELL. It could be interpreted that way. As I say, I really could not tell you what the intrinsic value of sugar ought to be. I can tell you that I personally think 60-some-odd-cent sugar is ghastly. I think that type of thing does more damage to our business than it does good. I think now we are back to a 40-cent range. I understand some of the people in the beet sugar industry feel that they have to have at least 30-cent sugar for next year to maintain growth in their crops. I do not know. Should it be 30, 40, or something else? I really do not know.

Mr. DENHOLM. Now, we have had evidence and testimony that personnel changes in the Department could possibly have triggered an excessive price change upward. Those policy decisions did not harm brokers, and obviously it did not economically harm your firm; is that correct? In 1974 you have shown a substantial increase in profit—far better than you did in 1973 and 1972?

Mr. CORNELL. Yes, Mr. Denholm. As I have stated, the price of sugar went up. We own sugar. We had sugar commitments when prices started to rise. We would have to be quite stupid not to make money under those conditions. I hope that we are equally as smart when the market goes down.

Mr. DENHOLM. It takes smart people to improve profit margins when the market is going down.

Mr. CORNELL. That is true.

Mr. DENHOLM. Is that a fair statement?

Mr. CORNELL. That is true because, when you have a falling market, a person who buys sugar, and we buy sugar not futures, has to take a risk that he will be able to sell that sugar immediately or hedge it, and in a falling market, he cannot.

Mr. DENHOLM. I presume you have been in your present position more than 3 years, have you not?

Mr. CORNELL. Yes, sir.

Mr. DENHOLM. Did you have a good year in 1974?

Mr. CORNELL. Yes, sir.

Mr. DENHOLM. Is it possible that public policy decisions emanating from the U.S. Department of Agriculture may have influenced the price of sugar in 1974?

Mr. CORNELL. I cannot say it is impossible. I really do not know whether or not the policy of the U.S. Government had an effect on it. I am just not knowledgeable about the effect of the policy of the U.S. Government, but I certainly could not disagree with you either. I just don't know.

Mr. DENHOLM. Do you have any interest in what the policies are of the U.S. Government on sugar?

Mr. CORNELL. Yes. Of course.

Mr. DENHOLM. Why do you have that interest if you do not know the impact and influence of those policies on the market?

Mr. CORNELL. Because I believe, and my firm believes, that in order to perform the function that we are in business to perform we have to know what the rules of the game are and, therefore, we have to know what the policy, or at least what the actions of the U.S. Government are.

Mr. DENHOLM. But you cannot reasonably conclude from your personal experiences that USDA policies have influenced the price of sugar in 1974?

Mr. CORNELL. I could not say they did or did not.

Mr. DENHOLM. Very well. Thank you.

Mr. VIGORITO. Mr. Johnson, do you have any questions?

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. Cornell, we have been sitting up here figuring, and we keep dropping zeroes and percentage points and everything else, but I think we finally have a figure that anybody can compute. And if you do not want to state this publicly—

Mr. VIGORITO. They are already public.

Mr. JOHNSON. If you don't want to state your ultimate profits publicly, that is your business. But afterwards I would like to have you at least come up and confirm my computations, because we are dropping zeroes and decimal points back here.

Mr. CORNELL. Certainly, Mr. Johnson, I will be glad to do that.

Mr. JOHNSON. The company, Westway, imported about 700,000 tons in the United States in 1974, is that correct?

Mr. CORNELL. Yes, sir.

Mr. JOHNSON. According to your testimony that is roughly the equivalent of the Brazilian quota, is it not?

Mr. CORNELL. Somewhat less than that; yes.

Mr. JOHNSON. The Brazilian quota for Brazil import is the second largest amount of sugar of any country, and I believe they import a large amount.

Mr. CORNELL. That is correct.

Mr. JOHNSON. At Rionda, Rionda imports about 1,600,000 tons.

Mr. CORNELL. I am not aware of that.

Mr. JOHNSON. According to the figures that the USDA gives us, that is roughly the equivalent of what the Philippines imports under their quota?

Mr. CORNELL. A little bit more than the Philippine quota this year.

Mr. JOHNSON. Then between these two companies, Westway and Rionda, you actually import about as much sugar into the United States as the quota between the Philippines and Brazil, do you not?

Mr. CORNELL. Yes.

Mr. JOHNSON. Now, do you and Rionda ever get together someplace and discuss your business?

Mr. CORNELL. The answer to that is no.

Mr. JOHNSON. You don't know who—you don't know anybody in the Rionda organization?

Mr. CORNELL. Mr. JOHNSON, the sugar world is a relatively small one. I think many of us know many others in the industry through sugar club activities, which is strictly a social and luncheon speaker type thing, and through the Sugar Trade Gulf Association, to which many of us go once or twice a year. The fact that while I am not a member of the exchange, many of the people in this room are, and they serve on committees together, they talk to each other; yes, sir.

Mr. JOHNSON. So they do have contact with one another?

Mr. CORNELL. Yes, sir.

Mr. JOHNSON. And we can draw our own conclusions about what they would discuss while playing golf or having lunch; and I presume you talk business once in a while.

What kind of inventories do you have? You said you had in your statement, you said you had generally you had no inventory on hand, but actually you would own the sugar that would be stored in the producing country I presume. You do not have the inventory, but you control it though?

Mr. CORNELL. This is a better way of putting it, Mr. JOHNSON, we do not inventory sugar, we do not buy sugar in warehouses and hold it, we do not import it into the United States and hold it. We contract on purchase commitments for specific sellers for delivery at specific time periods. The way they want to sell, if they want to sell sugar for March delivery to the United States, we will go out and we will buy the sugar for March delivery to the United States. We do not own that sugar, we have a purchase commitment from them, and prior to March we will charter a vessel, lift the sugar and move it to the United States.

Mr. JOHNSON. What kind of time frame is involved in something like that? How far in advance are you buying the sugar?

Mr. CORNELL. It can stretch from very, very nearby positions of perhaps 2 to 3 weeks to an extreme of perhaps 15, 16 months. Eighteen months is as far out as I could imagine.

Mr. JOHNSON. Do you care to disclose when you purchased the 700,000 tons that came into the United States in 1974, roughly? I understand you cannot do that on a per tonnage basis. Do you have commitments pretty far in advance for some of that sugar?

Mr. CORNELL. No; we did not. I would not want to sound facetious, but I could almost say we purchased a little bit of it every day. At

that particular point in time we did not have long-range, far commitments.

Mr. JOHNSON. You did not have long-range commitments for the 1974 sugar?

Mr. CORNELL. Not for the large, long position. We had a long position in the sense that we owned sugar, but in the terminology in the sugar trade, the word "long" sometimes is misleading.

Mr. JOHNSON, when I referred to owning, of course, I am using the word in the sense of contract commitment, the purchase commitment.

Mr. JOHNSON. I understand that. Would you care to disclose how much you did have?

Mr. CORNELL. At a given point in time, sir?

Mr. JOHNSON. Well, let's say at your fiscal year which ends in September, I believe?

Mr. CORNELL. Yes, September 30.

Mr. JOHNSON. And what was your long position? You understand the term I am using?

Mr. CORNELL. Yes.

Mr. JOHNSON. In September of 1973, for example?

Mr. CORNELL. I don't know it, sir, but I will be happy to supply it to the committee.

Mr. JOHNSON. Would you supply that for us, please?

Mr. CORNELL. Under executive privilege, sir.

Mr. JOHNSON. It is up to the Chair.

Mr. VIGORITO. What's that?

Mr. JOHNSON. If he would supply the long position on this. I don't know how much of this, you see, we will ultimately want to use on the floor of the House. And if it comes in as executive privilege here—

Mr. SURREY. We are asking if we can submit it to you in the same sense we would submit it in executive session, that is, for the private use of the committee. The committee obviously could use the information in any statistical report, but not necessarily relate it directly to our company.

Mr. JOHNSON. As far as your personally being identified.

Mr. BERGLAND. Mr. Chairman, this could go in the committee files and it would remain privileged information.

Mr. JOHNSON. Then if we go on the floor of the House, what would the status or position be with respect to the use of the information?

Mr. BERGLAND. Mr. Chairman, I would presume it could become a part of the total report without identifying certain specifics, without betraying a confidence.

Mr. JOHNSON. Then I think that would be sufficient; don't you, Mr. Chairman?

Mr. VIGORITO. Yes.

Mr. CORNELL. Thank you, sir. We will submit it.

Mr. JOHNSON. Then I had some questions here that Mr. Findley wanted to have asked, and he had to leave, and so these are the questions that Mr. Findley wanted to have answered.

When did the Westway Corp. merge with Amerop?

Mr. CORNELL. Westway, Westway Trading Corp. was incorporated on August 25, 1972. On October 11, 1972, it acquired the outstanding shares of Amerop Corp. and Industrial Molasses Corp.

Mr. DENHOLM. Excuse me, what date?

Mr. CORNELL. October 11, 1972.

Mr. JOHNSON. And he asks the question, why did they merge?

Mr. CORNELL. Well, basically, there were three principal reasons. One, to effect a better total financial position, a consolidated balance sheet if you will, that we felt would be better for us to have in our dealings and in our financing and banking relations. Second, we felt that we would get better utilization of personnel. We found ourselves sending two vice presidents from two companies to the same place at the same time and meeting each other there. This did not seem to make much sense. And then third, we felt that we would be able to come up with some cost savings, consolidating into one office and cutting down on administrative overhead.

Mr. SURREY. If I may, I was not counsel in this transaction. But, this was not in a sense a merger of two different groups. This was merely a reorganization of assets or companies which were owned by the same people into a better corporate structure. Nothing more was involved.

Mr. JOHNSON. The next question I believe has already been answered, but he says is Westway controlled by Sucres et Denrees?

I think you said that they own 10 percent of the stock?

Mr. CORNELL. Yes. That is correct, sir.

Mr. JOHNSON. Who are the principal officers and directors of the Sucres et Denrees?

Mr. CORNELL. Well, to my knowledge there are two owners, Maurice Varsano and Jacques Roboh.

Mr. JOHNSON. And Mr. Varsano operates out of Paris?

Mr. CORNELL. Yes, he does.

Mr. JOHNSON. Where does this company do business in the world outside of Westway?

Mr. CORNELL. I really don't know where they do business. I know they have—they are worldwide sugar traders. I would have to believe they do business wherever sugar is being traded.

Mr. JOHNSON. Do you know how much sugar they controlled in 1974?

Mr. CORNELL. I have no idea, sir.

Mr. JOHNSON. Do you know where they primarily buy their sugar—any particular country?

Mr. CORNELL. No, sir. I have absolutely no connection or association with Sucres et Denrees beyond the fact that they are a 10-percent stockholder in Westway.

Mr. JOHNSON. Along that line, where does Westway buy most of its sugar—any one particular country?

Mr. CORNELL. No; we don't buy it in particular countries. That is something that I would like to answer in executive session if I may, or submit for the record, whichever the gentleman prefers.

Mr. JOHNSON. You can submit it for the record.

Mr. SURREY. Submit for the record, I assume, under the same privilege that would apply to executive session?

Mr. JOHNSON. Yes.

Mr. SURREY. Thank you, sir.

Mr. JOHNSON. When did Mr. Calcagnini begin to work for your company?

Mr. CORNELL. 1961, I believe, Mr. Johnson.

Mr. JOHNSON. And what did he do prior to that time?

Mr. CORNELL. Prior to that I think he was in business with his father, but I am not sure. I didn't know him at that time.

Mr. JOHNSON. And I believe he asks here when did he leave, but I believe that answer is already on the record, that he left that company to come to work for the Government.

Mr. CORNELL. That is correct, sir.

Mr. JOHNSON. Have you or to your knowledge anyone connected with Amerop, Westway, or Sucres et Denrees tendered, offered, or agreed to employ Mr. Calcagnini after he finishes his service in the U.S. Government?

Mr. CORNELL. No, sir; we have not.

Mr. JOHNSON. Do you keep in regular contact with Mr. Calcagnini?

Mr. CORNELL. Our traders do from time to time.

Mr. JOHNSON. Why would the traders have any reason to contact him?

Mr. CORNELL. I would say basically because Mr. Calcagnini has reason to contact our traders, as he has reason to contact many of the gentlemen in this room, and I am sure he does that also. I would express the opinion, if I may, Mr. Johnson, that we are probably indulging in less contact with the Department of Agriculture now than we did when Mr. Murphy was in that position.

Mr. JOHNSON. Would you have any objection to providing the committee with any written communications that you or anyone connected with Amerop, Westway, or Sucres et Denrees have had with Mr. Calcagnini during his employment at the U.S. Department of Agriculture?

Mr. CORNELL. No objection at all, sir.

Mr. JOHNSON. Would you submit that for the record under the same rule?

Mr. CORNELL. If there is any.

Mr. JOHNSON. If there is any. OK, that terminates Mr. Findley's questions, and thank you, sir. Thank you, Mr. Chairman.

Mr. DENHOLM. Will the gentleman yield?

Mr. JOHNSON. Yes, I will be glad to yield.

Mr. DENHOLM. I refer again to the three major stockholders of your firm.

Mr. CORNELL. Yes, sir.

Mr. DENHOLM. Are they corporations in foreign countries?

Mr. CORNELL. Yes, sir.

Mr. DENHOLM. The one in Luxembourg, the one in Paris, and the one in Switzerland are all corporations?

Mr. CORNELL. Yes, sir, they are.

Mr. DENHOLM. And they own your company?

Mr. CORNELL. That is correct.

Mr. DENHOLM. Did they purchase Amerop?

Mr. CORNELL. Pardon me, sir?

Mr. DENHOLM. Did they purchase the interests of Amerop?

Mr. CORNELL. Well, you are referring to the three companies themselves or the—

Mr. DENHOLM. Well, doing business as Westway Trading Corp., a Delaware corporation, did Westway purchase Amerop?

Mr. CORNELL. Yes, sir,

Mr. DENHOLM. Was Mr. Calcagnini the executive vice president of Amerop at the time of that transaction?

Mr. CORNELL. At the time that Westway was formed, and at the time it acquired the shares of Amerop, Mr. Calcagnini was the president of the Amerop Corp.

Mr. DENHOLM. What is his position now?

Mr. CORNELL. Now?

Mr. DENHOLM. Yes.

Mr. CORNELL. He has none with us. He is Director of the Sugar Division, sir.

Mr. DENHOLM. Where?

Mr. CORNELL. The Department of Agriculture. Mr. Denholm, I think perhaps there might be some misinterpretation or misunderstanding here.

Mr. DENHOLM. Very well, you may explain it.

Mr. CORNELL. I will try. The companies that now own Westway Trading Corp. are the same companies that owned Amerop and Industrial Molasses before the formation of the Westway Trading Corp., so there was no change in ownership, if you will. The ownership remained the same.

Mr. DENHOLM. Why did they organize Westway Trading Corp.?

Mr. CORNELL. Well, Westway Trading Corp. was organized to consolidate their holdings in the United States into one place.

Mr. DENHOLM. Did that occur about the same time Amerop was acquired?

Mr. CORNELL. Oh, no. No. Amerop was already owned by these people during this period of time. They were already the owners of Amerop and Industrial Molasses. They formed Westway Trading Corp. They took the stock of Westway Trading Corp. in substitution for the stock of Amerop and the stock of Industrial Molasses. They effectively at that point formed a holding company in the United States.

Mr. DENHOLM. Did you have a close working relationship with Mr. Calcagnini?

Mr. CORNELL. Yes, I believe I did, sir.

Mr. DENHOLM. During that time?

Mr. CORNELL. Yes.

Mr. DENHOLM. Did you have a close working relationship with him?

Mr. CORNELL. Yes.

Mr. DENHOLM. Did he meet with you and advise the board and management on business matters?

Mr. CORNELL. I'm sorry, sir, I missed the question.

Mr. DENHOLM. Well, what was his function as president of Amerop? Did he advise and counsel with you and others of your firm?

Mr. CORNELL. Yes. I was with Amerop at that time, sir.

Mr. DENHOLM. Very well.

Mr. CORNELL. I was part of the Amerop organization.

Mr. DENHOLM. Now, what is the nature of the three stockholders of your firm at the present time in the corporation located in Luxembourg, Paris, and Switzerland? Who are the owners of those corporations?

Mr. CORNELL. I don't know, sir. I do know that Sucres et Denrees is owned in part by Maurice Varsano. I am not familiar with the

owners of the other two corporations. I know they are holding companies.

Mr. DENHOLM. Do you know and can you furnish for the file the stockholders of those corporations?

Mr. SURREY. We do not have that information, sir.

Mr. DENHOLM. Is that information available?

Mr. SURREY. It is not available to us.

Mr. DENHOLM. They are foreign domiciled corporations?

Mr. SURREY. That is correct.

Mr. CORNELL. Yes, sir.

Mr. DEHOLM. Is there no way to ascertain from the records in this country who really owns those three corporations that formed one company in the United States?

Mr. CORNELL. Not that I am aware of.

Mr. DENHOLM. Is that your statement, counsel?

Mr. SURREY. That is my understanding, sir. We do not have the information or the authority to obtain it.

Mr. DENHOLM. Is it your contention as legal counsel that we do not know who we are doing business with and that you are not informed as to whom you represent?

Mr. SURREY. You do not know the ultimate owners of the companies that have an interest, which is not an unusual situation when you have foreign ownership.

Mr. DENHOLM. Mr. Chairman, I am not satisfied, but I shall yield.

Mr. VIGORITO. Mr. Johnson has one question.

Mr. JOHNSON. Yes. I wonder if you would submit for the file, gentlemen, the long and short, the long and future position of Westway as of these weeks, if you would take these down: January 2, 1974; January 9; January 16; January 23; and January 30.

Mr. SURREY. Under the same conditions that this is for executive session?

Mr. JOHNSON. Yes.

Mr. DENHOLM. I regret to ask again for you to yield to me but may I ask another question?

Mr. JOHNSON. Certainly.

Mr. DENHOLM. Do you favor the extension of the Sugar Act?

Mr. CORNELL. Is that a question that you are asking me personally, sir, or one that you would like a company consensus of opinion on?

Mr. DENHOLM. You may give both answers if you would like.

Mr. CORNELL. Thank you. I asked for that, didn't I?

I personally prefer the extension or the creation of a sugar act, not necessarily the one that we had, though I believe it worked well for many years. I am sure there was room for much improvement.

In discussing with my associates the pros and cons of the act, as I guess everybody in the business has done, I would say that for the most part they probably agree with me, but we have always felt that because of our type of business, as a merchant dealing between the sellers on the one side and the buyers on the other side that it really was not appropriate for us to take a position, a corporate position on the act, and therefore, we have never taken a corporate position pro or con.

Mr. DENHOLM. One last question if I may, please? If we cannot successfully reinstate or extend the Sugar Act in some form or another,

do you believe that based upon your experiences that the sugar producing countries of the world will ultimately reach an agreement to the disadvantage of the consumers of the United States?

Mr. CORNELL. I really do not know, sir. I really do not know.

Mr. DENHOLM. Very well. I thank you. Thank you, Mr. Chairman.

Mr. VIGORITO. One question. Did I understand you correctly, Mr. Cornell, that you say that Westway Trading Corp. never pays dividends?

Mr. CORNELL. That is correct. It has never paid dividends to a stockholder, nor did Amerop Corp as a predecessor of Westway. It has reinvested all of its earnings in the United States.

Mr. VIGORITO. Well, what's in it for the three stockholders?

Mr. CORNELL. The stockholders are basically investment people, and they want to invest in the United States and have done it.

Mr. VIGORITO. Does this reflect on the value of their stock?

Mr. CORNELL. Somewhere along the line the arithmetic would make it appear that it must, but I do not know what kind of a market value the stock would have, and that is what you are referring to, of course, is market value. The investment value is greater each year, of course, but I have no way of correlating that with market value. Their investment in the United States is growing. We are making money for them, and they are reinvesting it here.

Mr. VIGORITO. So if they ever make a decision sometime in the future, I am assuming then they would sell it at whatever the market was at that particular time, including all of the investments that have been piled up year after year? I am assuming.

Mr. CORNELL. Well, that would be true; yes.

Mr. SURREY. I would imagine that there would have to be a sale of the assets rather than shares because it is not—generally when you have a sale of a closely held company, you sell the assets and not the shares.

Mr. VIGORITO. Well, that could be accomplished very easily I think. Does counsel have any questions?

Mr. MURRAY. Just one, Mr. Chairman.

A year ago the Agriculture Department announced on December 21 that there would be no further increase in the continental U.S. sugar requirements for 1974, and the press release goes on to say that the situation was such that in the first 90 days there seemed to be sufficient supplies to satisfy the projected demand for refined sugar and so on. I would like unanimous consent to include that statement, that press release from the Department at this point in the record.

Mr. VIGORITO. It will be.

[The press release follows:]

USDA ANNOUNCES SUGAR REQUIREMENTS ARE AMPLE FOR 1974

WASHINGTON.—The U.S. Department of Agriculture (USDA) announced today that no further increase in continental U.S. sugar requirements for 1974 will be made at this time.

USDA said sugar supplies on hand plus those scheduled for arrival before the end of the year will provide refiners their largest carryover stocks in recent

years. In addition, sugar scheduled for delivery during the first 90 days of 1974 from foreign suppliers and domestic sugar producing areas appears sufficient to satisfy projected demand for refined sugar during the first calendar quarter of 1974. The Department will continue to review the market situation daily.

However, there is a tight supply situation with respect to foreign sugar available for non-U.S. consumption and any further increase in quotas at this time is not likely to result in any significant increase in shipments to the U.S. market. USDA officials said foreign suppliers are being urged to make every effort to insure that delivery schedules are met during the early weeks of the new quota year.

Mr. MURRAY. Then about 3 weeks later, 21 days later, the U.S. Department of Agriculture announced on January 11 that the U.S. sugar requirements were being raised 500,000 tons, and then we were assigning quotas on a first-come, first-serve basis. And again I would like to include that press release at this point in the record.

[The press release referred to follows:]

1974 SUGAR REQUIREMENTS INCREASED: ADDITIONAL QUOTA DEFICITS DECLARED

WASHINGTON.—United States domestic sugar requirements for 1974 were raised an additional 500,000 tons, to 12.5 million short tons, raw value, the U.S. Department of Agriculture (USDA) announced today. The Department also declared a deficit in the Domestic Beet Area quota.

Today's action increases the Florida-Louisiana Mainland Cane Area quota by 86,666 tons and makes available 413,334 tons of raw sugar for importation into the U.S. on a first-come, first-served basis from any sugar producing country other than Cuba or Southern Rhodesia. The first-come, first-served method of obtaining sugar is necessary because limited sugar supplies and increases in sugar prices may create an emergency situation significantly interfering with the orderly movement of foreign raw sugar to the United States.

The quantity of 413,334 tons of sugar made available for importation from foreign countries represents foreign countries' share of increased requirements totaling 175,000 tons, plus the Domestic Beet Area deficit of 238,334 tons, (its share of the increased requirements).

The spot price of raw sugar in New York moved today from 11.70 cents per pound to 12.05 cents per pound and now exceeds the current Sugar Act objective of 10.94 cents by more than 10 percent. Today's action should increase the movement of additional raw sugar into the United States in nearby months and also aid in carrying out the price objective of the Sugar Act.

The importation of the additional sugar will be authorized on the basis of applications for Sugar Quota Clearance (Form SU-3) or for Set-Aside of Quota (Form SU-8A) as provided for in Sugar Regulation 817. Applications for Sugar Quota Clearance (if eligible for authorization) and for Set-Aside of Quota will be authorized in the order received, with the first priority given to the earliest arrival date and second priority to the earliest departure date. An application for Sugar Quota Clearance on SU-3 will have priority over an application for Set-Aside of Quota when such applications are received at the same time. Applications for Set-Aside of Quota must indicate the anticipated dates of departure and arrival and will not be accepted for arrival dates subsequent to March 15, 1974.

The accompanying table shows quotas and changes in quotas for individual producing areas:

[Short tons, raw value]

Production area	Change in quota	Total quotas and prorations
Domestic beet area.....	0	3,300,000
Mainland cane area.....	86,666	1,764,333
Texas cane area.....	0	100,000
Hawaii.....	0	1,110,000
Puerto Rico.....	0	1,555,000
Total domestic areas.....	86,666	6,429,333
Philippines.....	0	11,555,358
Dominican Republic.....	0	786,741
Mexico.....	0	695,775
Brazil.....	0	678,564
Peru.....	0	449,446
West Indies.....	0	61,756
Ecuador.....	0	100,186
Argentina.....	0	94,040
Costa Rica.....	0	84,821
Colombia.....	0	83,591
Panama.....	0	179,287
Nicaragua.....	0	79,287
Venezuela.....	0	63,540
Guatemala.....	0	72,528
El Salvador.....	0	52,859
Belize (British Honduras).....	0	41,796
Haiti.....	0	38,108
Honduras.....	0	14,751
Bolivia.....	0	7,990
Paraguay.....	0	7,990
Australia.....	0	212,625
Republic of China.....	0	88,524
India.....	0	85,134
South Africa.....	0	60,144
Fiji Islands.....	0	46,592
Mauritius.....	0	31,344
Swaziland.....	0	31,344
Thailand.....	0	19,483
Malawi.....	0	15,671
Malagasy Republic.....	0	12,707
Ireland.....	0	1,535
To be allocated ²	413,334	413,334
Total foreign.....	413,334	6,070,667
Total.....	500,000	12,500,000

¹ Direct-consumption limits in tons: Hawaii—40,356; Puerto Rico—169,000; Philippines—59,920; Panama—3,817; Ireland—5,351.

² Represents the foreign share (175,000 tons) of the increase in requirements and a deficit in the quota declared for the domestic beet sugar area of 238,334 tons totaling 413,334 tons. Such total quantity to be authorized for importation on a 1st-come, 1st-served basis from any sugar-producing country other than Cuba and Southern Rhodesia.

Mr. MURRAY. After that was announced, Mr. Poage wrote to the Department of Agriculture asking why there was a change in policy of this nature, and of this dramatic scope, and in such a short period of time. He received a memorandum back from Mr. Calcagnini in response to that request through John O'Neil, the chief counsel of the committee. And I would also like to include that memo, that answer at this point in the record.

[The memo referred to follows:]

U.S. DEPARTMENT OF AGRICULTURE,
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE,
Washington, D.C., January 17, 1974.

Hon. W. R. POAGE,
Chairman, Committee on Agriculture,
House of Representatives.

DEAR MR. CHAIRMAN: This is in response to Mr. John O'Neal's telephone request of January 12, concerning documentation regarding the Department's increase in 1974 sugar quotas. I have assembled the following documents, which are enclosed.

1. Findings (under Section 202) that "limit sugar supplies and increases in prices . . . May create an emergency situation . . ." See paper entitled "Back-

ground on Sugar," which was read (and approved) in draft by the Department's General Counsel.

2. Sugar shipments to the U. S. market during the past 5 years by month of arrival.

3. Listing of sugar shipments scheduled in 1974 from quota countries, together with a listing of quota and non-quota countries believed to have stocks of sugar available for prompt shipment.

Mr. O'Neal asked for a listing of uncommitted sugar stocks by country, as of January 1, 1974. We do not have any data on this subject, or know of any source of such data. He also asked for data on actual consumption in the U. S., which is discussed in the paper "Background on Sugar".

Sincerely,

ARTHUR B. CALCAGNINI,
Director, Sugar Division.

BACKGROUND ON SUGAR

Physical distribution of sugar for continental U. S. consumption in 1973 was about 11,569,000 short tons, raw value (preliminary). Based on 11-year trend the amount of sugar we expected to be consumed in 1973 (taking into account population increases) was about 11,550,000 tons, indicating that there was practically no increase in the stocks of sugar held by users and consumers during the year, and no hoarding by housewives. However, refiners have informed us that their projections of raw sugar melt during the first quarter of 1974 are usually high, based on forward sales. Our estimate of the sugar needed for normal demand (i.e., no hoarding) for 1974 is on the order of 11,700,000 tons.

The source of our sugar supplies for 1973 (preliminary) and 1974 (projected) are shown in the following table:

[Thousand short tons, raw value]

Area	1973 ¹	1974 ²
Domestic beet area.....	3,510	3,200
Mainland cane area.....	1,640	1,500
Hawaii.....	1,144	1,120
Puerto Rico.....	79	75
Texas cane area.....	2	55
Total domestic.....	6,375	5,950
Foreign countries.....	5,334	5,800
Total, domestic and foreign.....	11,709	11,750

¹ Preliminary.

² Projected.

Despite the fact that charges to quotas in 1973 exceeded distribution for consumption by 140,000 tons, sugar prices remained high through December. The initial determination of requirements for calendar 1974 provided for 5,492,000 tons of quotas for foreign countries, and the decision to increase 1974 quotas by 200,000 tons on December 11 added 165,333 tons to the total, bringing it to 5,657,333 tons, or 323,000 tons more than 1973 final quotas for foreign countries. The excess of quota charges over actual distribution in 1973, when added to the total of foreign quotas in effect for 1974, was felt to be more than adequate for normal demand in 1974, and sufficient under normal circumstances to bring domestic sugar prices to lower levels.

Notwithstanding the fact that sugar on hand plus effective quotas appeared more than adequate, the New York raw price moved to higher, not lower, levels. As the seriousness of the freeze damage to the cane crops in South Texas and Florida become known to us, it became evident that 1974 domestic quotas contain some "water", i.e., some shortfalls can be expected. It is much too early to declare further domestic deficits (the original requirements determination provided for deficits of 700,000 tons for Puerto Rico, and 392,000 for the domestic beet area), and it was felt that a further increase in requirements with most of the increase going to foreign countries could be justified, knowing that the impact of reducing quotas (if it were to become necessary) could be softened later by declaring deficits in some domestic quotas (when it becomes possible to estimate accurately the quantity of such deficits) and transferring the resulting entitlements to foreign countries.

In consideration of the fact that previous quota actions had not brought about a reduction in the U.S. price, it was decided that further action was necessary to return the U.S. domestic price to the limits specified in Section 202 of the Sugar Act. Increasing quotas on a prorata basis (country by country) was rejected since it would leave suppliers the option of waiting until November or even December before shipping the additional sugar, and the market required additional sugar in the nearby positions.¹ Use of the "first-come, first-served" provision was chosen because (1) it was justified by market conditions,² and (2) it was the most effective means available to the Department to encourage foreign suppliers to bring forth additional sugar in the nearby positions when it is needed the most. Furthermore, it was felt that the additional supplies should not be restricted to quota sources.

FOREIGN SUGAR SCHEDULED FOR ARRIVAL IN THE UNITED STATES DURING THE FIRST QUARTER OF 1974

(Thousand short tons, raw value)

Country	Arrivals through January 16	Estimated arrivals		Quantity chartered January-March (percent)
		January-February	January-March	
Philippines.....	42	140	210	100
Brazil.....	18	156	240	100
Honduras.....			10	40
Guatemala.....	6	6		
West Indies.....	2	2	28	100
Columbia.....			15	0
Costa Rica.....		12	16	0
Argentina.....			10	0
Dominican Republic.....	12	115	155	50
El Salvador.....		6	10	70
Mauritius.....			13	100
Mexico.....		130	220	40
Nicaragua.....		5	15	30
Panama.....			6	30
Peru.....	11	34	100	60
South Africa.....	18	46	46	50
Total.....	109	652	1,094	68

FOREIGN COUNTRIES BELIEVED TO HAVE SUGAR STOCKS AVAILABLE FOR PROMPT SHIPMENT

Country	Quantity	Remarks
Quota countries:		
Brazil.....	50,000.....	
India.....	Unknown.....	
Santo Domingo.....	do.....	
Nonquota countries:		
Reunion.....	15,000.....	Import-export possibilities.
French West Indies.....	500,000.....	Do.
EEC.....	Unknown whites.....	Second hands.
Eastern block.....	do.....	Do.
China.....	do.....	6-8 cargoes per year appear but presently unknown.
Congo.....		Unknown but possible.
Cuba.....		Recently offering Japanese at \$82 over July No. 11 futures and rejected bids of \$400 metric ton C&F Japan July shipment. They sell over 2 million tons raws to free market (uncommitted on this quantity); should have at least half of this that could be swapped around or sold direct.
Rhodesia.....		Unknown but possibility of two cargoes.

Mr. MURRAY. And this memo the Department responded on the first-come, first-served basis that there were some nonquota countries that possibly could furnish sugar to us during this period of time in the

¹ The New York spot price stood at 12.05 cents per pound, 1.11 cents above the price objective of 10.94 cents on January 11, and the world market price stood at 15.00 cents, a premium of 3.95 cents per pound over the U.S. spot price when adjusted to the same basis.

² The Department's Office of the General Counsel agrees that there is sufficient legal grounds.

first half of 1974. Now, these countries that were listed were Reunion, the French West Indies, the EEC, Eastern Bloc, China, Congo and Cuba. And of these it was listed that the French West Indies had available 500,000 tons of sugar, and that Reunion had available 15,000 tons of sugar. Do either of you two gentlemen, Mr. Surrey or Mr. Cornell, have any knowledge of a communication from your company or from your firm to Mr. Calcagnini or to anyone in the Sugar Division in the period from December 21 up to January 17 that would indicate that the French West Indies or Reunion had these large quantities of sugar on hand?

MR. SURREY. I will speak first myself. I had no communications and no client at that time on behalf of whom I would have had any communications.

MR. MURRAY. Mr. Cornell?

MR. CORNELL. I have no knowledge of any such communications, Mr. Murray.

MR. MURRAY. Thank you, Mr. Chairman.

MR. BERGLAND. Mr. Chairman, may I just ask one question, please?

MR. VIGORITO. Yes.

MR. BERGLAND. Mr. Cornell, during the latter part of November of this year, 20 countries of Central, South America and the Caribbean area convened a sugar summit conference in Mexico. These three countries produce and control about 15 million tons of sugar per year. The news accounts indicate that they intend to form a Caribbean cartel for the purpose of blocking their sugar to extract what I would regard to be a very high price. Are you knowledgeable on this conference, do you know any of the terms and conditions that were discussed at that meeting?

MR. CORNELL. Not at all, sir. Nothing.

MR. BERGLAND. Thank you, Mr. Chairman.

MR. VIGORITO. There being no further questions, we wish to thank you very much for your appearance here today.

And since it is quarter after 12, we will recess until 2 p.m. in room 1302 around the corner. Thank you.

The committee stands in recess.

[Whereupon, at 12:15 p.m., the hearing was recessed to reconvene at 2 p.m., this same day.]

AFTERNOON SESSION

MR. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations is now resuming its sitting.

I wish to state that the reason more members aren't here, we have an agricultural bill up on the floor that we have been trying to get for 6 months, the rice bill, the bill for increasing rice production. If it does not take too long on the floor, some of the other Congressmen will be here.

But I wish to speed this up. So what I will do is have you come and sit as a panel. I went through this statement from Mr. Humphries from Cargill, Inc., and their statement runs very similar to the initial statement that we had this morning, but as a panel we will be able to have some discussion on the sugar situation.

So I will call you out, call the names here.

Mr. Clark, Czarnikow-Rionda Sugar Co., accompanied by counsel, Martin McHugh; Mr. Humphries, accompanied by Mr. James Moe. Is there anybody representing the Lamborn Co.?

You probably know Mr. Lamborn was in an accident a day or two ago and died.

Then we have a Mr. Richard McCary.

Mr. DOUGHERTY. Mr. Kenneth Dougherty, executive vice president, and counsel is Harold Baker.

Mr. VIGORITO. Mr. Baker is the counsel?

Mr. DOCKERTY. Yes, sir.

Mr. VIGORITO. Mr. Jerry Ascher, ACLI Sugar Co., accompanied by Mr. Preston Brown, counsel.

Mr. ASCHER. Correct, sir.

Mr. VIGORITO. All right. Then we have a Mr. James Garry, senior managing partner of Christman Associates, accompanied by Mr. Robert Christman, managing partner, both gentlemen here.

No sooner will we get going than we will have to declare about a 10-minute recess.

There is a vote going on and it is a vote on the rice bill. So that when I come back I will see that I get more members.

Will you excuse us for 10 minutes?

[Recess.]

Mr. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations is now resuming its hearings.

As I called the roll before the recess—we are going to have this as a panel discussion, so if you will come forward and be sworn in and then we can give each one of you the opportunity to discuss the three main points in the telegram that you received from this committee.

So we have Mr. Clark accompanied by Mr. McHugh; Mr. Humphries accompanied by Mr. Moe; Mr. Dougherty on his own; then Mr. Ascher accompanied by Mr. Brown; and Mr. Garry accompanied by Mr. Christman.

So will you please come to the desk at the center of the room.

Will you all raise your right hand.

Do you solemnly swear that the testimony that you are about to give to this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

[Chorus of "I do."]

Mr. VIGORITO. Let the record show the witnesses are sworn in.

Please be seated, gentlemen.

In the interest of saving time, that is the reason I am having this panel. I don't wish to have any of you stay over, nor do I want this to go for another day or two.

At the present time, as you all know, the 93d Congress is rapidly coming to its end.

Mr. HUMPHRIES. Sir, you characterized the statement as being essentially the same as Westway's statement. Will we be allowed to read Cargill's statement?

Mr. VIGORITO. Yes; you may, if you wish.

Mr. HUMPHRIES. Fine.

Mr. VIGORITO. Yes; there is some difference, if not word for word. I read it over already. There is nothing in that statement that I don't already know.

Mr. FOLEY. Mr. Chairman, I would move that all the statements of the witnesses be included in the record at this point.

Mr. ZWACH. I second the motion.

Mr. VIGORITO. Well, the witnesses don't have prepared statements.

Mr. HUMPHRIES, is your statement the only one?

Mr. HUMPHRIES. I don't know, sir.

Mr. VIGORITO. Yes; I believe.

Anyone else have a prepared statement?

[No response.]

Mr. VIGORITO. Mr. Humphries, will you start and read your statement, and we will start from there.

**STATEMENT OF CARY H. HUMPHRIES, GENERAL MANAGER,
SUGAR DEPARTMENT, CARGILL, INC., ACCOMPANIED BY JAMES
MOE, ATTORNEY, CARGILL LAW DEPARTMENT**

Mr. HUMPHRIES. First, sir, my company is Cargill, Inc., not the Cargill Co., Inc., and my address is Cargill Building, Minneapolis, Minn., not 2 Broadway, New York, N.Y.

I am accompanied by Mr. James Moe, a lawyer from the Cargill Law Department.

My name is Cary H. Humphries. I am general manager of the Sugar Department of Cargill, Inc. I am appearing today at your request to discuss the operation of the international sugar market, Cargill's role in that market, and recent factors influencing sugar marketing.

Total world production of beet and cane sugar this year is estimated to be about 80 million tons. In recent years approximately 27 or 28 percent of world production has been exported annually. Of the quantity exported, nearly one-half is traded through special arrangements between governments.

Exports to the United States which have been traded under quota provisions of the U.S. Sugar Act, fall into this category. Included among the other Government agreements are the African and Malagasy Sugar Agreement, the Commonwealth Sugar Agreement of 1951, and special arrangements among Socialist countries ensuring access to Cuban and Soviet Union sugar.

The balance of world sugar trade is transacted on a free market basis. About 15 percent of world sugar production is available each year for trade in the free market. The Soviet Union, Canada, and Japan have been the three largest free-market buyers of sugar in recent years.

The United States imports about 5 million tons of sugar each year. With the termination of the Sugar Act, the United States is likely to become the largest free market buyer of sugar in the world. Free market trade will then rise to more than 20 percent of world production or about 16 to 17 million tons.

Cargill is primarily a processor and merchandiser of raw agricultural commodities. We have merchandised grains and oilseeds for more than 100 years, but we have been an international sugar merchant only since 1965. Our decision to merchandise sugar internationally was based in large part on the confidence we had that the skills and efficiencies we had developed in grain merchandising could be applied to sugar merchandising.

In simplest terms, a sugar merchant buys supplies of raw and semi-refined sugar in areas of surplus production and arranges for sale and delivery of the commodity to buyers in deficit areas. The need for the services of the merchant arises from the fact that producers cannot always find refiners willing to buy at the times and in the locations that producers have commodities to sell.

To serve these needs economically, a sugar merchant must have the capability to handle and transport bulk commodities efficiently. In addition to buying and selling sugar, the merchant must fix transportation in ocean-freight markets in coordination with purchases and sales.

Sugar merchandising also requires substantial financing capabilities. A boatload shipment of sugar represents a significant expense. Financing such shipments is, therefore, important, and the ability of the merchant to hedge commodity transactions is essential to attracting needed financing. Banks are reluctant to extend sufficient lines of credit unless the merchant can demonstrate an ability to minimize the risks of adverse price movements through the hedging of sales and purchases.

We have traditionally engaged in two types of purchases in world markets. The most common means of purchasing sugar has been in response to public tenders. These are tenders held by private parties or government bodies of producing countries. Typically, eight or more United States, French, Japanese, and British sugar merchants submit written bids to the organization tendering the sugar. The contract is awarded to the highest bidder.

The quantities involved in tender offers usually range from 20,000 to 100,000 tons. Sugar destined for the United States has been tendered separately from world sugar.

A different approach has been used in the Philippines until just recently. Because the Philippines did not use public tenders to sell sugar, we purchased smaller quantities directly from planters, brokers, and warehousemen. These purchases or relatively small quantities were stored and consolidated in the Philippines until a sufficient amount for shipment was acquired.

Purchases were typically in amounts of 100 tons, while shipping sizes vary from 12,000 to 20,000 tons. In purchasing sugar from producers we also became involved from time to time in advance financing.

Purchases of all types have traditionally been made f.o.b. the point of sale. Recently, however, Brazil has sold on a c.i.f. basis to insure shipment on Brazilian ships.

In the past years, we have merchandised both U.S.-quota sugar and world sugar. We do not merchandise sugar within the United States. On average, about 70 percent of our business has involved imports into the United States under quota provisions. About 95 percent of these sales are made to refiners. The remaining 5 percent of these sales are to industrial users and bottlers. We are a c.i.f. seller in the United States.

Sales to foreign importers are made to refiners, to importing firms operating in countries like Japan or occasionally to a government such as Hungary or Iran.

As I suggested earlier, effective use of futures markets is essential to the successful operation of our business. We use futures markets pri-

marily as a hedger—to offset unwanted price risks by shifting them onto others more willing to accept them.

Futures markets operate in New York, London, and, until recently, Paris. We have typically hedged our transactions primarily in the New York and occasionally in the London markets. Futures for U.S.-quota and world sugar are both traded in the New York market.

As a hedger, we sell sugar futures to offset or hedge purchases we have made of actual sugar. Similarly, we buy sugar futures to hedge sales of actual sugar. Occasionally we will use futures markets to pre-hedge anticipated purchases or sales. In any case, our policy is to move toward a fully hedged position.

In our invitation to appear before this committee, we were asked to provide information on volume and profit for the past 3 years.

As I mentioned earlier, Cargill has been involved in sugar merchandising since 1965. We have experienced a relatively steady growth in sales and earnings, but remain a rather small part of the market. During the past fiscal year our volume represented less than 3 percent of the market in which we compete.

Our audited figures from the past 3 fiscal years show a loss of \$94,000 in fiscal year 1972 on dollar sales of \$55 million. In fiscal year 1973 earnings were \$1.1 million on \$68 million in sales. In fiscal year 1974 sales increased to \$118 million, and earnings rose to \$3 million. Earnings during this period remained below one-fourth cents per pound.

In closing, I would like to comment briefly on the factors which, in our view, have led to and are currently influencing world and U.S. sugar marketing. I would like to suggest some major economic factors to which the recent dramatic price changes in sugar can be attributed.

Long-term developments in world sugar production and consumption provide a partial explanation. Per capita sugar consumption has been increasing steadily since the mid-sixties.

From 1967 to 1973, per capita world consumption increased from 40.8 pounds to 45.6 pounds.

Although world production has also increased steadily, it has not increased as fast as world consumption. Consequently, reserve stocks have been drawn down to a 10-year low.

During this period both developed and developing countries have subsidized consumption of sugar. In many producing countries the domestic price of sugar has been kept well below the price being paid for the country's exported sugar. The result has been artificially low returns to producers and inadequate incentives for needed production increases.

The U.S. Sugar Act has also had a distorting and somewhat counterproductive effect on world sugar production and consumption. The United States through the Sugar Act, supported the domestic price of sugar by controlling the access which exporters of sugar had to our market. This approach to price support in the United States was initially intended to provide subsidies to U.S. producers.

The price to U.S. farmers, however, was not high enough to encourage major expansion in sugar output. High prices paid to foreign producers may also not have had their intended effect. In world markets, competitive pressures in a period of surplus resulted in foreign producers using their high-priced export sales to the United States to subsidize low-priced sales in the free market. This phenomenon ex-

plains why world sugar was trading below the cost of production for a long period in the mid sixties.

As a result, consumers in other importing nations paid an artificially low world market price for sugar, and their consumption grew at an artificially high rate.

The higher prices paid by the United States to foreign producers appear not to have stimulated expanded sugar production. Rather, the U.S. consumer, in a sense, subsidized consumers in the other importing nations which imported free market sugar.

Thus, the long-term developments in sugar production and consumption were on a collision course. Unanticipated problems during the past year augmented and accelerated this process. Sugar production this year was bad in both the United States and European Community. The Russians also had a bad crop and came into the free market to purchase approximately 500,000 tons. The market reflected this deteriorating supply situation through increasingly higher prices.

We are, however, in a transition period. There is little reason to expect that the system will not adjust. We have already seen a substantial weakening of prices, apparently because purchasing demand has become satiated. World production should respond to the incentive of extraordinarily high prices.

Better use of marketing tools, freer access to world supply, and a more actively trading futures market will permit U.S. sugar users to operate more economically in the free market situation.

Also, increased reliance on free market pricing of sugar should permit more regular adjustments in consumption and production over time by eliminating some of the uneconomic incentives that introduced distortions in the past.

Thank you.

Mr. VIGORITO. Mr. Humphries, you state, "the U.S. Sugar Act has also had a somewhat counterproductive effect on world sugar production and consumption."

Now, that paragraph is almost what I think could almost have been written by Mr. Butz.

Mr. FINDLEY. Is that a compliment?

Mr. VIGORITO. I do not mean it as a compliment to Mr. Butz.

But if we let the cost of production be the determining factor in world production, the U.S. farmer, up until this point anyhow, say before this year, could not possibly compete with sugar from Brazil and India and Cuba.

Do you agree with that?

Mr. HUMPHRIES. Well, I think during this period you are referring to, we saw practically no increase in production in the United States under the Sugar Act. The Sugar Act did not stimulate U.S. production. U.S. sugar beet production has declined 3 years in a row. I do not think that the sugar beet producers have even filled the allotments they were entitled to for a period of some 4 or 5 years.

Mr. VIGORITO. What is the reason?

Mr. HUMPHRIES. Well, I think that the price was not remunerative.

I think right now all of us would agree that next year we will see substantial sugar beet production increases in the United States, because market price has risen and it dictates a better return for the producer.

Mr. VIGORITO. What I am driving at is that the world and the United States cannot afford to drive the American producers of sugar, both beet and cane, off the world market, because we produce 6 million or more tons every year. So we need that sugar, the world needs that sugar production.

We cannot go on the world market for a complete 12 million tons of sugar.

Mr. HUMPHRIES. I would agree with that.

Mr. VIGORITO. So you say if the price would adjust itself at a high level, and you are telling the American people that from now on they are going to have to pay a higher price in the future than they have been in the past?

Mr. HUMPHRIES. I think that may be quite possible, that we will all have to pay a higher price for sugar in the future than we have in the past.

I think that we focus on two areas of sugar supply in the United States. One is domestic production, and the other is foreign imports. I think that in the relatively short time—in the 10 years that Cargill has been in the sugar business, we have seen two distinct periods, a period of considerable surplus, and it was not the Sugar Act that got us on our needed supply from foreign producers during that period. It was the fact that we were buyers of sugar. We could have bought as much sugar as we needed and more. So the Sugar Act did not supply us with sugar during the sixties.

The Sugar Act caused us to pay more than we would have had to pay if we had been able to buy world sugar.

Now, in a period of scarcity the Sugar Act also is not protecting the American consumer because we are having to pay world market price to get sugar into the United States.

Mr. VIGORITO. And for all practical purposes we do not have a Sugar Act right now. It technically expires at the end of this month; is that correct?

Mr. HUMPHRIES. That is true.

Mr. VIGORITO. The House voting it down last June, June 5, automatically told the world it was going to have the sugar standard, I guess.

Mr. Findley?

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. Humphries. I am impressed with the arguments and comments you set forth in the latter part of your statement, the analysis of factors influencing sugar marketing. I think it is one of the most illustrative and I think sound comments that this subcommittee has heard in its rather extensive hearings.

I would like to find out more about Cargill as an element in the international sugar industry. I am aware of its extensive grain operations.

Is Cargill U.S.-owned?

Mr. HUMPHRIES. Yes, sir, we are.

Mr. FINDLEY. Are there any substantial foreign interests that have an interest in Cargill?

Mr. HUMPHRIES. You mean any substantial foreign individuals?

Mr. FINDLEY. Individuals or firms.

Mr. HUMPHRIES. I think the answer to that is no. There may be— we have some foreign subsidiaries, some corporations who are foreign corporations that are wholly-owned subsidiaries of Cargill.

Mr. FINDLEY. Those are wholly-owned by Cargill, and, as I understand your statement, Cargill is almost entirely owned by U.S. individuals?

Mr. HUMPHRIES. That is correct, sir.

Mr. FINDLEY. Are these wholly-owned subsidiaries involved in any way in the sugar operations of your company?

Mr. HUMPHRIES. No, sir. We have been in the sugar business for 10 years, and I think in that entire time our chief foreign subsidiary has had maybe one or two trades in sugar.

By that I mean a cargo or part of a cargo in the period over 10 years.

Mr. FINDLEY. Does Cargill own any substantial interest in other U.S. firms which relate to sugar production, processing, or shipping?

Mr. HUMPHRIES. No, sir, not substantial—not at all.

Mr. FINDLEY. You have reference to the Philippines, and from this I would assume that you have done substantial business with the Philippines.

Can you state to the subcommittee whether any of the producing firms with which you dealt in the Philippines are prominent in production of sugar or refining of sugar in the United States?

Mr. HUMPHRIES. I think I can state that none of them are.

Mr. FINDLEY. You say that you typically hedge your transactions in New York. Why do you primarily hedge in New York as opposed to London?

Mr. HUMPHRIES. Primarily, sir, because we are a U.S. corporation. The New York sugar market operates during the time that the people in our office are awake and at work, and we do use London on occasion. But over the 10-year period we have tended to use New York in a vast majority of the cases.

Mr. FINDLEY. How would you compare the operations of the New York futures market with the operation of the major grain markets, in which you are also heavily involved? Is the level of efficiency and degree of competition comparable?

Mr. HUMPHRIES. The New York Sugar Exchange is a relatively small exchange compared to the Chicago Board of Trade, but I would say that my experience over the years has been that it operated quite efficiently.

Mr. FINDLEY. You speak of your audited figures showing profit. Now, do these figures relate only to the sugar department of Cargill?

Mr. HUMPHRIES. That is correct, sir. Those figures include all sources of profit that we have made in sugar in both U.S. quota and the world and NATO sugar. Everything associated with sugar is lumped into those figures.

Mr. FINDLEY. Does the sugar division of Cargill pay taxes as a separate entity or does Cargill, as an entity, pay taxes for its entire operation?

Mr. HUMPHRIES. I believe that Cargill pays taxes as a total corporation. We are not a separate company—just a department within the corporation.

Mr. FINDLEY. You may have been here this morning when I cited the Journal of Commerce article which reported a study of worldwide conditions in sugar production, and the Government policies that are being carried out. I was alarmed to read that the extent to which Government policy has shielded sugar production and marketing from supply-demand forces.

Would you agree with me that in the absence of such thorough Government intervention the rise in prices and cost of production would have resulted in two things: first, the reduction in consumption; and second, an increase in production—both of which would have tended to correct the unusual price.

Mr. HUMPHRIES. Yes; I would agree.

Mr. FINDLEY. You also say that, consequently, reserve stocks have been going down to a 10-year low.

Ten years ago was about the time that Cargill entered the sugar operations?

Mr. HUMPHRIES. Yes, sir.

Mr. FINDLEY. I am not sure—was that also a period in which there was pressure on upward prices, or there was an unsettled price fixture at about that time—is that about —?

Mr. HUMPHRIES. I am not sure I understand your question.

Mr. FINDLEY. Were U.S. prices at that time substantially above world prices?

Mr. HUMPHRIES. Yes; they were substantially above world prices.

Mr. FINDLEY. My recollection was wrong.

The Sugar Act expires at the end of this month. In the absence of further action by either the President or the Congress on sugar policy, what is your expectation as to the trend of sugar prices in the United States?

Mr. HUMPHRIES. Well, it would be impossible for any of us here, I think, to predict price, Mr. Findley.

Mr. FINDLEY. Let me narrow it down a little bit, then.

What will be the effect on the so-called residual world price—the world price of sugar? Would this have a stabilizing effect on the world sugar prices?

Mr. HUMPHRIES. I do not think the end of the Sugar Act will have a material effect on the price starting in 1975. We have a high price today because for 10 years we have really had an erosion of production relative to consumption. I think in 7 out of the last 9 years the world has consumed more sugar than it has produced. I think that that is the cause of today's high price of sugar.

Mr. FINDLEY. The argument is so often advanced that the world price is just a residual price—representing a small percentage of total world production.

Now, with the addition of the U.S. sugar market to this world pricing sum, what will be the effect on the world price? Do you see any effect?

Mr. HUMPHRIES. I do not think it will have a significant effect. I would not say whether the price will go up or whether it will come down.

It will expand the size of this residual. What we may see in the future is a more economic placement of sugar.

Mr. FINDLEY. Does Cargill intend to stay in the sugar business?

Mr. HUMPHRIES. Yes; we certainly do intend to stay in the sugar business.

Mr. FINDLEY. Would you just make an estimate as to the number of so-called operators who are active in the world sugar business or who do substantial business. Twenty-five?

Mr. HUMPHRIES. That is probably a bit on the high side.

Mr. FINDLEY. Fifteen?

Mr. HUMPHRIES. Also, when you use the term operators—we do not call ourselves operators—you include merchants and brokers. Maybe 20 or 25 fit that category.

Mr. FINDLEY. Quite a contrast to the situation on the major grain exchange, is it not?

Mr. HUMPHRIES. Well, I think—you mean is it a smaller group?

Mr. FINDLEY. Yes.

Mr. HUMPHRIES. Yes, that is probably true.

Mr. FINDLEY. Would you regard this group of, say 20, as a fairly tight-knit group that consults among themselves frequently?

Mr. HUMPHRIES. That is an opinion, Mr. Findley. I live in Minneapolis; I don't consult with these gentlemen very often. But, as Mr. Cornell testified this morning, the sugar industry is located in New York, located in London.

Of necessity, these people cross paths occasionally. But I would not regard our association with competitors as closely knit.

Mr. FINDLEY. You are a consumer of sugar, I assume, as well as the rest of us, as well as some intimately involved in business?

Mr. HUMPHRIES. You mean I personally?

Mr. FINDLEY. Yes.

Mr. HUMPHRIES. Of course.

Mr. FINDLEY. Your argument is often advanced that simply because so much of world sugar is under very strict Government regulations, the United States dare not terminate its own program of Government regulation.

In your view, is that a sound argument?

Mr. HUMPHRIES. No, sir. I think that the positive effect of these high prices—and I am mindful of the effect of these high prices on the U.S. consumer—but I think the positive effect of these high prices will be to stimulate production in this country and the world to lay the groundwork in bricks and mortar, new cane lands, new mills, new refineries.

Every day you open the paper and see that Brazil has new mills planned, the Philippines has new mills planned, an Arab country is lending India money to build sugar mills.

So I think the long-range effect of these higher prices will be lower-priced sugar, expanded production.

Mr. FINDLEY. Your experience in the sugar business has not caused you to lose confidence in the free marketing system?

Mr. HUMPHRIES. No, sir, nor our ability to play some role in the sugar business in the future.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you, Mr. Humphries. We will run right down the list as I have it here.

Mr. Reed Clark, will you please just briefly mention your company and then give us the volume of your business in the United States

and the world market, your future trading activities, and your profit and loss in the last 3 years; those three points.

Mr. Clark.

STATEMENT OF REED CLARK, PRESIDENT, CZARNIKOW-RIONDA SUGAR CO., NEW YORK, N.Y., ACCOMPANIED BY MARTIN MAC-HUGH, COUNSEL

Mr. CLARK. Mr. Chairman, my name is Reed Clark, president of Czarnikow-Rionda Co., a sugar broker and merchant in New York City at 120 Wall Street.

I am also an officer of a cooperative that is the largest single sugar mill in the State of Florida. I am also a sugar cane producer, together with my family, in Florida.

For purposes of this hearing, I am also a member of the control committee of the New York Coffee and Sugar Exchange, which might be a fact worth putting before the committee in their considerations today.

Mr. Chairman, you are pressed for time, and I appreciate that, and I am also aware that Congress is going to adjourn fairly quickly.

Would it be helpful to make a comment or two trying to fill in what has not been said by earlier testimony here, rather than going through a statement of recapitulation?

Mr. VIGORITO. Yes, if you can add something that is pertinent to the situation, it would be very fine.

Mr. CLARK. I will try to fill in rather than repeat anything.

Mr. Chairman, we think the present position are in—the world sugar economy—is a result of a supply-demand situation which has been described by your earlier testimony. I think there are one or two points worth adding to that.

The increase in consumption and the slower pace of expansion below the rate of consumption increase has been talked about. Bad weather in Europe has been talked about. That has been for 2 years, not 1.

The U.S.S.R., which is the largest producer of sugar in the world, has had 4 bad years. These have been mentioned. But they set the stage for something else. That is a basic change in the Communist supply system.

Up through 1971, and specifically those last 4 years, 1968 to 1971, the Communist supply system, the Communist bloc supplied something on the order of 4 million tons a year.

Mr. VIGORITO. How many?

Mr. CLARK. Four million. It ranged from a low of 3.9 to a high of 4.5 million. In 1972, 1 million; in 1973, .8 million, and 1974 back up to 1.8 million, but in 1975, it will drop back down to 800,000.

Now, this raises a question. Is this just bad weather or is it a structural change?

Plant this thought with the committee. There have been indications that the Russians have reached out now from sugar, not just the free world market, but a continuing long-term basis. Feelers have been put out to industrial countries. Is that straw in the wind for a structural change?

Has that 4 million tons from the Communist bloc as a whole, including Cuba, the satellite countries of Europe—have we got a structural change? I do not know the answer to it.

It is certainly worth taking into account.

You have been through the explanation of stock reductions being brought down to the end of 1974 where they are at an irreducible minimum around the world. Our present crop was slightly less than consumption. This set the stage for potential shortage in 1974, but it did not occur.

To the best of my knowledge, nobody who wanted sugar and had the money to buy it in 1974 went without it. There was no shortage. There was tightness and price did react and accelerated upwards.

But now when it is apparent that the 1974-75 production, the current crop, is sharply below 1975 consumption, you have the first real shortage probably in the middle half of the century. As a result, prices have reacted violently.

Where are we now and where are we going to go?

In our view, there is a potential shortage. A potential relief will come from the beets in the fall in the United States as well as Europe. The next potential relief will come from the Northern Hemisphere crops in January 1976.

One other element of background that Mr. Findley put his finger on: Sugar is a political animal. This is really an overriding consideration and is something that presumably Congress will have to find a way of fitting into. But literally, only 8 million of the 10 million tons of world production is affected by this free market price. They are not helped if it goes to 65 cents. This causes inelasticity in supply and demand reaction to price. It is a background factor that has to be fitted into this.

There has been mentioned other attitude change. The United States is now a part of the world market. It is an importing consumer in a shortage situation. It is competing for supply.

The 1975 requirements of the major importers have very largely been arranged for. The United States is the tail of the line. We simply have not made many arrangements for the fall of 1975. The simple demand, the two factors which are rather special to the U.S. supply, one is the simple demand, and the volume expressed on sort of weekly buying is an element that the world market is not accustomed to. Second, the nature of the U.S. programs to date, and by programs I mean the mechanics adopted by the refiners here, are different from those methods employed in the world market. They are market makers, not followers.

The Japanese have arranged for virtually their entire supply for 1975, but they price it on a follower basis. It is a tail on the dog. It is priced by an average or priced by the London daily spot price or the futures market. It is not a willing seller or willing buyer meeting.

The U.S. market works on the latter basis and you will throw 5 or 6 million tons in a market, making an arena that has not existed in the world market before.

The price implications of that are strong, either up or down, depending whether the thrust of the market is up or down.

Another element is what I call the OPEC mentality. Most of the producing countries, the major exporters, are less developed countries and they have been rather smarting—we may not agree with their attitudes, but they have been smarting over the treatment they have gotten from the developed countries over a period of time. There is a mood to retaliate. They have tried it before through international agreement.

Mr. VIGORITO. It is not only in the shipper?

Mr. CLARK. Of course not. They have tried it before. The use of the label "OPEC mentality" is, for the first time this sort of thing from small nations has been made to work, and when they twisted the OPEC nation's tails, it raised some hopes. In fact, that has been in my opinion the rise in prices of the United States.

A couple of major companies slowed up their sales. It put price pressure in a major way on the up side here.

Now, another potential and imminent change in trade patterns and structure of the market is the U.S. Sugar Act. As long as it is in this hiatus stage, the rest of the world's economy will have to stay in a waiting position. It is a consensus around the world that there is not really much point in trying to make too many long-term decisions until the United States fits into this picture.

One year or six months extension to buy time, I would have thought, would have infuriated the developing countries because it would have been read as a request to please come in, supply your quotas as something comparable to the target price of the United States at a time when they can sell it to the world market at you name it, 30, 40, or 60 cents. They need a quid pro quo to fit in with the long-term agreement.

Finally, the key problem at the moment, it looks like there will be a 2- or 3-million-ton shortage in 1975 before the potential relief comes, if it does come, from out of the Southern Hemisphere or the beets or the 1976 crop.

In the meantime, that shortage will probably be reflected here. We had no shortage to the best of my knowledge, to date. But we need about $3\frac{1}{4}$ million tons in the first half of 1975 and we do not see more than $2\frac{1}{2}$ million tons.

If price at $2\frac{1}{2}$ million tons is going to reduce consumption, that may tend to balance, to bring it closer to a balance. If 50 cents cuts our consumption by some 10 percent, you will take it down to say 3 million tons against a visible supply or at least an easily visible supply of $2\frac{1}{2}$ million tons.

The price implications of that are strong. You or Mr. Findley asked the question, is it going to be up or down?

I do not think any of us dare ask that. We can try to characterize the thrust of the market, and I would look for a very strong market. Whether it is strong as 20, 40, or 75, most of us are self-trained not to try to pick an absolute number. For merchants it can be sheer death.

Now, some of the material that has been asked for, Mr. Chairman, is of a confidential nature that concerns us. We really have no hesitation in talking privately with the committee. If we could get a guarantee of privacy, we would let you look at our books on every issue. We are very concerned about confidentiality.

What I would like to do is to say to you that the volume of sugar that we handle here in the United States is on record with the Department of Agriculture. That has been confidential information in the past, and I assume it still is today. But it certainly should be available for the use of this committee, and link it to that. That tells you what our volume is.

As to our profitability, any merchant, and we are that as well as a broker, who is in a commodity market is going to be very volatile.

At this time let me digress because it may bear on something else.

The ownership of Czarnikow-Rionda is totally in the hands of its employees, up to 1969, Philadelphia utilities from 1929 to 1973. Since that time the offices have been owned by the officers and employees, totally.

Back on our own figures, you have our volume in the USDA figures, and I would say to you that our range of profit varies between one-tenth and one-fifth of 1 cent per pound.

Mr. VIGORITO. One-tenth?

Mr. CLARK. One-tenth and one-fifth of 1 cent per pound. If it is easier, Mr. Chairman, in sugar points I am saying 10 to 20 points.

These are dangerous times. I do not know whether that has come to the chairman's attention or not, but there have been two major defaults in this recent market period, which is something the merchants and brokers cannot protect themselves against. They can hedge and if everything goes right, they can eliminate a major risk.

This is obviously a time for the consideration of reserves, your forward monetary reserves against your forward open positions, which is what we live on.

The question has been put in my mind whether a single merchant or group can alter the course of a market or reverse it or control it.

My answer, Mr. Chairman, is an absolute, flat no, and anybody would be a total fool to try it. Governments do these things and they fail. So 70 or 80 million out of the tons is not touched by this price, and the leverage of a little surplus or shortage is not 80; it is something like 10 million in the price-making function.

Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you very much, Mr. Clark.

Do you have any questions, Mr. Findley?

Mr. FINDLEY. Yes, Mr. Chairman.

Mr. Clark, you state that your company is now wholly owned by officers and employees?

Mr. CLARK. That is correct.

Mr. FINDLEY. Will you place in the record the names of these individuals?

Mr. CLARK. Yes; I think I can give them to you now.

You want directors or shareholders?

Mr. FINDLEY. Both.

Mr. CLARK. Myself, Reed Clark; Joseph L. Fraits, executive vice president; and the following vice presidents: Arthur T. Sterling, Dwight L. Massey, C. H. Falk, H. P. Gardner, Dominic Cadermartori, John Roales, James Hutchinson.

I think that is it.

Mr. FINDLEY. Are all of these U.S. citizens?

Mr. CLARK. Yes.

Mr. FINDLEY. You mentioned that you have other sugar interests, sugar cane production, membership in a cooperative refinery in Florida, I believe.

Do any of these other individuals that you have listed have interest in the sugar industry beyond their ownership, their part-ownership of the firm?

Mr. CLARK. No, sir.

Mr. Findley, before I forget it, the reason for qualifying myself as a member of the control committee on the Coffee and Sugar Exchange; as you undoubtedly know, a control committee, particularly on

a self-regulated exchange, is that committee which is the policeman, watchdog in times of stress. The control committee has been watching this sugar situation since before its inception.

About a month ago they called for the clearinghouse to identify every open position held by every member, as to whether it was trade or not trade. What they were looking for was the degree of speculation in the market. I think it was substantially under 10 percent.

A new canvass was made starting Thursday, and it was completed Monday morning. The answers came back on the No. 11 contract, which is the world contract, 84 percent of total open positions were reported.

The reason for the 84 percent instead of 100 percent, we told the clearinghouse, do not bother to go into small positions, beyond a certain level do not demand it. We did not feel it was necessary, and the fact we got 84 percent reporting would seem to substantiate that. The noncontract element is 1.8 percent.

In the No. 10 contract, the domestic contract, 86 percent of the total position reporting, 1.4 percent, was labeled "nontrade."

Mr. FINDLEY. In your statement you refer to the problem of confidentiality.

Other firms who have testified already did not hesitate to state the volume of business in the last 3 years. So I will ask you what volume of business did your firm do in each of the last 3 years?

Mr. CLARK. Well, Mr. Findley, again I say we have no hesitation in sitting down with you as a member of this committee in private. We would like to be able to insure ourselves that this does not become a matter of public record. That has an adverse effect in the competitive arena.

We feel it very strongly, and I suggest to you, sir, these figures are available to you on record in the Department of Agriculture.

Mr. FINDLEY. In other words, you refuse to provide the information?

Mr. CLARK. I do not—you are putting me in an adversary position, Mr. Findley.

Mr. FINDLEY. The same question was posed to the other witnesses and they have responded, so that does set you apart.

Mr. CLARK. It does, and we have volunteered to offer any information we have which would be of help to the committee on a private basis. I think in this case this information is available to you.

Mr. FINDLEY. Does your firm own any interest in any other aspect of the sugar industry?

Mr. CLARK. What do you mean by aspect? We have certain foreign subsidiaries.

Mr. FINDLEY. Are they wholly owned?

Mr. CLARKE. We have a subsidiary in London that is 80 percent owned by Czarnikow-Rionda, 10 percent by the parent company's employees, and 10 percent owned by an Englishman.

Mr. FINDLEY. Now, this is a foreign subsidiary?

Mr. CLARK. It is a British subsidiary.

Mr. FINDLEY. And Czarnikow owns 80 percent, 10 percent to a British individual. What is his name?

Mr. CLARK. Robert Depass.

Mr. FINDLEY. And the other 10 percent owned by whom?

Mr. CLARK. Two employees of ours, really, who we sent to London.

Mr. FINDLEY. Are they among the ones you listed originally?

Mr. CLARK. One of them.

Mr. FINDLEY. Will you identify those individuals?

Mr. CLARK. Yes. Mr. Jack M. Fox. I did leave one out.

Mr. Jack M. Fox is the managing director, 1 Lloyds Lane, city of London, an American citizen who owns 5 percent and a Mr. Robin Beatsin, who is another employee of the firm.

Mr. FINDLEY. Were you employed by Czarnikow-Rionda prior to February 1973?

Mr. CLARK. Yes, sir.

Mr. FINDLEY. To your knowledge, did International Utilities divest itself of any other sugar interests at the time they sold Southern Czarnikow-Rionda?

Mr. CLARK. Not to my knowledge.

Mr. FINDLEY. To the best of your knowledge, does that company still control C. Brewer & Co.?

Mr. CLARK. Yes; I think in fact it does.

Mr. FINDLEY. Does that firm have a substantial interest in any other sugar enterprises?

Mr. CLARK. International Utilities or Brewer?

Mr. FINDLEY. International Utilities.

Mr. CLARK. Frankly, Mr. Findley, I have very little knowledge of International Utilities. I know of none, and I do not think Brewer owns anything other than what's obvious in their own annual report.

Mr. FINDLEY. To the question, What were your profits or losses in each of the last 3 years? you declined to make this on public record.

Mr. CLARK. I gave—

Mr. FINDLEY. You gave a range.

Mr. CLARK. I gave a range, yes, and as part of public testimony we would continue to ask that the committee bear with us on this. We are quite ready to supply it in private.

Mr. FINDLEY. Mr. Chairman, may I ask that the chairman under these circumstances will request that the witness answer these 10 questions in detail in a private letter to you as chairman?

Mr. VIGORITO. I will go ahead and request Mr. Clark to submit that.

I have a questionnaire here of 10 questions and you can send it personally to me and I can assure you it will be held in strictest confidence and it will not be printed in the record.

Mr. CLARK. Thank you, Mr. Chairman.

Mr. VIGORITO. I wish to assure all of you gentlemen that the facts and figures that I have from the Department of Agriculture will also not be printed in the record. It will be a confidential file of this committee.

Thank you, Mr. Clark.

Who is representing Farr Mann & Co.?

**STATEMENT OF KENNETH W. DOUGHERTY, EXECUTIVE VICE
PRESIDENT, FARR MANN & CO., ACCOMPANIED BY HAROLD
D'O. BAKER, COUNSEL**

Mr. DOUGHERTY. Mr. Chairman, I am executive vice president of Farr Mann & Co. Our address is 120 Broadway, New York, N.Y.

I am represented by Mr. Harold D'O. Baker, counsel.

Mr. Chairman, one of the first things that I would like to put on the record, which has been asked of two of the previous witnesses, that is

quite disturbing to me, whether we as trading houses or merchants or brokers get together and discuss our business.

In my fondest dreams I wish that it was legal that we could, because I think we make a great many mistakes in our world.

We look at falling out of bed or going into bankruptcy or what might happen in these times. But with better wisdom, I can assure you we do not discuss any information about markets unless we happen to pass somebody, what do you think of the market; oh, it is going to go up, it is going to go down; and then you walk away.

I think that is important it be put on the record, at least as far as we are concerned.

I would prefer, not only request, that we be given the same privilege Mr. Clark was given, to present our figures to you, Mr. Chairman.

Mr. VIGORITO. I will be very happy to have them.

Mr. DOUGHERTY. As confidential and not public record.

Our domestic figures are on record at the Department of Agriculture and are available to you. We would be delighted to supply you with anything you ask us for.

We will fill out these 10 questions and send them to you, Mr. Chairman.

Mr. VIGORITO. What is your opinion on what the committee should do next year, if we should do anything?

Mr. DOUGHERTY. Mr. Chairman, that I have a strong opinion—it is mine alone—it is not totally shared by everybody in our firm. I know it is not shared by most of the people represented here. I am not positive.

I feel that our Government has to have some control over the sugar industry of the United States as well as, if they are going to control the domestic sugar industry, they will have to control imports. Without controls, we are going to eventually end up in one company; after all the increasing production Mr. Humphries is talking about, it will end up—the history of the sugar business is to have one bankruptcy after another, companies picked out of bankruptcy, reworked again.

Maybe we are in a new world. Maybe the foreign countries can keep prices stabilized and control production. I just do not believe they can.

I think it is a very great shame to have our Department of Agriculture disband and everybody go without any figures available to you or us. You will not know what we shipped into the United States next year because you will not have any records available to you. It is going to be a very funny market for everybody.

I think it is a great shame not to have rules in which to work. If we happen to judge the market correctly, we can make a bomb in a violently swinging market. If we happen to be on the wrong side of it, we can go out of business. I do not think it is fair for us to be criticized or harped upon if we happen to pick on the right position and ride it because the markets are not going that way, if this should happen to us when there are not any controls or rules by which we can operate.

Mr. VIGORITO. If there is no one here in this room making money in the last few months, I do not see how you can stay in business.

Mr. DOUGHERTY. Most companies in our business are bulls. Every stupid jerk can make money if they happen to be bullish. If there have not been trading houses operating this way. There has been store managers and housewives and everybody else who has a bag of sugar in

making money because the price has risen. It is separating the men from the boys when the market goes down. That has gone down far enough to make a lot of people worry, but it could swing up again and make everybody violent. It could swing right back up and be more violent than it was before.

Mr. VIGORITO. I sort of agree with you, that next year the committee is going to have to look at this sugar situation and come up with some type of situation to bring a little order out of chaos and produce as much sugar as possible domestically, and the difference between what we can produce and the consumption will have to come through some importing fashion and not a mad scramble to bid up the world price.

As I mentioned, the world cannot do without the maximum American sugar output because of the population expansion and the per capita increase of consumption. We need the sugar the United States is capable of producing.

Mr. DOUGHERTY. Mr. Chairman, may I suggest one other thing?

I fully realize that the competing crops—the big swing of production in the world not only came—the big swing can be beets, and it certainly has been a big swing to us in the United States. Everybody has talked about increased plantings next year of U.S. beets. They are going to be increased if competing crops do not give a higher return.

The American farmer is very sophisticated today, and if he can see a better return for wheat or cotton or soybeans or some other crop, he will plant that other crop and not beets.

That is exactly what has wrecked us this last year.

Weather is a factor, certainly. If competing crops are down, sugar will be planted. But if next year crops go up again, sugar will not be planted.

Mr. VIGORITO. Mr. Findley, do you have any questions?

Mr. FINDLEY. Mr. Dougherty, what is your position with Farr Mann & Co.?

Mr. DOUGHERTY. I am executive vice president.

Mr. FINDLEY. Will you state the names of your principal officers and directors?

Mr. VIGORITO. May I interrupt at this time?

The questionnaire he is going to answer, one of the first questions is to list the principal officers and directors and so forth. To save time, I think we ought to let it go. Any questions that we are going to have answered we will let it as is and go on to other questions that are not on the list.

Mr. FINDLEY. Mr. Chairman, unfortunately—at least one witness has seen fit to answer these in a confidential manner and we should be able to get some information on the record. If they will place it on the record in a written memorandum, that is fine. But I do not see much point in permitting them to answer all these 10 questions on a confidential basis.

Mr. VIGORITO. When you send the answers and questions, put them in two categories: those that you want on the record and those you do not want on the record, dollars and cents. I think that would be satisfactory.

Believe me when I say that this is not the last day of sugar hearings, because if I am chairman of this subcommittee next year, we will probably continue this, and I am sure the full committee will have some sugar hearings on any legislation that we may produce.

Next time I hope we have much more time, instead of trying to do it in the last few days of Congress, that you gentlemen will have more time to prepare written statements and stretch over more hours of hearings.

Mr. FINDLEY. Mr. Chairman, may I suggest that the letters presented to you on a confidential basis be restricted to answers to questions 4 through 8 and that answers that witnesses supply to other questions be on the public record?

Mr. VIGORITO. That seems to be satisfactory to me.

Mr. FINDLEY. Now, from the standpoint of his presence here, I think it is of interest to the subcommittee to have a little better understanding of the relationship of this firm and the sugar industry more broadly.

I will ask Mr. Dougherty, does your company or anyone affiliated with your company as an officer or as a stockholder have any substantial interest in the sugar industry elsewhere?

Mr. DOUGHERTY. To the best of my knowledge, Mr. Findley, no.

Mr. FINDLEY. Does your firm have any subsidiaries or any interest in subsidiary programs or any other corporations?

Mr. DOUGHERTY. We have two domestic subsidiaries and no foreign.

Mr. FINDLEY. Are these two domestic subsidiaries wholly owned by your firm?

Mr. DOUGHERTY. Yes, they are.

Mr. FINDLEY. You have no foreign interests, no interest in foreign firms?

Mr. DOUGHERTY. No, sir, we do not.

Mr. FINDLEY. In how many countries do you operate?

Mr. DOUGHERTY. Almost all the sugar-producing countries of the world, Mr. Findley.

Mr. FINDLEY. Do you have permanent offices in most of these?

Mr. DOUGHERTY. We have offices in the Philippines and offices in Peru. To the best of my knowledge, the rest are agents. Those are two offices where we have people on our payroll.

Mr. FINDLEY. Do you personally have any sugar production or refining interests?

Mr. DOUGHERTY. No, I do not.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you, Mr. Dockerty.

Mr. Gerald Ascher, ACLI Sugar Co.

STATEMENT OF GERALD ASCHER, SENIOR VICE PRESIDENT, ACLI SUGAR CO., INC., ACCOMPANIED BY PRESTON BROWN, COUNSEL

Mr. ASCHER. I am senior vice president of ACLI Sugar Co., Inc., based in New York, dealing in commodities. We have been in the sugar business for only about 3 years. Except for the startup year, our volume of sugar has been in the neighborhood of 900,000 tons per year. Approximately 60 percent has been to the United States.

Our volume of operations in futures consists of approximately one-half of 1 percent of the volume on the New York Coffee and Sugar Exchange and considerably less with respect to the London market.

Our profits have been approximately one-quarter of 1 percent of our sales dollar in all of the years that we have been in this business.

Mr. VIGORITO. Did you say one-quarter?

Mr. ASCHER. One-quarter of 1 percent of the sales dollar.

Mr. FINDLEY. Each year?

Mr. ASCHER. Each year. They have been relatively stable. Our figures have not been audited for 1974, but our estimate would be in that area.

Mr. VIGORITO. You will answer those 10 questions in those two categories?

Mr. ASCHER. If the statements I have made are insufficient, then the answer is "Yes."

Mr. VIGORITO. What is your opinion that this committee should do, or what should we have for next year as a potential Sugar Act?

Mr. ASCHER. I should consider we must have some definitive program. To leave things in doubt puts us in a very vulnerable position insofar as supplies to the United States are concerned.

Mr. VIGORITO. Mr. Findley?

Mr. FINDLEY. You say we should not leave matters in doubt. The law expires at the end of this year. The President has authority for marketing orders for tariffs, for total quota on imports.

It is my hope, frankly, that the Congress will not enact legislation in the coming year.

Is it your view that would be a serious mistake for us not to pass a new Sugar Act?

Mr. ASCHER. Sir, as matters stand now, we have not placed a burden on any of our former supplies, but rather, we have left it open for all to leave us. We have left open the question of whether or not world imports to the United States at the present time—

Mr. FINDLEY. You have doubt that foreign producers will supply the U.S. market for the price?

Mr. ASCHER. The answer to that is yes, sir.

Mr. FINDLEY. Does your firm have any interest in any other aspect of the sugar industry?

Mr. ASCHER. I believe in the context of which you are asking the question, the answer is no. We are not producers of sugar, although we are producers of other commodities.

Mr. FINDLEY. Do you have any interest in refining of sugar?

Mr. ASCHER. We do not.

Mr. FINDLEY. Do you have any interest in foreign enterprises which are engaged in some aspect of sugar?

Mr. ASCHER. The answer to that is yes.

Mr. FINDLEY. Would you enumerate those?

Mr. ASCHER. We have a subsidiary in Brazil, which engages in the purchasing of Brazilian sugar.

Mr. FINDLEY. It engages in what?

Mr. ASCHER. The purchasing of Brazilian sugar as agents of the New York company.

Mr. FINDLEY. Is this Brazilian company wholly owned by ACLI?

Mr. ASCHER. I believe that to be the case, yes.

Mr. FINDLEY. Do you as an individual have an interest in any aspect of the sugar industry beyond the presence of ACLI?

Mr. ASCHER. I am also a minor stockholder in ACLI International, Inc., which is a corporate entity of which ACLI Sugar is a division.

Mr. FINDLEY. So ACLI Sugar Co. is a part of ACLI International?

Mr. ASCHER. That is correct, sir.

Mr. FINDLEY. Would you tell the subcommittee the principal officers and directors?

Mr. ASCHER. The chairman of the board of ACLI International is Mr. Leon Israel, Jr., and the president and chief executive officer is Mr. A. C. Israel.

Mr. FINDLEY. Are these U.S. citizens?

Mr. ASCHER. Yes, sir.

Mr. FINDLEY. Where is this corporation based?

Mr. ASCHER. 110 Wall Street, New York City.

Mr. FINDLEY. And what other enterprises does it own besides ACLI Sugar Co.?

Mr. ASCHER. Sir, the various commodities that ACLI handles under division names are probably too numerous to enumerate here. As I said, they are all part of a single corporate entity, ACLI International, Inc.

Mr. FINDLEY. Does ACLI International own any other besides ACLI Sugar Co.?

Mr. ASCHER. Yes. INTERSUCOM, Ltd.

Mr. FINDLEY. Based where?

Mr. ASCHER. That is a Switzerland corporation. It is a wholly owned subsidiary.

Mr. FINDLEY. It is wholly owned by ACLI International?

Mr. ASCHER. Yes.

Mr. FINDLEY. In the record will you also place the names and addresses and amounts of shares held by the 12 largest shareholders of ACLI International? You need not read those into the record.

Mr. ASCHER. I do not have that information with me.

Mr. FINDLEY. Will you supply it to the record?

Mr. ASCHER. I certainly will, sir.

Mr. FINDLEY. How do you account for the fact that your profit per pound seems never to vary?

Mr. ASCHER. No, I did not say per pound, sir. I said per sales dollar.

Mr. FINDLEY. Per sales dollar. It is one-quarter of 1 percent, and not 1 cent but 1 percent?

Mr. ASCHER. Yes.

Mr. FINDLEY. I see. Can you express that in profit per hundred-weight?

Mr. ASCHER. No, sir, I do not believe I am able to do that at this moment. I think it would not be significant.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you very much, Mr. Ascher.

Now, we will go on to Mr. Garry, the senior managing partner of Christman Associates.

**STATEMENT OF JAMES J. GARRY, SENIOR MANAGING PARTNER,
CHRISTMAN ASSOCIATES, INC., ACCOMPANIED BY ROBERT A.
CHRISTMAN, MANAGING PARTNER**

Mr. GARRY. Mr. Chairman, my name is James J. Garry, the senior managing partner. I am accompanied by Mr. Robert A. Christman, one of the managing partners of the same firm.

We are here in response to your request and wish to cooperate as fully as possible.

We would also like to take the opportunity of submitting the answers to these various questions as you pose them in this questionnaire. We will have them before the committee as soon as possible.

Mr. VIGORITO. What, in your opinion, should we do for the sugar industry next year in reference to the Sugar Act?

Mr. GARRY. Well, we as a firm, do not wish to have any firm policy as to whether there should or should not be a Sugar Act, since we deal with both sides of the question, so to speak.

However, I, as a personal individual and as a consumer, feel that the United States is being put into a bit of a corner in the sugar market to the extent that it is exactly this time in a period of known shortage that we are now being put into being part, as was termed before, of the surplus free world market which, of course, is not very surplus any longer.

We are going to be subject to vast changes in price as we have just gone through.

I think it is well known the price, as reflected in the futures market and in the spot quotations as established by the exchange within the short period of less than 2 months, go up and down, something like 23 cents, and it is now in a period of going down and has been going down daily. Where this will end I do not think anybody knows.

I do agree with some of the statements that were made here that we also do not see where all of the sugar that we feel is needed for the U.S. market for the first 6 months of the year is going to come from, and hence we feel that Congress should take a long, hard look at the subject of sugar.

Mr. VIGORITO. That I am pretty sure we will do.

Mr. Findley?

Mr. FINDLEY. Mr. Garry, you say that you do not see where adequate supplies of sugar are going to come from in the next 6 months; is that a fair statement?

Mr. GARRY. That is correct.

Mr. FINDLEY. If the Congress should resurrect a Sugar Act in pretty much the same form as it expired, would that improve our supply position?

Do you think we would be able to get more sugar in the next 6 months?

Mr. GARRY. I would tend to doubt it, sir, the way the act is written.

Mr. FINDLEY. That is my reaction, too, that either the extension or nonextension of the act is not going to have much effect on market prices in the next 6 months.

Mr. GARRY. I certainly agree with you.

Mr. FINDLEY. Christman Commodity Associate, is that owned entirely by U.S. citizens?

Mr. GARRY. No, it is not, sir, and this is a rather involved situation in that they were Christman Commodity Associates, which was corporate entities. We now operate as a partnership, Christman Associates.

Mr. FINDLEY. It is a partnership?

Mr. GARRY. It is a partnership, not a corporation. Nine of the partners are American citizens, full-time employees in the partnership. One partner is a British company by the name of Czarnikow, Ltd., which is also a sugar merchant domiciled in London.

Mr. FINDLEY. Is that related in any way to Czarnikow-Rionda?

Mr. GARRY. No, sir.

Mr. FINDLEY. It is an unusual name, and it seems strange that—

Mr. GARRY. I think Mr. Clark can probably answer that question better than I can.

Mr. CLARK. I will make it as brief as I can, Mr. Findley.

A firm called Czarnikow, Ltd., was formed in 1861 by a London resident named Felix Czarnikow. It grew into one of the major sugar-houses of the world.

Just after the turn of this century they opened a subsidiary here in this country, which was called Czarnikow-McDougal.

Mr. FINDLEY. Czarnikow what?

Mr. CLARK. McDougal.

Just about the time we got into the first war, it began to break apart and the ownership, the London ownership was taken out of the New York company and taken over by a group of Spanish and Cuban people, the Rionda and Bragga families. It took place over a period of time, and I think by the early 1930s the separation was total, corporately speaking, ownership. Operationally they stayed together, very close, they were sort of opposite numbers of one in the two world centers, one in London and one in New York.

They continued on this basis, very close, and then that tie was severed in 1965, something on that order, the mid- or early sixties. Now Czarnikow, Ltd., of London and Czarnikow, Ltd., of New York, I could only classify as complete competitors.

Mr. FINDLEY. That close relationship has not existed since 1965?

Mr. CLARK. That is correct.

Mr. FINDLEY. Can you tell us, Mr. Garry, if Christman Partnership has any other interest in any aspect of sugar?

Mr. GARRY. No, sir.

Mr. FINDLEY. Do the individuals who make up the partnership, whether it be Czarnikow, Ltd., or the nine employee partners, have any other sugar interests, to your knowledge?

Mr. GARRY. Sir, the nine American partners do not. I do not know what Czarnikow's holdings are.

Mr. FINDLEY. You do not know if Czarnikow holdings have other holdings?

Mr. GARRY. No. Perhaps they do. We have no interest in Czarnikow.

Mr. FINDLEY. Will you supply in the record the best information you can get in answer to that question?

Mr. GARRY. Whatever they are willing to supply, yes, sir.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. I do not have any more questions for you gentlemen. I believe the hearings are rapidly coming to an end, at least for this session.

We have had 5 days of hearings, morning and afternoon, and I would like to briefly summarize what I think has happened.

First, I think we all agree that there is a world sugar shortage. That has been building up over several years. I think the action of the administration, estimating our consumption for this year of 12.5 million tons, did not do the shortage picture any good.

The failure of the Congress to pass the act in June did not help the situation any. This probably all contributed to the current situation.

I think it is also safe to say that all sections of the sugar industry have profited by the high prices, starting from producers, processors, refiners, the operators and brokers, and so forth; no question about that. Everyone has shown a tremendous increase in profits. It is not for me to say whether that is too much or too little. But the change has been a tremendous increase in profits.

Some of them made 1400 percent. I am sure—I analyzed that one of the operators that made a statement today, 1350 percent profit on one sack of sugar. If I could go beyond that and analyze the P & L statement, the margin of profit would be much greater over a 2-year period.

Whether we are going to have a Sugar Act of next year remains to be seen. We will see what the administration is going to do, because I do not think they anticipated—maybe they did, I do not know. Maybe they deliberately wanted to end the sugar program and to throw everything open to the economics of the industry and let the best man survive. I do not know. I hope they do not, because I do not think you can throw this industry into old-fashioned economics and say, let the strongest one survive.

What we need is production. The world needs sugar.

The committee, of course, will take a good look at it next year and may or may not come up with something. If we do come up with something, the Congress may or may not vote it out. That is where we are.

Do you want a parting remark, Mr. Findley?

Mr. FINDLEY. Thank you, Mr. Chairman.

First of all, I want to thank the subcommittee chairman, Mr. Vigorito, for scheduling these hearings and cooperating so thoroughly with suggestions I have had. I think they have been healthy in the public interest, and I also have a strong feeling that one of the reasons that the price of sugar has declined rather steadily, although not as sharply as I would like, in the last few weeks is at least partly due to the fact that these hearings have occurred.

I do not agree that the estimates of consumption had any lasting impact upon sugar supplies and prices. I am sure it had a momentary influence, but I would not regard it as one of fundamental importance in the price trend of sugar nor the action of the Congress in terminating the act as having fundamental importance.

The factors that cause this unusual price increase relate more to supply conditions than to legislative action. I fear that if the Congress does resurrect an act along the lines of the act that is now expiring, we will perpetuate the distortions that Mr. Humphries so accurately cited in his statement.

Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you.

Thank you very much, gentlemen.

The subcommittee stands adjourned until the call of the Chair.

[Whereupon, at 4:35 p.m., the subcommittee adjourned, subject to call.]

