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# TOBACCO PRICE SUPPORTS

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HEARINGS  
BEFORE THE  
SUBCOMMITTEE ON  
AGRICULTURAL PRODUCTION, MARKETING,  
AND STABILIZATION OF PRICES  
OF THE  
COMMITTEE ON  
AGRICULTURE AND FORESTRY  
UNITED STATES SENATE  
NINETY-THIRD CONGRESS

SECOND SESSION

ON

## H.R. 17506

BILL TO ADJUST PRICE SUPPORT FOR TOBACCO UNDER  
THE AGRICULTURAL ACT OF 1949

DECEMBER 10 AND 12, 1974

Printed for the use of the  
Committee on Agriculture and Forestry



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## TOBACCO PRICE SUPPORTS

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WEDNESDAY, DECEMBER 11, 1974

U.S. SENATE,  
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,  
MARKETING, AND STABILIZATION OF PRICES OF THE  
COMMITTEE ON AGRICULTURE AND FORESTRY,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 2:35 p.m., in room 324, Russell Senate Office Building, Hon. Walter D. Huddleston presiding.  
Present: Senators Huddleston, Clark, and Helms.  
Also present: Representative Carl Perkins.

### STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM THE STATE OF KENTUCKY

Senator HUDDLESTON. The subcommittee will come to order.

We are today opening hearings on H.R. 17506, a bill to adjust the price support for tobacco under the Agriculture Act of 1949.

By repealing section 106 of the Agriculture Act of 1949, this bill would set the price support for tobacco at 90 percent of parity, as it was between 1948 and 1960.

There is no doubt that the support price for tobacco has increasingly lagged behind rising costs of production incurred by farmers.

The current price support formula is dependent on the average index of prices paid by farmers for goods and services including wages and interest over the 3 calendar years preceding the current marketing season.

That means the 1974 support price for burley is calculated according to the index of prices paid by farmers between 1971 and 1973. And, prices of production inputs in December of 1974 have little in common with prices in January 1971.

In the past 2 years in particular, production cost increases incurred by farmers have far outstripped increases in the support price, which is a floor to the tobacco auction market.

Increases in major tobacco farm inputs over the past 2 years include, for example, fertilizer up 100 percent, farm machinery up 40 percent and farm labor up 25 percent. This certainly dwarfs the 14 percent increase in the support price since 1972, which is supposed to reflect these increased costs, although next year's support price is supposed to be up about 12 percent.

This is particularly significant in view of the fact that thousands of small diversified farmers have faced severe cost/price squeezes in livestock and dairy production and have seen their grain yields cut by adverse weather. Now they must receive a fair return on the money

and labor they have invested in their tobacco crops, if they are to remain in business. An increase in the support price would assist these farmers immediately and encourage maximum production allowable within the law to supply domestic and foreign consumers with American tobacco.

We must also, however, examine the arguments against changing the support price formula at this time, which for burley would mean an increase from 85.5 cents to \$1.32 per pound.

Of immediate danger would be the failure of tobacco companies to increase their expenditures at the burley auctions currently in progress, which would force the Federal Government to purchase large quantities of surplus tobacco at a considerable expense to the Treasury. Thus, the tobacco program, which recently has not cost the taxpayer significant funds, would place demands on Federal revenues.

Another possibility is that additional foreign tobacco would be imported into the United States. Our tobacco imports reached an all time high in 1973 of \$200 million as we remained the third largest importer of tobacco. But a large, perhaps 50 percent or more increase in the support price, might encourage foreign producers, which are already supplying increasing amounts of burley and flue-cured tobacco as well as the traditional oriental and cigar tobaccos to our market, to seek expanded, lower-priced sales in this country.

Export markets might also be adversely affected. The United States is now the largest exporter of tobacco, with foreign sales of tobacco leaf and products totaling \$1.09 billion in 1973. American tobacco has traditionally sold at higher prices due to its superior quality in comparison with that of its major competitors: South Korea, Mexico, Brazil, and other countries. An increase in the support price as proposed in H.R. 17506 would, however, probably mean at least a 12 cents per pound increase over the current \$1.20 per pound being offered at the burley auctions and might price U.S. burley out of the international market.

Finally, the cost of H.R. 17506 might be prohibitive if the market price did not increase to a figure well above the proposed new support price figure.

Section 106 of the Agriculture Act of 1949, which would be repealed by this bill, resulted from the surplus situation which had developed under the 90 percent parity support price in the 1950's, and there is the possibility that history would repeat itself.

There is no doubt that the existing tobacco program is sound. It has provided protection to thousands of producers over a number of years, at little cost to the taxpayer. It must be retained.

The question we must answer here today is whether H.R. 17506 would be an improvement and a strengthening factor in the program or whether it would undermine it.

A few immediate dollars are very tempting but in pursuing them we must be absolutely certain that we are not in the longer run threatening the very foundations of a worthwhile program and endangering the livelihood of thousands of farmers, warehousemen, and exporters.

By way of concluding, let me state the obvious: There is nobody in the U.S. Senate or the Congress who is a stronger supporter of the burley tobacco program than I am. Kentucky is a tobacco State and naturally I could not have been elected had I been anything other than a staunch tobacco man.

Just a few weeks ago I joined with other tobacco State Senators in beating back what has become an annual attempt to scuttle the entire tobacco support program.

That effort grows stronger each year—a fact we should never forget.

I might announce that the session tomorrow morning, beginning at 10 o'clock, will not be in this room but will be at the Capitol in S. 126. The location change will give the members of the subcommittee an opportunity to participate more and still be close at hand for expected votes on the Senate floor. So those of you who will be appearing tomorrow should make note of that change in our meeting place.

I would like to insert in the record at this time a copy of the present act; a copy of H.R. 17506; a letter from the Department of Agriculture expressing its position on the bill, H.R. 17506, and an explanation from the staff of the contents of the bill and its implications.

[The above-mentioned material follows:]

[Excerpt from the Agricultural Act of 1949]

PRICE SUPPORT FOR 1960 AND SUBSEQUENT YEARS (TOBACCO)

SEC. 106. Notwithstanding any of the provisions of section 101 of this Act:

(a) For the 1960 crop of any kind of tobacco for which marketing quotas are in effect, or for which marketing quotas are not disapproved by producers, the support level in cents per pound shall be the level at which the 1959 crop of such kind of tobacco was supported, or if marketing quotas were disapproved for the 1959 crop of such kind of tobacco, the level at which the 1959 crop of such kind of tobacco would have been supported if marketing quotas had been in effect.

(b) For the 1961 crop and each subsequent crop of any kind of tobacco for which marketing quotas are in effect, or for which marketing quotas are not disapproved by producers, the support level in cents per pound shall be determined by adjusting the support level for the 1959 crop of such kind of tobacco, or if marketing quotas were disapproved for the 1959 crop of such kind of tobacco, the level at which the 1959 crop of such kind of tobacco would have been supported if marketing quotas had been in effect, by multiplying such support level for the 1959 crop by the ratio of (i) the average of the index of prices paid by farmers, including wage rates, interest, and taxes, as defined in section 301(a)(1)(C) of the Agricultural Adjustment Act of 1938, as amended, for the three calendar years immediately preceding the calendar year in which the marketing year begins for the crop for which the support level is being determined to (ii) the average index of such prices paid by farmers, including wage rates, interest, and taxes for the calendar year 1959.

(c) If acreage poundage or poundage farm marketing quotas are in effect under section 317 or 319 of the Agricultural Adjustment Act of 1938, as amended, (1) price support shall not be made available on tobacco marketed in excess of 110 per centum of the marketing quota (after adjustments) for the farm on which such tobacco was produced, and (2) for the purpose of price-support eligibility, tobacco carried over from one marketing year to another shall, when marketed, be considered tobacco of the then current crop. (7 U.S.C. 1445.)

[H.R. 17506, 93d Cong., 2d Sess.]

AN ACT To adjust price support for tobacco under the Agriculture Act of 1949

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 106 of the Agricultural Act of 1949 is repealed.

SEC. 2. Section 101(c) of the Agricultural Act of 1949 is amended by adding at the end thereof the following new sentence: "If acreage poundage or poundage farm marketing quotas are in effect under section 317 or 319 of the Agricultural Adjustment Act of 1938, as amended, (1) price support shall not be made available on tobacco marketed in excess of 110 per centum of the marketing quota (after adjustments) for the farm on which such tobacco was produced, and (2) for the

purpose of price-support eligibility, tobacco carried over from one marketing year to another shall, when marketed, be considered tobacco of the then current crop."

Passed the House of Representative November 26, 1974.

Attest:

W. PAT JENNINGS,  
*Clerk.*

DEPARTMENT OF AGRICULTURE,  
OFFICE OF THE SECRETARY,  
Washington, D.C., December 4, 1974.

Hon. HERMAN E. TALMADGE,  
*Chairman, Committee on Agriculture and Forestry,*  
*U.S. Senate*

DEAR MR. CHAIRMAN: This is a voluntary report on H.R. 17506, a bill "To adjust price support for tobacco under the Agricultural Act of 1949."

This Department recommends that the bill not be passed.

The bill repeals section 106 of the Agricultural Act of 1949, as amended. Under this section, the level of support for the 1961 and each subsequent crop of tobacco (for which producers have not disapproved marketing quotas) is the 1959 crop support level multiplied by the ratio of (1) the average of the index of prices paid by farmers for the immediately preceding three calendar years to (2) the average index of such prices paid by farmers in 1959. With the repeal of section 106, the level of support would become 90 percent of parity under section 101(c) of the Act. Under present legislation, the level of support for the 1974 crop of flue-cured tobacco is 83.3 cents per pound, and for burley tobacco 85.8 cents per pound. Under H.R. 17506 the level of support would have been \$1.22 per pound for flue-cured and \$1.32 per pound for burley.

Marketings of the 1974 flue-cured crop have been completed with prices averaging \$1.05 per pound, 17 cents more than the 1973 crop. Thus, the enactment of H.R. 17506 would have no effect on prices paid for the 1974 crop. The burley markets opened November 25 and prices during the first week of sales averaged \$1.12 per pound, as compared with a 1973 crop average of 92.9 cents per pound. If the bill should become effective December 9, the burley tobacco remaining to be sold at that time (60 percent of the 1974 crop) would be about 320 million pounds. It is estimated that about  $\frac{1}{3}$  of this amount would be received under Commodity Credit Corporation loan. At the higher prices buyers would expend their earmarked funds by the purchase of about  $\frac{2}{3}$  of the remaining 320 million pounds and it is not believed that they would arrange for additional funds under the circumstances. It is estimated that about 107 million pounds would be received under loan under these assumptions with loan outlays of \$155 million. It is estimated that \$5 million loan outlay may be involved in the absence of enactment of the bill.

For other kinds of tobacco, loan outlays of about \$2 million are expected under present legislation. With the enactment of H.R. 17506 the loan outlays would be expected to exceed \$6 million.

If the bill is enacted it is expected that producers would expand tobacco production in 1975 and that about 375 million pounds would be taken under CCC loan with an outlay of about \$561 million. Under present legislation it is estimated that about 65 million pounds would move under loan with an outlay of about \$70 million. It is estimated that the loans made under present legislation would be repaid, but under H.R. 17506 substantial losses could be expected.

The enactment of H.R. 17506 would stimulate tobacco production in competing countries and thus seriously jeopardize our tobacco exports and at the same time substantially increase our tobacco imports. During the 1974 fiscal year exports of unmanufactured tobacco and tobacco products were valued at \$1,098 million and imports were valued at \$200 million.

To the extent that exports would be reduced and imports increased, future quotas would have to be reduced to reflect the reduced disappearance. It is believed that such reduced quotas would result in reductions of income to farmers so substantial that a strong need would be created to amend the law to adjust the levels of support downward in an effort to recover the loss of export and domestic markets. Such downward adjustment of price support levels in future years would only partially recover the lost markets and could be expected to result in substantial losses on the loan stock tobacco on hand at the time of the downward adjustment.

The Office of Management and Budget advises that enactment of this legislation would not be consistent with the objectives of the Administration's program.

Sincerely,

CLAYTON YEUTTER,  
*Assistant Secretary.*

## SENATE COMMITTEE ON AGRICULTURE AND FORESTRY

(Subcommittee No. 3)

STAFF EXPLANATION OF H.R. 17506

H.R. 17506 would repeal section 106 of the Agricultural Act of 1949 and increase the level of price support for tobacco to 90 percent of parity.

Section 106 provides that the level of support for the 1961 and each subsequent crop of tobacco (for which producers have not disapproved marketing quotas) shall be the 1959 crop support level multiplied by the ratio of (1) the average of the index of prices paid by farmers for the immediately preceding three calendar years to (2) the average index of such prices paid by farmers in 1959.

Upon the repeal of section 106, the level of support would be 90 percent of parity under section 101(c) of the Agricultural Act of 1949.

H.R. 17506 would continue in effect certain provisions of law (now contained in section 106 of the Act) relating to price-support eligibility for tobacco on which acreage poundage or poundage marketing quotas are in effect.

## DEPARTMENTAL VIEWS

In a letter to the Committee dated December 4, 1974, the Department of Agriculture recommends that H.R. 17506 not be passed.

NOTE.—Under existing law, the level of support for the 1974 crop of flue-cured tobacco is 83.3 cents per pound, and for burley tobacco 85.8 cents per pound. Under H.R. 17506, the level of support would have been \$1.22 per pound for flue-cured tobacco and \$1.32 per pound for burley tobacco.

Senator HUDDLESTON. I am delighted to have at the beginning of the hearing some witnesses from the Congress itself. We will hear first my colleague from the State of Kentucky, Senator Cook.

**STATEMENT OF HON. MARLOW W. COOK, A U.S. SENATOR FROM  
THE STATE OF KENTUCKY**

Senator Cook. Thank you very much, Mr. Chairman.

I appreciate the opportunity to appear before you today to discuss H.R. 17506, a bill to adjust the price supports for tobacco under the Agricultural Act of 1949.

As a representative of the Commonwealth of Kentucky in the U.S. Senate for the past 6 years, I have devoted a great deal of time and energy toward the development of a viable tobacco program for Kentucky's 130,000 tobacco-producing families.

I joined with Senator John Sherman Cooper in 1971 to change the burley allotment system from acreage to poundage. Since that time, I have introduced additional legislation to protect and enhance our Nation's tobacco program. I did so because I sincerely believe that a healthy, vigorous tobacco program is one of the cornerstones of a strong agricultural economy in America, particularly in the Commonwealth, because of my convictions in this regard, I must strongly oppose H.R. 17506.

First, to cite one example, if the proposal under consideration is enacted into law within the near future, it would create a tremendous inequity in the burley sales which are now in progress, as of this week, and very frankly, Mr. Chairman, as of today.

The average per hundred pounds for burley sales was slightly over \$120. H.R. 17506, which would go into effect immediately if approved, would establish a price support level at \$132 per hundred pounds.

Since approximately 400 million of the estimated 580-million-pound burley crop will have been sold by the end of this week, well over two-thirds of the Nation's burley growers would be unable to take advantage of the unexpected increase in price supports.

Conversely, one-third of the burley producers who have yet to sell their crops would, by legislative accident, reap the benefits accruing from H.R. 17506. Any way you look at it, this is clear and blatant discrimination against two-thirds of America's burley growers.

Additionally, approval of the proposal under consideration could provide the greatest windfall for a large number of exporters and dealers who bought early and are holding their stocks for resale at a later date.

In essence, history would be repeating itself. Once again the hard work of the American farmer would be unrewarded while the large export and trade concerns would be reaping a bonanza as a result of H.R. 17506.

The first time around, this scenario was referred to as the Russian wheat deal. This time, it would be the tobacco grower instead of the wheat farmer who would have to sit back and watch the middleman profit from his toil.

Another consideration is the adverse impact that H.R. 17506 could have upon the volume of both tobacco exports and imports.

The abrupt increase in price supports which H.R. 17506 provides for would inevitably lead to substantial increases in tobacco production in competing countries. The increased competition from abroad would have two immediate results:

(1) There would be an influx of cheaper foreign tobacco into this country. In the 1974 fiscal year, some \$200 million worth of foreign tobacco was imported. Another more astonishing indication of the rapidly increasing foreign tobacco imports into this country is the quantity of imported burley and Flue-cured tobacco which American manufacturers and dealers had in stock on October 1 of this year—an increase of over 180 percent of Flue-cured and 740 percent of burley as compared to 2 years ago. These figures are sure to increase if H.R. 17506 is enacted into law at this time.

(2) The second result would be that due to this increased tobacco production in other countries, the foreign tobacco which would not be imported into this country would flood the other international markets, thereby seriously curtailing the exportation of American tobacco.

In fiscal year 1974, America exported over \$1 billion of tobacco products. This figure would have to diminish as a result of higher priced American tobacco and increased competition from abroad.

In addition, I feel compelled to point out to the subcommittee that never, to my recollection, have tobacco price supports been established which are higher than the prevailing market price. Likewise, never has a new price support gone into effect during the middle of the marketing season.

Finally, Mr. Chairman, I notice that several of the tobacco organizations that have testified on every piece of major tobacco legislation before Congress have chosen not to testify on H.R. 17506. This leads me to believe that there is no consensus whatsoever among the organizations that represent America's tobacco growers.

Historically, major tobacco legislation which has been enacted into law in this country has had the full-fledged support of the groups representing tobacco farmers as well as the Department of Agriculture.

I submit that there should be a thorough examination of the need for an increase in tobacco price supports.

Legislation should then be introduced and considered which, to the extent possible, has the support of all concerned. For instance, one realistic possibility would be to base the price supports on the cost of production of the 2 previous years.

An example, next year the floor will be \$96.10 (cwt). If it were based on 2 years it would be \$101. Obviously on one year \$111. Obviously our tobacco program, or possibly the previous year, as opposed to the average of the three previous years which is now used.

In short, our tobacco program is a delicate one which has evolved by virtue of carefully weighing the ramifications of each proposal. It would be very ill advised for those of us who are vitally concerned about this program to rush through a proposal which could have adverse effects for years to come.

I thank the chairman very much for the opportunity to testify on this occasion.

Senator HUDDLESTON. Thank you, Senator Cook. We appreciate your testimony.

Senator Helms.

#### STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator HELMS. Mr. Chairman, I have read your statement and I have listened with interest to your distinguished colleague from Kentucky. I share the apprehension expressed by both of you that we must be exceedingly careful that we don't throw the baby out with the bath water dealing with the tobacco program. A sponsor of this legislation in the House is a good friend of mine, a member of the North Carolina delegation and I admire him and respect him, but I share the views already expressed eloquently by the two Kentucky Senators that we need to be very careful about this legislation.

Senator HUDDLESTON. Thank you, Senator.

Our next witness is Representative Stubblefield, who is a member of the Agriculture Committee in the House, and who represents a tobacco producing section of Kentucky.

Mr. Congressman.

#### STATEMENT OF HON. FRANK A. STUBBLEFIELD, REPRESENTATIVE IN CONGRESS FROM THE FIRST CONGRESSIONAL DISTRICT OF KENTUCKY

Mr. STUBBLEFIELD. Thank you, Mr. Chairman.

Mr. Chairman, I am glad to have the opportunity to appear before your committee to express the need for passage of H.R. 17506, which would repeal section 106 of the Agricultural Act of 1949.

As most of you know, on February 20, 1960, the Agricultural Act of 1949 was amended to change the method of computing the support level for tobacco. The new method called for adjusting the support

level paid for the 1959 crop according to the average index of prices paid by farmers for the 3 calendar years immediately preceding the calendar year in which the marketing began.

Prior to the 1960 amendment, the level of price support was 90 percent of the parity price. Because of the skyrocketing prices, farmers are paying for the cost of their operations in the past 12 months, utilizing the 3-year average cost in determining support levels has resulted in the current support level falling to 60 percent of parity. Such a situation only spells disaster for many small farmers who look to tobacco as the only source of income. The cost of fuel, fertilizer, and equipment has increased so sharply that, if support prices are allowed to continue to drop, many farmers will be facing bankruptcy. This will have a profound effect, not only in this particular area of farm activity, but on the other operations of the farmer in the production of food and fiber where he is also confronted with substantial losses due to the increased prices he must pay to produce his crops.

The bill, H.R. 17506, would simply provide for the computation of support prices for all types of tobacco according to the law in effect prior to the 1960 amendment which would cause the computation of the support level more to the actual costs incurred by the farmer in producing the crop.

That concludes my statement, Mr. Chairman.

I appreciate the testimony of my colleague from Kentucky, Senator Cook, and I am sure that there are other opinions to be expressed here.

Might I add that I talked to Dr. Sheffield of the University of Kentucky, who advises me that the cost of producing a pound of burley tobacco is now about 95.6 cents, and with the present market price there is not enough margin for the farmer to make it.

As you know, Senator, our farmers are diversified, cattle, dairy and grain and tobacco is the mainstay of their cash and in many instances, support these other operations.

Senator HUDDLESTON. Thank you, Congressman.

Senator HELMS.

Senator HELMS. I agree fully concerning the cost of producing tobacco. There is no question about that.

I am just worried about the people in the body in which I serve who are anxious to pounce on the tobacco program.

Mr. STUBBLEFIELD. They are all concerned about that, Senator.

Senator HELMS. I don't want to give them an invitation.

Mr. STUBBLEFIELD. We have been down that hill several times.

Senator HUDDLESTON. I think we understand what the situation is in the Senate.

What do you think the climate will be in the House next week? We only have a week left to move a bill, notwithstanding the procedure that has already been used. If we send the House another bill or amend this one in any way, what is your judgment on what will happen?

Mr. STUBBLEFIELD. Senator, that is always a hard prediction to make on the House side. I think the reasonable solution to this is that we have a chance to get it passed.

Senator HUDDLESTON. Thank you very much, Congressman Stubblefield.

Congressman Perkins.

Senator HELMS. Mr. Chairman, before he begins, I am going to have to slip out. It is not that I don't want to hear what you have to say, but I have to go preside at the Senate, but I want to listen to as much of it as I can.

Senator HUDDLESTON. Congressman Carter, who is also from Kentucky.

**STATEMENT OF HON. TIM LEE CARTER, REPRESENTATIVE IN THE CONGRESS FROM THE FIFTH CONGRESSIONAL DISTRICT OF KENTUCKY**

Mr. CARTER. Thank you, Senator Huddleston.

Certainly it is good to be here and have this opportunity to express my strong support for the bill, H.R. 17506, to provide for an adjustment in the tobacco support price under the Agricultural Act of 1949.

Someone has mentioned that people were ready to pounce upon the bill. To those who are ready to pounce I will have to say to those from urban areas that I supported mass transit and I happen to also, in the district that I represent, perhaps more small burley farmers than any man in the United States, and they desperately need every cent a pound they get for their tobacco.

At the present time I am deviating from my prepared text—they are paying twice as much for fertilizers as they did 2 years ago. What they call golden burley and some of our tobacco farmers from Kentucky are here today, cost approximately \$80 a ton. Now, it is \$140 a ton or more. Labor, as you know, has gone up from—farm labor to \$2 or \$4 or even \$5 an hour for harvesting of tobacco. Insecticides, sprays, and all this, the cost is extremely high.

Of course, I think that we should use caution. We don't want to do anything to hurt the tobacco business because so many of the farmers of Kentucky depend upon it, but at the same time I think that our farmers are entitled to a larger profit on their investment. I must say that they are poor people in many, many cases, in my district, at least. I would hope that those who would pounce would certainly mellow their judgments with a little mercy toward the people.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Carter follows:]

**STATEMENT OF HON. TIM LEE CARTER, REPRESENTATIVE IN CONGRESS FROM THE FIFTH CONGRESSIONAL DISTRICT OF KENTUCKY**

Chairman Huddleston and distinguished members of the subcommittee, it is a pleasure to have this opportunity to express my strong support for the bill, H.R. 17506, to provide for an adjustment in the tobacco support price under the Agricultural Act of 1949.

Mr. Chairman, the House adopted this important measure unanimously on November 26, and I urge that this committee expedite action on H.R. 17506 in order to permit an early vote by the full Senate.

As the members of this committee know, our tobacco farmers are facing gloomy prospects for reasonable profits as a result of production costs that have increased enormously during the past year. The economy of my state and the tobacco industry as a whole will suffer substantially if growers withdraw from production in large numbers. I am afraid that they will do so if they cannot expect a better return for their efforts.

In this inflationary period, it appears that the price support provision of existing law will not provide adequate protection for our tobacco farmers. I submit that the proposal under consideration would do much to alleviate the current problem by reverting to the pre-1960 formula of 90 percent of parity. The

expected price support yield of \$1.32 for burley and \$1.22 for the flue cured would certainly not be unreasonable in view of current production costs.

Mr. Chairman, we need prompt action on this measure. I know that you and the other members of the committee recognize the significance of this problem and that you will move ahead with H.R. 17506 as quickly as possible.

Senator HUDDLESTON. Thank you, Congressman.  
Is Congressman Young here?

**STATEMENT OF HON. EDWARD L. YOUNG, REPRESENTATIVE IN  
CONGRESS FROM THE SIXTH CONGRESSIONAL DISTRICT OF  
SOUTH CAROLINA**

Mr. YOUNG. I am Congressman Ed Young from South Carolina, Senator.

Senator HUDDLESTON. You are the man I am looking for.

Mr. YOUNG. Let me preface my remarks by saying I am from South Carolina. We have Flue-cured tobacco on our farm.

I would like to urge this committee to support and pass H.R. 17506, setting the support price of tobacco at 90 percent of parity.

Since the formula for determining support prices was changed in 1960, their level has steadily dropped and is now at a level only 65 percent of parity. The inequities of the current formula became particularly acute when we saw the cost of production skyrocket by 47 percent in 1974. I would like to interject that the formula simply did not project the increased cost that we had in our input costs in the crop in 1974.

That increase was ignored altogether in the 1974 support price, and diluted by one-third when 1975's is figured. I am submitting for the record, and I have a copy of it there, projected production costs prepared in consultation with Clemson University officials.

CLEMSON UNIVERSITY

Production cost per pound 1974 flue-cured tobacco. Basis: 15 acres of tobacco, multipass harvester.

Fixed for all methods-----	\$518.31
Insurance-----	63.60
Sucker control-----	32.77
Marketing costs-----	75.00
Operating capital interest-----	40.00
Total preharvest costs-----	729.68
Labor-----	370.00
Barn costs-----	117.00
Fuel-----	152.00
Machinery-----	39.87
Total harvesting and curing costs-----	678.87
Total operating costs-----	1,408.55
Operating costs, \$1,408.55-----	0.67
Average yield, 2,1000 per acre (per pound, rent)-----	.18
Total (per pound)-----	.85

Projected increased costs for 1975 are 15 percent. 1975 costs are projected at 98.75 cents per pound. But the average 1975 support will only be 93.5 cents.

Flue-cured stabilization stocks are at an all-time low. The cost of tobacco is only a fraction of the cost of producing cigarettes. The big companies have used their enormous power to keep their costs of tobacco low, and that, Mr. Chairman, has concerned me. We have had investigating teams to come into our area and check on the charges of collusion. But we found ourselves when we started off this season with an 83-cent price average when our costs were above this. We found that the price of tobacco went on up to \$1.15 a pound. I think you can refer to this, Mr. Chairman, as bad collusion when it is low and good collusion when it is high.

Now is the time when we in the Congress should be doing everything we can to protect farmers from the ravages of inflation. Now is the time for Congress to counterbalance the power of the buyers by flexing some of our muscles. The present support formula is simply not doing the job. If we are to keep our farmers farming, we must do it with the profit motive. If we ignore their economic interests, they will continue to abandon the farms, move to the cities, not necessarily to Brooklyn, and look for nonexistent work.

I would also like to point out the projection from Clemson University shows the cost of producing the 1975 crop to be about 15 percent above last year, about 98 cents per pound cost, and yet it would be well to point out the projected support price for this tobacco next year will be 93.5, below the production cost.

Thank you, Mr. Chairman. I appreciate the opportunity to testify before this committee.

Senator HUDDLESTON. Thank you.

Congressman PEYSER.

**STATEMENT OF HON. PETER A. PEYSER, REPRESENTATIVE IN CONGRESS FROM THE 23d CONGRESSIONAL DISTRICT OF NEW YORK**

Mr. PEYSER. Thank you, Mr. Chairman.

I guess I would be classified as one of the pointers in the House, but I also, for the benefit of my good friends and colleagues who are with me, would like you to know that I have supported programs like rural electric and many other plans that benefited rural areas and I will continue to do so.

I am on the Agriculture Committee and I have been really deeply concerned about what I saw happen in the presentation of the bill you are considering. I think it would be beneficial to provide some background on this bill so we can perhaps see it in the proper perspective.

On July 30, the House Agriculture Committee voted out H.R. 16056 to provide for an emergency increase in the support level of the 1974 flue-cured and burley tobacco. Even before the bill was reported out of committee the lower prices being received by the grower when the market opened had risen sharply and the so-called emergency situation no longer existed. The bill was brought out under the consent calendar on numerous occasions. Since that time and each subsequent time it was defeated or simply put off as is the custom in the House.

The present bill, is apparent, emanated from its predecessor and was merely a deceptive device to get this bill passed. You should be aware that this bill that we are considering was not voted out by the Agricul-

ture Committee. In addition, no hearings were ever held on this bill in the House. As a matter of fact, its floor scheduling came as a total surprise to most members, including the Department of Agriculture, and certainly to myself. I was not present on the floor when the special request was made, and it was granted and passed.

This lack of deliberation, however, is not the sole basis for my objecting to H.R. 17506. The burley tobacco market opened on November 25 and prices received by growers averaged \$1.14 per pound. This is 21 cents above the average price received for all of last year and additionally set a new all-time record for high prices.

I have been advised that if this bill became effective, although it would not effect the 1974 crop of Flue-cured tobacco which has already been harvested, it would have a severe impact on the cost of the price support program for burley tobacco. It is estimated, and this is an estimate from the Department of Agriculture, that under the present program, the cost of loan outlays will be about \$5 million. Alternately, the anticipated effect of the pending legislation would increase the cost of the loan outlays by an incredible 3,000 percent to \$155 million. It is further estimated that for the total 1975 tobacco crop, this bill would increase the loan outlays from an anticipated \$70 million without this legislation to \$561 million if this legislation were approved.

These are staggering figures for any program but are particularly disturbing when supporting an agricultural program which has, if you will excuse me—no impact on solving our world food shortages and in fact, utilizes land which might be used for food production.

It is simply incredible that our Federal tax dollars are being used to support the price of tobacco at all. It is outrageous that we are considering increasing this sum particularly by such a vast amount. At this point we should be looking to eliminate programs which are wasteful or inflationary. This program is a blatant example of both evils. Over the years, we have consistently bowed to the powerful tobacco bloc in Congress. The time has finally come for us to say "no" and to simultaneously realine our spending priorities. I therefore strongly urge you to vote no and not to report this bill out of committee.

With respect to that, while it is not under consideration to this committee, while tobacco does play a role in our Public Law 480 program, our food-for-peace program. In this year's budget there was \$30 million which has been passed and approved to purchase tobacco to send to Cambodia, Vietnam, Korea primarily. Now, this \$30 million would put 1 million more people under the AID program. I would much prefer to see those kinds of expenditures than I would for the purchase of tobacco.

However, it is my hope that this committee will say no to the program we are considering for perhaps a number of reasons, some of which you have suggested, perhaps some that I have suggested. But I think it would be wrong, and to answer your question where you requested an opinion before as to what would happen if this bill were to reach the floor of the House at this time, I would tell you in my opinion this bill would go down to a resounding defeat if it ever came out to the floor at this time.

Thank you, Mr. Chairman.

I appreciate the opportunity to testify before you.

Senator HUDDLESTON. Thank you.

Senator Clark is here. Do you have a statement, Senator?

Senator CLARK. No; I don't. No, thank you.

Senator HUDDLESTON. Is there any other Member of the Congress present who wants to testify?

Thank you very much, gentlemen. We appreciate your testimony. Our next witness will be Mr. Lanier, Department of Agriculture.

**STATEMENT OF WILLIAM L. LANIER, DIRECTOR, TOBACCO AND PEANUT DIVISION, AGRICULTURAL CONSERVATION AND STABILIZATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE**

Mr. LANIER. Mr. Chairman, may I be at liberty to invite a member of my staff, Mr. Joe Todd, and also Dr. Kiger and Dr. Miller?

Senator HUDDLESTON. For the record you might identify the gentlemen with you, Mr. Lanier and your positions.

Mr. LANIER. Mr. Chairman and members of the subcommittee, I am William L. Lanier, Director of the Tobacco and Peanut Division, Agricultural Stabilization and Conservation Service, USDA. I have with me, Dr. Hugh Kiger, Director, Tobacco Division, Foreign Agriculture Service; Dr. Robert Miller, Economic Research Service; Mr. John Harris of our General Counsel's Staff; and Mr. Joseph Todd, Deputy Director, Tobacco and Peanut Division, and Robert Hieronymus, Chief of the Tobacco Branch, Tobacco and Peanut Division.

Senator HUDDLESTON. You have a lot of chiefs. Do you have any Indians over there?

Mr. LANIER. That is a good question, sir.

At the outset I would like to borrow from your opening remarks when you said that your position was in the best interests of the grower. I would like to use that same statement and say that on the part of the U.S. Department of Agriculture that likewise this is our position, and no person in the Department of Agriculture, to my knowledge, has done any work on this—on our statement or our position other than some person that was born and reared on a tobacco farm.

We are pleased to give the Department's views on H.R. 17506, a bill "To adjust price support for tobacco under the Agricultural Act of 1949."

This bill would repeal section 106 of the Agricultural Act of 1949, and would reenact the last two sentences of that section as an amendment to section 101(c) of the act. Section 101(c) provides that "For tobacco, if marketing quotas are in effect, the level of support shall be 90 per centum of parity price."

A new section 106 was added to the act in 1960. This section provides that for the 1961 and each subsequent crop the support level would be determined by multiplying the 1959 crop support level by the ratio of (i) the average of the index of prices paid by farmers for the immediately preceding 3 calendar years to (ii) the average index of such prices paid by farmers in 1959.

In recommending approval of that legislation, the report of the Senate Committee on Agriculture and Forestry stated, in part, and I quote, "Tobacco support prices under existing law are based on modernized parity prices, which in turn are based not only on the parity index, but also the adjusted base price of the commodity. The latter

takes into account the recent 10-year price of the commodity and the recent 10-year average index of prices received by farmers. Since tobacco prices have been rising, largely as a result of strict acreage controls combined with an effective price-support program, while other prices received by farmers have been falling during this 10-year period, the parity price for tobacco has been rising at a greater rate than other commodities, with consequent increases in tobacco support prices. The bill is designed to stabilize this support price with a view to maintaining and increasing the U.S. share of world markets and permitting increases in acreage allotments"—end of quotation.

H.R. 17506 would, if approved, repeal this section, and price support would be mandatory at 90 percent of parity under section 101(c) of the act. Under section 106, the level of support for the 1974 crop of Flue-cured tobacco was 83.3 cents per pound. If H.R. 17506 had been in effect, the support level would have been \$1.22 per pound. Marketings of the 1974 Flue-cured crop have been completed with prices averaging \$1.05 per pound, 17 cents more than the 1973 crop, and the highest on record. Since marketings have been completed, the enactment of H.R. 17506 would have no effect on prices for the 1974 Flue-cured crop.

If this bill is approved, the level of support on the 1974 burley crop would increase from 85.8 cents per pound to \$1.32 per pound. The burley markets opened November 25 and prices during the first 2 weeks of sales averaged \$1.14 per pound, 21 cents per pound above the 1973 crop average, and the highest of record. If the bill should become law effective January 6, and this is when the markets reopen in the area—the burley tobacco remaining to be sold at that time—10 percent of the 1974 crop—would be about 56 million pounds. It is estimated that about one-third of this amount would be received under Commodity Credit Corporation loan. At the higher prices buyers would be expected to reduce their purchases instead of arranging for the additional funds necessary to purchase all of the remaining tobacco at the increased price. It is estimated that about 19 million pounds would be received under loan under these assumptions with loan outlays of \$25 million. It is estimated that in the absence of enactment of the bill, the loan outlay would be negligible.

For all other kinds of tobacco, loan outlays of about \$2 million are expected for the 1974 crop under present legislation. With the enactment of H.R. 17506 the loan outlays would be expected to exceed \$6 million.

If the bill is enacted it is expected that farmers would expand tobacco production in 1975 and that about 375 million pounds of all kinds of tobacco would be taken under CCC loan with an outlay of about \$561 million. Under present legislation it is estimated that about 65 million pounds would move under loan with an outlay of about \$70 million. It is estimated that the loans made under present legislation would be repaid, but under H.R. 17506 substantial losses could be expected.

The enactment of H.R. 17506 would seriously affect the price competitiveness of U.S. tobacco in export trade. Its impact would be particularly severe on our exports of Flue-cured and burley to the European Economic Community (EC), a market for nearly half of our exports of these types which in fiscal year 1974 were worth more than \$700 million. The EC applies to a two-level tariff. U.S. tobacco valued

under \$1.27 per pound pays a duty of about 15 cents per pound; tobacco valued at \$1.27 and over per pound pays about 20 cents. Part of our exports presently pay the lower duty. The prices from the proposed legislation would assure that all of our exports of Flue-cured and burley leaf to the EC would pay the higher duty. This would eliminate the tobacco tariff concession recently negotiated with the EC and offset any possible duty reductions we might obtain in forthcoming negotiations.

The substantially higher prices resulting from enactment of H.R. 17506 would further stimulate tobacco production in competing countries and thus seriously jeopardize our tobacco exports and at the same time, substantially increase our tobacco imports.

During fiscal year 1974, U.S. exports of unmanufactured tobacco and tobacco products were valued at \$1,098 billion and imports were valued at about \$200 million. Thus, our net trade in tobacco of about \$900 million was a substantial contribution to our balance of payments.

During fiscal year 1974 our total exports of Flue-cured tobacco shipped as leaf and products exceeded 650 million pounds—farm sales weight—more than 50 percent of the 1973 marketings.

In fiscal 1974 U.S. burley moving overseas in the form of leaf and products amounted to about 138 million pounds—farm weight basis—which represented about 29 percent of the 1973 crop.

Export prices of U.S. Flue-cured leaf are substantially above that of foreign competitors, with the possible exception of Canada. U.S. export prices of burley are substantially above those of competing burley—and are double the price of much of foreign produced burley. Foreign manufacturers are willing to pay a premium for U.S. leaf because of higher quality, but there is a limit to how much of a premium they will pay for U.S. leaf.

Even with the present price relationship between U.S. leaf and competing foreign grown leaf the following developments have taken place: (1) the U.S. share of the world Flue-cured and burley production and trade had been declining; (2) U.S. imports of cigarette leaf have been steadily increasing; (3) continued expansion of use of more filters, homogenized leaf in manufacture; and (4) the high prices have stimulated interest in development of synthetic tobacco.

During 1960-64, U.S. Flue-cured production represented 40 percent of world production of this type. Our percentage of world flue-cured production has dropped to about 27 percent of the world total by 1974. During 1960-64 the U.S. share of free world exports of Flue-cured tobacco was about 51 percent but declined to 42 percent by 1973.

In 1960-64, U.S. burley production accounted for about 80 percent of free world burley production—our share has dropped to about 51 percent in 1974. During 1960-64 the U.S. share of free world exports of burley was about 56 percent but had declined to about 27 percent in 1973.

Relatively higher prices in the United States can be expected to result in further declines in our share of world tobacco markets.

Because of the relatively higher prices—and tight supplies in recent years—the United States has been rapidly increasing its imports of foreign grown cigarette leaf. Imported cigarette leaf accounted for 10 percent of the total leaf used in cigarettes in the United States in 1960, but now accounts for about 15 or 16 percent.

Increased prices of U.S. tobacco and tight U.S. supplies have led to sharply increased flue-cured and burley tobacco imports. During the current calendar year—January–October—arrivals of these tobaccos have risen 20 percent from 33 million pounds in the 10 months of last year to 40 million pounds in the same months of 1974. Duty paid imports which come principally from Brazil, Mexico, Argentina, Korea, and Italy have nearly quadrupled.

Manufacturers and dealers report foreign grown flue-cured and burley tobaccos in their inventories in the United States are up about 180 percent and 740 percent respectively, as of October 1, 1974, over 2 years ago. On October 1, 1974, U.S. stocks of foreign grown burley were 88.4 million pounds—farm weight basis—and foreign grown flue-cured stocks were 54.4 million pounds.

The United Kingdom has been the major export market for U.S. leaf. Because of the relatively high price of our leaf the United Kingdom has been aggressively seeking other sources of leaf tobacco and/or substitutes to reduce their raw material costs. Several firms in the United Kingdom have been experimenting with synthetic tobacco which is made from cellulose. If test marketing of cigarettes containing this material is satisfactory, several firms will start using it in their blends. Sharp increases in the price of leaf tobacco would provide added incentive for these firms to use more synthetic tobacco.

The Department strongly recommends that H.R. 17506 not be passed. May I repeat, the Department strongly recommends that H.R. 17506 not be passed.

The Office of Management and Budget advises that enactment of this legislation would not be consistent with the objectives of the administration's program.

We shall be glad to respond to any questions relating to the bill.

Mr. Chairman, we will be happy to respond to questions, but I have another comment and it is a very short sentence and I would like to share it with you. It will appear, I hope, in the copy that you will get.

Mr. Chairman, I would like to add one further thought. It was mentioned in the Department's report on the bill but was inadvertently omitted from our statement.

To the extent that our exports would be reduced and imports increased, as we think they would under the enactment of this bill, future quotas and allotments would have to be reduced to reflect the reduced disappearance in order to maintain supplies in line with demand.

Senator HUDDLESTON. Thank you, Mr. Lanier.

The support program for tobacco and other crops, too, is primarily designed, as I understand it, to avoid complete disaster on the part of the grower. Considering the production cost increase—this last year the input for the farmer went up an average of 17 percent and the inputs for tobacco production, being energy and labor and fertilizer, went up even higher than that—considering that the tremendous increases over the past 3 years, do you believe that the present support price is adequate to give the farmer protection?

Mr. LANIER. Mr. Chairman, I have been very, very concerned about this, and in addition to being a bureaucrat, I am also a flue-cured tobacco farmer down in Southeast Georgia. I went to this place that I purchase goods from, it is Wright & Lanier Co., Metter, Ga., and made comparisons, because we had figures that were from Genesis to

Revelations. They were all over the place. So the second biggest farmer in my county, happened to be present, and knowing what I wanted he looked up what he paid for tobacco fertilizers, what he paid for the ingredient that he fumigates his beds and every ingredient until he bought his last materials, and made a comparison, and of course they are up. Of course they are up and they are up higher than any of us would like to see.

But I think there are two things that we need to consider here; No. 1, I learned from my father—when although a small boy I followed my father to farm meetings—that price support was never to be substituted for the marketplace. It was to keep a man from disaster. It was to hold him up, keep him afloat.

Senator HUDDLESTON. If you lose all you have, that can be a disaster.

Mr. LANIER. Yes sir, when you lose all you have got that can be a disaster.

The second way I would respond to the question that you ask is: looking down the road, and please do not misunderstand me and feel that I do not have compassion for these farmers whose sole income is farming and whose income is reduced because of their increase in cost of materials and labor and so forth, but the basic question to me today is this: Do we want to mine this commodity or do we want to protect it and preserve it? We can put a high enough support price on tobacco and, over the next 2 or 3 years, we can mine it and bleed it to death and serve notice to the world that we are getting out, now you all get in. Or we can come to what I would like to think, and I hope I don't offend anybody by saying this, we can come to a more realistic approach where the farmers can make money, one that is healthy for the industry and one under which we can continue on generation after generation producing a high quality tobacco and the farmers can continue to make a profit off this crop.

Senator HUDDLESTON. Isn't it true that due to the present support price, and its low level, that a substantial amount of the burley allotment is not being utilized? Is that contributing to a shortage situation?

Mr. LANIER. Well, yes, to some extent. You get back into another issue that is debatable and in some counties highly controversial. If you had a cross-county movement of these allotments—some are so small they are no longer economical for growers to tend them—and they could get in more economical units by having larger acreage, but there is a difference of opinion in town and in the Department of Agriculture as to that particular subject.

Senator HUDDLESTON. That is another issue we are confronted with in the burley program. We might solve that issue by a better support price and return within the county; then perhaps we wouldn't have to go into cross-county leasing.

Mr. LANIER. This puts me in a difficult position to oppose this, but I still say that in the long haul that this legislation is not in the best interests of the burley and the Flue-cured grower. If this price support of 80 some cents were the only price that your burley growers in Kentucky were getting, I would say yes, something had to be done. But look at the spread between support price and market price and there is a considerable spread, and computing next year's support price, we expect it to be up another 10 to 13 percent, isn't that right, Mr. Todd?

Mr. TODD. Twelve percent.

Mr. LANIER. Twelve percent.

Senator HUDDLESTON. What is your computation on the cost next year?

Mr. LANIER. I would say the percentage of cost increase would be higher than that, higher than the—a little higher than that, yes sir.

Senator HUDDLESTON. So the spread will be greater?

Mr. LANIER. It will be greater, but there is some profit here, still enough profit—we still could absorb it if we had to save this industry over the long haul. What I am fearful of, is our taking some action that would have the effect of a cablegram going around the world, saying boys, in the United States, we are going to do thus and so. I think we learned a lesson on cotton several years ago.

Senator HUDDLESTON. But in the question of exports and imports, are foreign countries under price or cost increase pressure, too? They are not continuing to produce at the same cost, are they?

Mr. LANIER. No; I would assume their costs would go up.

Senator HUDDLESTON. It is then not unreasonable to anticipate their price would go up, too?

Mr. LANIER. Am I at liberty to smoke?

Senator HUDDLESTON. Absolutely, yes.

Mr. LANIER. I would not feel comfortable at all in trying to give you a figure as to what I think their cost would be, but this energy crisis—

Senator HUDDLESTON. Well, is it possible that we could have an increase and still not be out of balance more than we are right now in relation to foreign products? If you assume they are under the same cost pressure that we are and maybe more so, that is not an unreasonable assumption, is it?

Mr. LANIER. Would one of you gentlemen respond to that?

Dr. Kiger.

**STATEMENT OF DR. HUGH KIGER, DIRECTOR, TOBACCO DIVISION,  
FOREIGN AGRICULTURE SERVICE, U.S. DEPARTMENT OF AGRICULTURE**

Dr. KIGER. The costs would be quite comparable from the standpoint of increases since many of them depend on fertilizer imports. Of course, basically their labor and land is valued much less, particularly in developing countries, but I think there would be some parallel increasing in other countries.

But I do not know of any countries that would contemplate an increase in either price support or market price that would be comparable from what would result from the enactment of this bill.

Senator HUDDLESTON. How did the Department arrive at this \$561 million figure as the cost of the program next year under the bill we are considering?

Mr. LANIER. Computation of cash outlay of what would go into the Stabilization Corporation, at 90 percent of parity, what the gentlemen following sales line would bid and what would actually go, at the support price, into a loan program, and it is doubtful at that price if we could recover the money that we have in it.

Senator HUDDLESTON. In the past have you been rather successful in disposing of the crop?

Mr. LANIER. In Flue-cured, yes, sir, with the exception of 2 years. We had some varieties that we later called discount varieties, some

three or four of them, and we sort of had to have a fire sale to get rid of them. They didn't have the quality. But other than that, yes, the track record has been pretty good.

Senator HUDDLESTON. The cost to the taxpayer has been minimal, hasn't it?

Mr. LANIER. Less than any other program.

Senator HUDDLESTON. It is reasonable to assume you would probably dispose of that tobacco so the \$561 million figure would be a gross figure that would have little relationship to the net?

Mr. LANIER. I might differ with you a little bit on that, Senator, at the price support now as it relates to disposal with little loss, the track record is good. If we go back to 90 percent parity and some other country takes our market, then we could stand to lose, because it would be stored for more years, that is for sure, and it would run up the costs. The big question comes down to, would other countries increase production fast enough for us to have the residual world supply and they the marketplace.

Senator HUDDLESTON. How does this cost compare with other support programs?

Mr. LANIER. It is a little difficult to answer that one right now. A few years ago we could have, but in some programs there is a zero cost right now like in corn and soybeans, and cotton hasn't gotten to the target price yet.

Senator HUDDLESTON. And peanuts?

Mr. LANIER. The peanut program hit an all time high of \$97.7 million in crop year 1971. Last year the cost was about \$3 million, and there is a possibility that 1974 crop cost will be around \$1 million.

Senator HUDDLESTON. Would you be able to submit for the record the cost of each support program you have been involved in?

Mr. LANIER. Yes, sir, anything you request, sir, I will respond immediately.

[The following information was subsequently received for the record:]

REALIZED LOSS (OR GAIN) FOR PRICE-SUPPORT AND RELATED PROGRAMS FISCAL YEARS 1965 THROUGH 1974

[In millions of dollars]

Program and commodity	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Net realized loss (or gain):										
Rice and products.....	51.5	55.1	32.0	11.6	14.4	29.0	35.0	37.1	38.0	20.4
Wheat and products.....	214.1	210.4	547.5	452.3	454.1	650.7	715.6	675.5	727.2	494.0
Corn and products.....	1,138.0	1,153.4	1,186.6	753.7	981.7	1,456.9	1,240.5	936.7	1,508.7	872.8
Dairy products.....	260.9	150.6	101.0	197.9	204.7	129.8	179.1	214.8	182.8	101.1
Tobacco <sup>1</sup> .....	.4	.3	40.7	30.2	32.8	30.6	29.2	26.9	27.6	13.7
Soybeans and products.....	2.7	.4	( <sup>2</sup> )	3.8	23.1	46.6	29.2	21.8	( <sup>3</sup> )	234.0
Cotton.....	602.6	604.3	1,241.6	1,231.7	761.9	851.8	912.9	806.2	814.6	718.8
Peanuts.....	30.5	44.2	43.8	48.2	38.8	36.0	66.3	97.3	58.5	4.8

<sup>1</sup> Includes export payments as follows:

Year	1967	1968	1969	1970	1971	1972	1973	1974
Million dollars.....	33.1	28.4	27.9	29.5	29.1	26.7	27.8	13.7

<sup>2</sup> Gain.

<sup>3</sup> Less than \$50,000.

Senator HUDDLESTON. Were those net figures you were giving on peanuts?

Mr. LANIER. On the losses?

Senator HUDDLESTON. Yes, those were losses?

Mr. LANIER. Yes, sir.

Senator HUDDLESTON. We have a vote going on and we will have to recess here shortly.

Your Department voluntarily submitted a report on H.R. 17506 which is somewhat unusual. What was the reason for that?

Mr. LANIER. I can't answer that one. I was not aware when we responded. Normally, the Chairman of the full committee or his staff makes a request.

I had a request to draft a response for approval. I was not aware that this procedure was followed—the request did come but before it came we thought it would come, and to have ample time it was prepared in advance, anticipating it.

Senator HUDDLESTON. I think that is a fair judgment on your part.

Senator Cook asserted that to his knowledge never before had a support price been established that was higher than the prevailing market price, does that coincide with your record?

Mr. LANIER. I would hate to respond to that one. I am not sure. I can't think of anything offhand where the support price was—

Senator HUDDLESTON. What about one applied during the middle of a selling period?

Mr. LANIER. I have never known of that, and while you mention that, I would like to elaborate on that one.

If you will note, and I am sure you have, there is no date on this bill and it would become effective with the signature of the President if the Senate passed it as the House did, and assuming he did not veto it. Now, how difficult would it be for a Congressman or Senator from Flue-cured tobacco to go back home and say, now all your tobacco has been sold and since you sold it we raised the support price to 90 percent, and then without mentioning any names present. If say 60 or more percent of the burley tobacco has already marketed, my personal opinion is it would be a little difficult to justify passing something administratively when two-thirds had been sold, the last third would get 90 percent of parity and two-thirds would get a lesser support price.

Senator HUDDLESTON. Other than that apparent unfairness for those who had already sold, would there be other difficulties involved in instituting a new price support during the middle of the selling season?

Mr. LANIER. For the tobacco that actually went into loan I think that we could administratively provide the new support level. I am not sure; I haven't checked with the counsel.

But what I am thinking about is what about the man that sold his tobacco, the company already has it in their plants and processed it but yet it might have been at certain grades under 90 percent parity. I don't think there is any way that that could be dealt with.

Senator HUDDLESTON. There would be some objections, I am sure, by those who had already taken the lower price.

Mr. LANIER. Yes, I imagine there would be some weeping and wailing.

Senator HUDDLESTON. I am going to recess for 10 or 15 minutes to go and vote. We will come back.

Mr. LANIER. Yes, sir, I will wait.

[A short recess was taken.]

Senator HUDDLESTON. The subcommittee will come to order again, and we will resume with Mr. Lanier from the Department.

Obviously the Department has a great many reservations about the proposed legislation, and yet it is also pretty obvious by your own statements that the spread between the price support and actual cost of producing burley is substantial and is likely to increase next year. This brings up the point, and Senator Cook alluded to this, that perhaps some change in the formula would be acceptable and desirable. I would like to explore that possibility a little bit. In using a 3-year figure, prices while moving upward move at a rather slow pace and very gradually, so there is a general reflection of what the cost might be. But in the last 2 years we have had unusual situations, history-making, I suppose you might say.

So the question is what ought to be done to make the support price more nearly reflect the actual cost of producing tobacco, in such a situation? Should we use a 1 year, the immediate preceding year, or 2 years or use 2 years and give more weight to the immediate preceding year, or continue with the 3-year plan, with more weight to the preceding year. Are any of these under consideration by the Department? Do you have any comment on these?

Mr. LANIER. Not to my knowledge. We are merely responding to the bill before the committee.

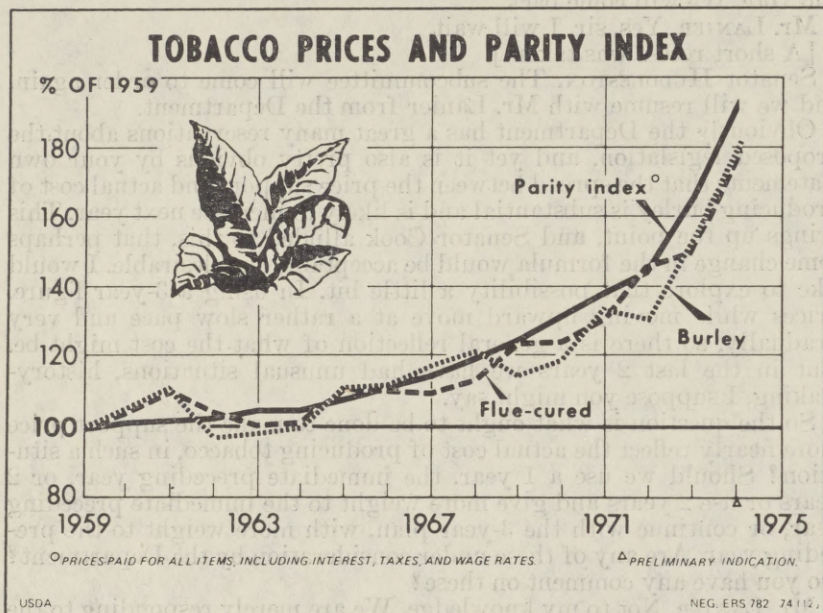
But, Senator, if I am at liberty, may I call on Dr. Miller to give you some cost figures in ERS about increased cost of production?

Senator HUDDLESTON. All right. Do you want to explain these, Doctor?

#### STATEMENT OF DR. ROBERT H. MILLER, COMMODITY ECONOMICS DIVISION, ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Dr. MILLER. Mr. Chairman, the attached chart shows the trend, Flue-cured and burley prices and the parity index since 1959. The parity index is a measure of the prices paid by farmers for commodities and services, including interest, taxes, and wage rates. While this measures the prices paid by all farmers, it is a fair guide of the cost trend for tobacco farmers. The attached chart, which appears in the 1974 Handbook of Agricultural Charts and has been updated for our 1975 Agricultural Outlook Conference, which is currently in session, shows that the prices received by farmers for Flue-cured and burley tobacco over the

past 15 years have followed a remarkably close pattern to the parity index. You will note that while there is, as you indicate, Mr. Chairman, this sharp jump in the cost as represented by the parity index for the past 2 years, there has been a corresponding sharp jump in the prices received by farmers for flue-cured and burley prices.



The second item that I would like to present for the committee's consideration is an article in the September 1974, *Tobacco Situation*,\* a publication of the USDA's Economic Research Service, which indicated that direct costs for producing flue-cured tobacco, that is costs exclusive of returns to land and management, had increased about 15 or 16 cents per pound between 1972 and 1974. Now, the authors of this report on our staff in Economic Research Service, Dr. William Givan and Dr. Fred R. Hoff, concluded that by mid-September, when the overall prices for flue-cured tobacco averaged \$1.01 a pound, the margin to growers for land and management had been maintained for the 1974 season at a comparable level to the 1972 season.

Now, we have not prepared estimates for burley tobacco, but we believe that the price increases that growers have experienced are compensating them for the increased costs.

Senator HUDDLESTON. Those figures on production cost increases are somewhat less than some we have seen and will undoubtedly be presented as we progress through this hearing. I wonder if you have any reason for the differences that might occur. Is that a different type of formula?

Dr. MILLER. Mr. Chairman, we have laid out the items that are included in the direct costs. We recognize that there are items of land costs and return to management that are not included and can vary widely, including the return, the rental for an allotment.

\* See p. 27

Senator HUDDLESTON. Let me get back to the proposition of what the situation would be if we were to change the 3-year period to the 2 most recent years. Have you given any thought to that possibility for use in setting—

Mr. LANIER. Senator, while he is better qualified to respond to that than I am, but if prices go down, the index goes down, then the farmer would benefit with a 3-year rather than a shorter period. Now, as long as it is going up like it has the last 2 years, of course he would benefit but he would suffer a loss if you shortened the years and the prices were to go down.

Senator HUDDLESTON. It would take a pretty precipitous down turn.

Mr. LANIER. Oh, yes, sir, but I say it can work both ways.

Senator HUDDLESTON. Well, you might remedy that by either staying with 2 years but giving the most recent year double weight or even by staying with 3 years and giving the most recent year double weight. That way you would still ease it down, but you would also be more flexible, more responsive to an immediate increase. After all, it is the increase in that last year that you have to pay to get your new crop out. It seems to me it would be more responsive to the actual cost of production. Such a formula as that would still, as I understand it, bring about a support price less than the current market price but somewhat above the current and projected support price. Would the Department object to something along that line that would give the farmer more protection but still not be above the actual market price?

Mr. LANIER. Well, I am not at liberty to respond to that. Of course, if the request is made of the Department we can determine pretty shortly what the Department's position is. But I would not be at this moment in a position to respond in the affirmative or the negative.

Senator HUDDLESTON. To the effective date again, you are very certain in your position that anything passed should not apply to the current season?

Mr. LANIER. I am sorry, I missed your question.

Senator HUDDLESTON. You are firm in your opinion that any change in the present law should not apply to the present market?

Mr. LANIER. I think it would be 100 percent discriminatory against the Flue-cured growers and probably discriminatory against two-thirds of the burley growers for crop year 1974.

Senator HUDDLESTON. Crop year 1974.

Gentlemen, that is all the questions I have at this time.

Congressman Perkins has joined us.

Mr. PERKINS. I want to ask about two or three questions. I want to see several witnesses testify so they can leave on the train this afternoon.

Senator HUDDLESTON. We have several witnesses scheduled and they will all have an opportunity to testify.

Mr. PERKINS. I would like to address a question to Mr. Todd. What I am really concerned about, is how we are going to increase the food supply in this country all the way across the board when we do not have any young farmers to amount to anything remaining on the farm while farmers with the best brains are being squeezed off the farm because they are going broke. I would ask Mr. Todd if the bill simply does not revert back to the formula in effect from 1949 to 1960. Am I correct in that statement, Mr. Todd?

STATEMENT OF JOSEPH J. TODD, DEPUTY DIRECTOR, TOBACCO  
AND PEANUT DIVISION, U.S. DEPARTMENT OF AGRICULTURE

Mr. TODD. Yes, sir, from the act of 1948 until the legislation that was passed in 1960 supports were 90 percent of parity.

Mr. PERKINS. You calculated or figured—and here we revert back to that language in this bill; am I correct?

Mr. TODD. Yes, sir, it goes back to the old legislation.

Mr. PERKINS. Identical to the old legislation?

Mr. TODD. Yes, sir.

Mr. PERKINS. Now, under the old legislation farmers were applying all the fertilizers that they could possibly obtain to increase the poundage. You had a lot of problems because of the increased poundage. Some farmers on an acre would grow 3,500, 4,000, and other farmers would only grow 1,800, 2,000. Am I correct in that statement?

Mr. TODD. Yes, sir, when we were on acreage allotments, yes.

Mr. PERKINS. And we did not change the formula until 1960 to base the parity over three calendar previous years; am I right?

Mr. TODD. Yes, sir.

Mr. PERKINS. Assuming you are operating a business, and you had to sell your merchandise tomorrow and in the future on the price that you paid, the average price over a 3-year period. The way inflation has skyrocketed during the last year. What would happen to your business, Mr. Todd?

Mr. TODD. We would not be in business very long.

Mr. PERKINS. Well, is that the same situation presently that the tobacco farmers are confronted with? Just tell me if that is the present situation and if your Department has not been involved down there in discussions about—worried about getting the tobacco grown for the next year and talking about even extra State leasing, intercounty leasing which would disturb the economy in all these counties. If we reverted back to the formula that you had here, the old formula, you would not have to worry about the tobacco being produced and the farmer receiving a fair return; would you?

Mr. TODD. The problem we see, Congressman, is, that if we boosted the support price that much at this time, that we would jeopardize our export markets and would stimulate production in foreign countries with the result that imports would be increased.

Mr. PERKINS. Let me say to my good friend that there are wolves dressed up in sheep's clothing arguing what great friends they are to the farmer among these export dealers that have brought about all the opposition to this legislation. I think they are doing great harm to the entire tobacco industry. If we solve this problem by reverting back to this formula you are not going to have the problem of leasing, you are not going to have the problem of excess tobacco in the pool because you now have the authority to regulate the poundage which you could not control back during the 1950's. Am I correct in that statement?

Mr. TODD. Yes, we have a much more effective control over production now in poundage basis than acreage.

Mr. PERKINS. And you do not have 1 pound in the burley pool today; do you?

Mr. TODD. Not over the 1973 crop.

Mr. PERKINS. Tell us the reason why.

Mr. TODD. Well, I think basically, Congressman, it is a question of supply and demand. Three out of the last four crops have been adversely affected by weather conditions with the result that production has lagged behind. Now demand has pushed the price up to \$1.20 this week.

Mr. PERKINS. What will the market pay, only a few cents more unless we do something along this line? You will not see anything like when the farmers grew quality tobacco. We want to get back to the day when we will grow quality tobacco. That is what I am seeking here.

Mr. TODD. The market price is well above support price on all grades. Some grades are far more above than other grades. All of it is selling above \$1. So I agree it would be desirable if there is more spread and people that grew better quality tobacco get some higher payment, but traditionally, and the same thing happened in flue cured, when supplies are as tight as they are now, it tends to reduce the spread between grades.

Mr. PERKINS. Well, the only way that you are going to solve this problem is let the farmer make a reasonable profit; am I correct in that statement?

Mr. TODD. Well, I don't think he will stay in business if he doesn't see the prospects.

Mr. PERKINS. And you people in the Department have been worried about this crop being grown next year, haven't you?

Mr. TODD. Well, yes, there is some concern, I don't know how much, not only on tobacco but other things.

Mr. PERKINS. Sure, that is the reason we want to do something, and I really am concerned about food in general and I am going to work and cooperate.

That is all. Thank you, Senator.

Senator HUDDLESTON. Isn't it true that the market price of other commodities, wheat, soybeans, corn have increased by substantially larger percentages than the market price of tobacco over the past 10 years?

Mr. LANIER. Yes, sir.

Senator HUDDLESTON. So that a support price on those products really has not been—

Mr. LANIER. However, on soybeans you have zero support of price for crop year 1975.

Senator HUDDLESTON. They have done better at the market, the market price and the farmers received comparably at least, a better return?

Mr. LANIER. Yes.

Mr. PERKINS. May I ask the gentleman, how much fertilizer has increased on loan in the last year?

Senator HUDDLESTON. One hundred percent.

Dr. MILLER. Mr. Chairman, in responding to the Congressman's question, about fertilizer, which in the case of flue-cured tobacco accounts for 7 percent of the production cost, the price has approximately doubled in the past 2 years.

Mr. PERKINS. Doubled? Well, the truth about it is that it has doubled in the last year.

Dr. MILLER. Most of that, yes.

Mr. PERKINS. You have your records up to date.

Mr. LANIER. Mr. Congressman, there are two ways to look at that. Needless to say, everybody knows that has gone up so much that it has been staggering to all of us. But the time of the year that the farmer purchases it, this is one think that makes it difficult to say specifically. The man that bought early got a better price but the man that bought it just about the time he was putting it in the field, he really hit the top.

Mr. PERKINS. Several of the North Carolina members are complaining, Congressman Andrews, for instance, that they cannot get lime into their own congressional districts, they cannot get it from Knoxville, Tenn., or elsewhere, because of the shortage of railway cars. Is the Department taking any action to make sure that the people who produce food and fiber, in this instance tobacco, will have those raw materials this year, to see that any priorities are being set along that line?

Mr. LANIER. Not in our particular division, which Mr. Todd and I represent, tobacco and peanuts, but in staff meetings we have people that are working on this and at each staff meeting they report. Especially last year their reports dominated most of the time and even over commodities, this transportation thing. We knew of people even delivering soybeans to Mobile, Ala. in pick-up trucks, just a ton at a time.

But for these people who are monitoring this, they are doing the best job they can to make sure this is possible. Of course, we witness the same thing on lime.

Mr. PERKINS. I ask Senator Huddleston to join with me in the question he propounded. After you listen to some of these witnesses and after we have some of the good experts in the country — I would classify Dr. Leach as one of the outstanding surgeons of the country. He has been retired for 12 or 15 years and has devoted his time to farming. After you see the evidence and hear what is happening to the growers, you can see what is happening and get a recommendation up here to Senator Huddleston.

Senator HUDDLESTON. I might suggest, Congressman, that we don't intend to wait for the Department to come up with a recommendation. We will have one ourselves before this session is over.

Mr. PERKINS. We would like to see them consider and come up with something that is half-way realistic and see that there is an area somewhere that we could all have a meeting of the minds. We just know that the Department presently—I don't know—thank you.

Senator HELMS. Mr. Chairman, I wonder if I could interrupt Bill here. I have to leave. But would you comment about the possibility of Rhodesia getting back into tobacco production?

Mr. LANIER. Senator, you recall, as do many of us in the Department and Members of Congress, that the Secretary of Agriculture has made formal statements and off-the-cuff statements that in his judgment that the time is short, that Rhodesia will be back, the sanctions will be lifted and in his judgment within a very short period of time they will in fact be a tremendous competitor against our production of tobacco in this country.

Senator HELMS. This is a leading question, but what would that do to the price of tobacco?

Mr. LANIER. If there is a market for "X" number of pounds and they can get there, I think it would be difficult for us to continue to market our same number of pounds after they market theirs.

However, we have one advantage over them but it is not as great as it once was, and that is the quality of production. They have narrowed this gap of quality but they still have not yet reached us. But I have been told by people more knowledgeable than myself that they are making progress in this.

The Department of Agriculture feels that the enactment of this piece of legislation would be very, very welcome in Rhodesia.

[The following report was referred to on p. 22]

#### FLUE-CURED TOBACCO PRODUCTION COSTS AND PRICES, 1972-74

[by William D. Givan and Frederic L. Hoff, Agricultural Economists,  
Commodity Economics Division, Economic Research Service]

*Abstract:* Sizable increases in the price of petroleum products, fertilizer, labor, and other inputs have resulted in a dramatic increase in the cost of producing the 1974 flue-cured tobacco crop. Estimated budgets for two flue-cured tobacco production systems indicate that production costs (excluding land, management, and allotment costs) have risen about 37 percent since 1972. Likewise, prices received for flue-cured tobacco have increased significantly. As of September 12, 1974 the price received by farmers for flue-cured leaf averaged \$1.01 per pound, up 13 cents from 1973 and 16 cents above the 1972 average.

*Keywords:* Flue-cured tobacco, production costs, tobacco harvest systems.

Flue-cured tobacco growers experienced a dramatic increase in the cost of inputs used to produce the 1974 crop. There have been advances in the price of petroleum products, fertilizer, twine, and labor.

Early in the current marketing season for flue-cured tobacco, many growers expressed concern that prices being received for the 1974 crop were inadequate to recover higher input costs. However, with progression of the current marketing season, tobacco leaf prices have increased significantly.

#### NATURE OF COST INCREASES

The price of liquified petroleum gas (LP gas) has increased over 100 percent since 1972. At the same time, diesel fuel prices have jumped 70 percent and fertilizer 100 percent. Farm wage rates have also increased, though less sharply. And since tobacco production is very labor intensive, a small wage increase represents a sizable increase in expense. To reduce labor costs tobacco farmers are gradually mechanizing the production process.

Current cultural practices for flue-cured tobacco require large quantities of these higher priced inputs per acre. Consequently, the cost of producing flue-cured tobacco in 1974 probably increased relatively more than costs for most other crops.

Production costs for flue-cured tobacco vary widely among farmers due to differences in management ability, productivity of land and labor, and to the vagaries of weather. Costs also vary by production system and at least 10 different systems are currently used to harvest flue-cured tobacco. Thus, no single budget or set of budgets can depict the production costs of all tobacco farmers. However, budgets can be used to evaluate changes in production costs for specified situations.

#### COSTS FOR TWO HARVEST SYSTEMS

To better assess the magnitude of recent increases in input prices, production costs of two commonly used harvest systems are compared for 1972 and 1974. These two systems are 1) a system using walking primers, a tying machine, and a conventional barn (used on about 40 percent of the flue-cured tobacco acreage in 1972), and 2) a system using a priming aid and bulk barns (this system and variations of it were used on nearly 8 percent of the 1972 tobacco acreage). The

bulk system was selected for comparison as it exemplifies one aspect of the current trend toward new labor-saving technology.

Labor use estimates were obtained from a 1972 ERS survey of flue-cured tobacco farms. Pre-harvest costs are based on estimated input requirements to obtain given production levels. Fixed machinery costs are based on 11.55 acres of tobacco per farm, a near typical acreage per farm.

Detailed items of costs were determined for each harvest system. For example, all labor, both hired and family, was evaluated at 1972 and 1974 farm wage rates. Interest on operating capital was charged on the amounts of funds and for the estimated period of time needed. Both cash operating costs and imputed overhead costs on investment were included. Overhead costs include interest on capital investment (excluding land), depreciation on machinery and equipment, insurance, and repairs or maintenance.

Not shown are land, management, and tobacco allotment costs. The value of these items varies significantly by farms so complete budget estimates would require arbitrary assumptions. Consequently, the difference between total expenses shown for each harvest system and gross sales is a net return to land, management, and allotment. From this net return, a farmer must deduct appropriate taxes and interest on real estate and a charge for use of the tobacco allotment. When the allotment is rented the latter charge is the rental or lease rate. For owned allotment, it is the opportunity cost of funds invested in allotment.

Labor is the largest cost component in a harvest system using walking primers, tying machine, and a conventional barn (table 1). For this system, labor costs constitute nearly 36 percent of estimated production costs this year, down from 39 percent in 1972. However, wage rates rose about 26 percent, 1972-74, and added \$0.04 per pound to production costs. Curing fuel comprised over 13 percent of production costs in 1974 compared to 8 percent 2 years ago. Tractor and fertilizer costs are the next two largest cost items. Both increased substantially due to price increases. Total specified expenses for an acre of tobacco produced by this system increased about 37 percent from 1972 to 1974—an increase from \$.42 to \$.58 per pound of tobacco.

Tobacco production costs for a semi-mechanized harvest system (riding primers, bulk barns) also increased substantially (37 percent) since 1972 (table 2). Although this system uses about 70 hours less labor per acre than the conventional system, labor expenses are over 28 percent of total production costs. The next largest cost item, reflecting the substitution of capital for labor, was for bulk barns. Prices for bulk barns increased about a fourth in the last 2 years. Total specified expenses of producing tobacco with this bulk system increased from 40 cents per pound in 1972 to 55 cents in 1974. These production costs are lower than for the conventional system.

#### MARKET PRICES VERSUS PRODUCTION COSTS

Without considering inflation or purchasing power of the dollar, net returns per pound from 1974 sales of flue-cured tobacco are comparable to those of 1972. As of September 12, cumulative sales for flue-cured tobacco averaged \$1.01 per pound. This represented a 16-cent increase over the 1972 average sale price of 85 cents. Thus, for the conventional system net returns (excluding land, management, and allotment costs) are estimated to be about 43 cents per pound in both 1972 and 1974. For the bulk system, net returns in 1972 and 1974 are estimated at 45 cents and 46 cents per pound, respectively.

#### PARITY INDEX

The parity index, a measure of prices paid by farmers for commodities and services including interest, taxes, and farm wage rates, is prescribed for use in the formulation of parity prices for agricultural commodities. For tobacco growers it is the basis for computing the tobacco price support level. The price support level adjustment factor for a given year equals the average parity index (1910-14=100) for the previous 3 calendar years divided by the 1959 average parity index and this ratio is multiplied times 100. The actual price support level is then calculated by multiplying the adjustment factor times 55.5 cents per pound (the 1959 support price for flue-cured tobacco).

During a period when input prices are increasing rapidly, upward adjustment of price supports is dampened because the parity index is averaged over the previous 3 years. Consequently, the major impact of the sharply higher 1974 input prices on the support level for flue-cured tobacco will be spread over the next 3 crop years, 1975-77. Also, if the parity index underestimates increases in tobacco production costs, increases in the price support level will not completely reflect the current effect of inflation on tobacco farmers.<sup>1</sup>

TABLE 1.—ESTIMATED COSTS PER ACRE FOR FLUE-CURED TOBACCO, CONVENTIONAL BARN, 1972 AND 1974

Item and unit	Quantity	1972 (dollars)		1974 (dollars)	
		Price per unit	Value	Price per unit	Value
<b>Plant bed:</b>					
Fumigant (pound).....	5.0	00.65	3.25	00.68	003.40
Fertilizer (hundredweight).....	.5	2.25	1.13	4.50	2.25
Seed (ounce).....	.1	8.00	.80	11.00	1.10
Fungicide (pound).....	12.5	.10	1.25	.11	1.38
Insecticide (pound).....	.33	.60	.20	.75	.25
Framing material.....			2.50		3.35
Plastic covers (square yard).....	60.0	.06	3.60	.10	6.00
Tractor (small) (hour) <sup>2</sup> .....	.65	2.44	1.59	3.54	2.30
Equipment (hour) <sup>3</sup> .....	.65		4.04		5.48
Labor (hour).....	10.15	1.40	14.21	1.77	17.97
Interest on operating capital (8 mos.) (dollar).....		.07	1.40	.09	2.37
Subtotal.....			33.97		45.85
<b>Preharvest:</b>					
Nematicide (pound).....	56.0	.50	28.00	.51	28.56
Fertilizer (hundredweight).....	16.0	2.50	40.00	5.60	80.00
Herbicide (gallon).....	1.0	15.00	15.00	16.00	16.00
Insecticide (gallon).....	1.0	15.00	15.30	15.60	15.60
Sucker control (gallon).....	3.0	5.89	17.67	9.00	27.60
Tractor (small) (hour) <sup>2</sup> .....	5.1	2.44	12.44	3.54	18.05
Tractor (large) (hour) <sup>3</sup> .....	3.75	2.69	10.09	3.90	14.63
Equipment (hour) <sup>3</sup> .....			14.34		19.36
Insurance (\$100).....	12.5	5.00	62.50	5.00	62.50
Labor.....	65.2	1.40	91.28	1.77	115.40
Interest on operating capital (8 mo.) (dollar).....		.07	10.38	.09	16.70
Subtotal.....			316.40		413.80
<b>Harvest costs:</b>					
Fuel (gallon).....	408	.18	73.44	.38	155.04
Electricity kilowatt hour.....	63	.02	1.26	.03	1.89
Twine (pound).....	5.0	1.12	5.60	2.85	14.25
Sticks.....			4.11		6.00
Sheets.....			1.86		2.49
Tying machine (hour) <sup>4</sup> .....	11.1	2.81	31.19	3.15	34.97
Tractor (large) (hour) <sup>3</sup> .....	16.6	2.69	44.65	3.90	64.74
Trailer (hour).....	16.6	.69	11.45	.90	14.94
Truck (pound).....	2,100.0	.0048	10.08	.0067	14.07
Barn (acre) <sup>5</sup> .....	1.0	58.67	58.67	78.62	78.62
Marketing (pound).....	2,130.0	3% @ .85	53.55	3% @ .101	63.63
Labor (hour).....	175.0	1.40	245.00	1.77	309.75
Subtotal.....			540.86		760.39
Total expenses <sup>6</sup> .....			891.23		1,220.04
Costs per pound <sup>6</sup> .....			.424		.581

<sup>1</sup> Costs are calculated for tobacco primed by walking primers, with the leaf put on sticks by tying machine, and cured in conventional barn.

<sup>2</sup> Fixed costs of machinery based on 500 hours annual use of tractor and corresponding use of equipment.

<sup>3</sup> Fixed costs of machinery based on 750 hours annual use of tractor and corresponding use of equipment.

<sup>4</sup> Fixed costs based on 128 hours use annually.

<sup>5</sup> Fixed costs based on curing 11.55 acres of tobacco annually.

<sup>6</sup> Excluding charge for land, management, and tobacco allotment.

<sup>1</sup> In the computation of the parity index, prices paid for various goods and services are weighted by quantities purchased by farmers in a base period. If the index does not reflect the mix of production inputs bought by tobacco farmers it will not necessarily provide an accurate measure of the effect of price changes on tobacco production costs.

TABLE 2.—ESTIMATED COSTS PER ACRE FOR FLUE-CURED TOBACCO, BULK BARN, 1972 AND 1974<sup>1</sup>

Item and unit	Quantity	1972 (dollars)		1974 (dollars)	
		Price per unit	Value	Price per unit	Value
Plant bed <sup>2</sup> .....			33.97		45.85
Preharvest <sup>2</sup> .....			316.40		413.80
Harvest costs:					
Fuel (gallon).....	362.0	0.18	65.16	0.38	137.56
Electricity (kilowatt hour).....	840.0	.02	16.80	.03	25.20
Sheets.....			1.86		2.49
Riding primer <sup>3</sup> (hour).....	5.0	7.06	35.30	9.18	45.90
Tractor <sup>4</sup> (hour).....	10.2	2.69	27.44	3.90	39.78
Trailer (hour).....	10.2	1.31	13.36	1.70	17.34
Truck (pound).....	2100.0	.0048	10.08	.0067	14.07
Barn <sup>5</sup> (acre).....	1.0	122.28	122.28	165.65	165.65
Marketing (pound).....	2100.0	( <sup>6</sup> )	53.55	( <sup>7</sup> )	63.63
Labor (hour).....	105.0	1.40	147.00	1.77	185.85
Subtotal.....			492.83		697.47
Total expenses <sup>7</sup> .....			843.20		1157.12
Costs per pound <sup>8</sup> .....			.402		.55 <sup>a</sup>

<sup>1</sup> Costs are calculated for tobacco primed by selfpropelled priming aid and cured in bulk barn.

<sup>2</sup> Same as table 1.

<sup>3</sup> Fixed costs for riding primer based on 58 h annual use.

<sup>4</sup> Fixed costs of tractor based on 750 h annual use.

<sup>5</sup> Fixed costs based on curing 11.55 acres tobacco annually.

<sup>6</sup> Three percent at 0.85¢.

<sup>7</sup> Three percent at \$1.01.

<sup>8</sup> Excluding charge for land, management, and tobacco allotment.

TABLE 3.—FLUE-CURED TOBACCO PRICES AND PARITY INDEX, 1959-74

Year	Parity index (1959-100)	Price per pound		Farm price-support level difference (cents)
		Average received by farmers (cents)	Support level (cents)	
1959.....	100.0	58.3	55.5	2.8
1960.....	100.7	60.4	55.5	4.9
1961.....	101.3	64.3	55.5	8.8
1962.....	103.0	60.1	56.1	4.0
1963.....	104.7	58.0	56.6	1.4
1964.....	105.0	58.5	57.2	1.3
1965.....	107.7	64.6	57.7	6.9
1966.....	112.1	66.9	58.8	8.1
1967.....	114.8	64.2	59.9	4.3
1968.....	119.1	66.6	61.6	5.0
1969.....	125.2	72.4	63.8	8.6
1970.....	130.9	72.0	66.6	5.4
1971.....	137.6	77.2	69.4	7.8
1972.....	145.0	85.3	72.7	12.6
1973.....	166.4	88.1	76.6	11.5
1974.....	<sup>1</sup> 186.0	<sup>2</sup> 100.9	83.3	<sup>3</sup> 17.6

<sup>1</sup> Average for Jan. 15-July 15, 1974.

<sup>2</sup> Gross sales through Sept. 12, 1974.

<sup>3</sup> The largest previous difference was 16.2 cents in 1946.

Source: "Agricultural Prices, Annual Summary 1973," and monthly issues, 1974.

As shown in table 3, the parity index increased 28 percent from 1972 (annual average) to July 15, 1974—about 9 percentage points less than the 1972-74 increase in tobacco production costs. At the same time, the 1974 price support level for flue-cured tobacco was up 10.6 cents per pound (15 percent) from 1972 compared with 15 to 16 cents per pound higher costs. However, cumulative sales by mid-September, 1974 averaged \$1.01 per pound providing for the largest spread between market price and price support in the post World War II period. If the average price for the 1974 crop holds at this level the 1972 spread between production costs and market price per pound will be maintained.

Some tobacco growers are attempting to compensate for rising input prices by mechanizing to reduce the costly labor input. Development of bulk barns and mechanical harvesters permits labor reductions for harvesting and market preparation of up to 75 percent. This year, farmers have found it difficult to adjust to the high cost of fuel and fertilizer. Current cultural practices demand fairly large quantities of these two items per acre of tobacco.

#### IMPLICATIONS

A projected average sale price of \$1.01 per pound for flue-cured tobacco would about keep pace with sharply rising production costs for tobacco this marketing year. This applies to both conventional and bulk barn harvest systems. However, as in the rest of the economy, the purchasing power of the tobacco farmer's dollar has declined.

Higher prices for goods and services bought by farmers this calendar year will be reflected in increased price support levels over the next 3 calendar years (1975-77). This assumes the parity index does not decline in 1975 and 1976 and farmers elect to continue under the tobacco program when they vote again in 1976.

The effect of higher input costs on tobacco production will vary among farms. To offset higher costs, farmers may adopt labor-saving technology and attempt to better manage their use of labor, fuel, fertilizer, and other inputs.

Senator HUDDLESTON. Gentlemen, thank you very much.

We want to move along with this. Is Bill Balden here?

Bill is an officer of the Kentucky Farm Bureau but he is also a tobacco farmer.

#### STATEMENT OF WILLIAM BALDEN, VICE PRESIDENT, KENTUCKY FARM BUREAU FEDERATION, DANVILLE, KY.

Mr. BALDEN. Thank you, Senator. My name is William Balden from Boyle County, Ky. I am a full-time farmer. I make my livelihood from farming. I have several other people on my farm that depend on my operation for their livelihood, also.

I represent the Kentucky Farm Bureau Federation as first vice president and chairman of their tobacco committee.

Senator, during the past year the Kentucky Farm Bureau, has conducted a very intensive study, an indepth study into the marketing of burley tobacco. We have considered all aspects of this marketing of tobacco, the cost of production, the prices received for our burley tobacco over the years, the parity price which we are here to discuss today, taxation on tobacco products, the farmer's share of the consumer dollar and the farm value that went into 1,000 cigarettes 20 years ago and the farm value of it today, and the supply of burley tobacco, the marketing methods and the procedures.

At the outset, I would like to say that we discussed the taxation angle, the Federal, State and local governments are receiving five and a half times as much as burley farmers are receiving for our product.

We think it is quite pathetic and very unfair that the Federal Government is not willing to spend a little money in support of us as tobacco growers. They talk about doing away with our tobacco program. We have people who are fighting it, and yet they are gaining more benefit from it than we as farmers are. So we think this is very unfair, just for a word on taxation.

Now, to get into this price support system. I would like to say that we in the farm bureau are having our convention this week. As a matter of fact, our tobacco committee is meeting tomorrow afternoon.

We depend on our membership to tell us exactly what they want. I would like to defer giving you a written statement until I can get the feelings of the farmers who are going to be assembled in Louisville, Ky., tomorrow afternoon and the remainder of this week.

However, in the meantime I would like to give you the opinions as briefly as I can of the farm bureau board of directors and the executive committee on farm bureau as to the subject we are discussing today.

We are fully in support of the concept that this bill puts forth. We in our report, which we gave to our board on November 7, and they approved, I would like to read the very last paragraph of this statement.

It is our opinion that the present method of arriving at burley price supports is not adequate and does not reflect the cost of production as it should. We, therefore, recommend that we return to a price support program that would more truly reflect the cost of production and that we return to the October 1, announcement date to more accurately reflect current cost.

I think this, in a nutshell, tells us that we need to do something.

Now, we as farmers, I don't think, are unrealistic. I think we are willing to accept what is reasonable as far as tobacco prices are concerned. But as has been pointed out here, our cost of production has gone up. I would like to respond to Congressman Perkins' question on the cost of fertilizer. Last year, 1 month ago, I paid \$71 per ton for my tobacco fertilizer. One month ago this year I paid \$190 per ton. So this will reflect a true position of what our costs have been, Congressman.

Mr. PERKINS. You ought to go back 1 year before the \$71.

Mr. BALDEN. Yes, it was much less at that time.

So everything has increased to this basis.

In our proceedings this year we have talked about auctioneers, warehouse men, every major manufacturing organization in this country, we have talked with the dealers in the United States, we have talked to the Japanese monopoly even to get their feelings and to let them understand us as farmers and what our problems are, and I think they understand them today, Congressman, as they never have before because we have laid it right on the table to them and told it to them exactly like it is. I believe they are willing to let us have a fair support price for burley tobacco.

I will stop with that and see if you have any questions.

Senator HUDDLESTON. How much fertilizer do you normally use in your part of the country on an acre of tobacco?

Mr. BALDEN. Well, last year I used one ton of 5-10-15. Then I used 300 pounds of ammonia nitrate.

Senator HUDDLESTON. The Department figures on fertilizer indicated it accounted for about 7 percent of the total production cost. Is that what your figures would reflect?

Mr. BALDEN. I haven't figured it on percentage of cost.

Senator HUDDLESTON. Do you have a figure on the per acre cost of tobacco production in Kentucky?

Mr. BALDEN. This summer to get up our report we had Dr. Milton Shuffett with the University of Kentucky to reflect these costs to us. Every farmer's cost, I think, throughout the State will vary.

Senator HUDDLESTON. I believe Dr. Shuffett is on the witness list.

Mr. BALDEN. I think it would be better for him to answer that.

Senator HUDDLESTON. Your resolution there indicates a need for and support for an adjustment upwards of the support price. Have you given thought to which approach should be used?

Mr. BALDEN. We think maybe a 90 percent of parity seems high. It really isn't high as far as the price is concerned, but it is a drastic jump for 1 year. We would say 80 percent of parity would be a fair price, which would probably be a \$1.17 per pound.

Senator HUDDLESTON. Have you given any thought to keeping the same formula but changing the number of years from 3 to 2 or 1?

Mr. BALDEN. We would like to see it on a more current basis. Everything is going up. They keep saying things are coming down but in recent years I have never seen anything come down. They are going up.

Senator HUDDLESTON. Have you, in your study, encountered anything that gives you any concern about the export-import situation?

Mr. BALDEN. The greatest concern we have as producers is getting this tobacco produced out on the farm. We had 10,500 farmers in the State of Kentucky that didn't put out the first plant this last year, which represents 13 million plus pounds that wasn't even tried, they didn't even try to produce it and more and more are going in that direction every year.

Senator HUDDLESTON. Your judgment is a reasonable increase would bring up production?

Mr. BALDEN. Well, I think with the increase the manufacturers are right now paying a fair and reasonable return for this year's production for the costs that we have and I think they are paying us a fair and reasonable return, and I think this will encourage more production. This is what is needed. If we don't get increased profits, and we mean net profits to us as farmers we are not going to produce this tobacco and we are going to be out of the tobacco business. If we can't make a profit at it we are not going to do it anymore.

Senator HUDDLESTON. Will there be a lot of farmers in Kentucky who might be out of the farming business, too?

Mr. BALDEN. In many areas that is true. In Western Kentucky this would not apply. I think they would rather raise grain and can do it more profitably with less effort than tobacco, so therefore they are quitting tobacco.

Senator HUDDLESTON. What is your feeling about a change during the current market season?

Mr. BALDEN. I don't think it should be changed during the current market season. I think this would be bad, and I would recommend that any changes that are made should be for the 1975 production.

Senator HUDDLESTON. You are aware of the fear that has been expressed that any tobacco legislation may be fraught with danger in Congress. Do you have any concern about that possibility?

Mr. BALDEN. Well, I have concern about it. I don't have sympathy for the Congressmen and the Senators who are always fighting us. I am a firm believer in the majority rule, and once I am beaten I think we should go along with the majority. I think the Senators and Congressmen should abide by that, too, and stop heckling us.

Senator HUDDLESTON. We will after we count the votes, but the question is how long can we keep the majority?

Mr. BALDEN. Well, I think we are going to have to fight them. I think we as farmers should stand up, and as a matter of fact, I think maybe we should go see some of the people who are fighting us and

tell them what our situation is. If they want to put us on food stamps and out of the tobacco business—but they produce things in their States that are just as bad and maybe worse in instances as tobacco. So maybe we better start fighting them.

Senator HUDDLESTON. I can certainly agree that an educational program would be well in order, if your organization will work toward that end.

Mr. BALDEN. I think nobody can speak like a farmer being there, doing the work. I work every day on the farm doing just as much work as any man that—

Senator HUDDLESTON. I think it is accurate to say there is no profit in the support price, even if it were increased. You are still talking about a break even proposition, but more than likely a scotch against total wipe-out.

Mr. BALDEN. Well, I think that is the intent of a support price.

Senator HUDDLESTON. If the market doesn't stay above the support price you are going to be in trouble anyway?

Mr. BALDEN. That is right.

Senator HUDDLESTON. Questions of the witness?

Mr. PERKINS. I presume Mr. Balden meant when he mentioned 80 or 85 percent of parity you meant on the preceding calendar 1-year basis, not 2 years?

Mr. BALDEN. Yes.

Senator HUDDLESTON. Back under the old arrangement, you would accept reducing that 90 to 80 or 85?

Mr. BALDEN. Well, speaking as an individual, yes, I would.

Senator HUDDLESTON. Some people have concern about getting off of the 90 percent figure, even though it hasn't been applied for some years. This doesn't enter into your thinking?

Mr. BALDEN. I am not concerned about the 90 percent figure.

Senator HUDDLESTON. Fictitious for a long time?

Mr. BALDEN. Fifty-eight right now, so—

Senator HUDDLESTON. Thank you very much, Mr. Balden. We appreciate your coming.

Mr. BALDEN. Thank you.

#### ADDITIONAL STATEMENT OF THE KENTUCKY FARM BUREAU FEDERATION

With the price support of burley tobacco having dropped to less than sixty per cent of parity under the present three year moving average method of computing, we recommend that the formula for setting price supports for tobacco be changed in such a way that it would more adequately reflect the growers current cost of production. We support Congressman Perkins in his efforts to secure a more realistic support price for burley tobacco.

Senator HUDDLESTON. Mr. Combs, I believe, is next. He is also from Kentucky.

I might point out again that Senator Helms is trying to get back as soon as he can. He is presiding over the Senate at the moment.

Would you identify yourself and we will proceed.

#### STATEMENT OF CHARLES C. COMBS, PRESIDENT, BURLEY FARMERS ADVISORY COUNCIL, RICHMOND, KY.

Mr. Combs. I am Charles Combs, Route 2, Richmond, Ky., in Madison County. I am president of the burley farmers.

I would like to first thank the committee for giving me the opportunity to appear before you to express the views of my organization on this bill that is vitally important to burley growers. I also would like to take this opportunity to express my thanks to Congressman Perkins, Stubblefield, Rose, and Young and the various other Flue-cured tobacco growers for introducing and guiding this bill.

Our tobacco industry is facing a very serious problem, demand for domestic produced tobacco is increasing and burley growers are unable to produce at levels to satisfy this demand at the present support price level.

Production cost in the last 3 years have increased 40 percent while support price levels have increased only 20 percent. The 3-year average used in computing price support level does not adequately reflect the grower's rapidly increasing cost. According to a recent study by the University of Kentucky it now costs 93.6 cents to produce a pound of tobacco and if this cost trend continues it will be 15 percent higher for the 1975 crop.

Recognizing the inadequacies of the present formula the B.F.A.C. at its July meeting—in July, Senator—passed a resolution urging the Kentucky congressional delegation to support legislation that would change the present formula to one that would more adequately reflect the grower's cost.

In order to assure an adequate supply and prices to producers that reflect present cost of production, we support bill H.R. 17506 in principle but feel the formula should be adjusted so that the 1975 crop will be supported at \$1.15 to \$1.20 per pound.

Senator Huddleston, in order that you might understand—I have heard lots of people testify here today—I have made this statement and I shall make it again—in order that we all understand. I am a farmer, I receive my total income and spend 100 percent of my time farming. I have been on the bottom rail, Senator. I have milked cows and waded in the mud and manure, if you will pardon the expression, I have pulled a calf at 3 o'clock in the morning, patched fences on Sunday. I am a farmer, make no mistake about it. I own land, the bank and I, 150 acres and I rent 400 more. I am a landowner but I am a farmer. To me there is a difference between a landowner and a farmer, and I am a farmer, an honest, legitimate farmer.

Thank you, sir.

Senator HUDDLESTON. Well, our major concern is to do what is in the best interests of the farmer, as we pointed out earlier. The only question is: how do you achieve that. That is what these hearings are all about.

Do you have any specific figures other than the ones the University of Kentucky is going to present to us shortly?

Mr. COMBS. I might, sir, in this letter dated August 19, we suggest a formula based on the index of cost of production items for the current production year.

Senator HUDDLESTON. You suggest two possible ways to achieve that?

Mr. COMBS. All right. If we used the current year we are talking about a \$1.10. If we use the past year, 1973 for 1974 crop then 95.4 cents. That was the direction we were going since we were under the old law—before Congressman Perkins' bill—parity concept. But on the production level end of it. So we took that direction at that time.

Senator HUDDLESTON. Now, you have a cost figure of 96 cents that you are using.

Mr. COMBS. 93.6 cents.

Senator HUDDLESTON. 93.6 and the current price is about \$1.20. How much margin do you think there ought to be between the cost and the sale price in order to have a viable burley program? How much above—

Mr. COMBS. How much returns to land and management that they eliminated in their figures?

Senator HUDDLESTON. No, I would like to know how much difference between the sale that you get at the market and what you have to pay to produce it? You are getting 24 cents now.

Mr. COMBS. Yes. We can make a profit there. Of course, maybe my cattle operation will cut my income some 40 percent. Maybe I lose my feed and I lose my interest, and I kept my enthusiasm but lost my interest at the bank.

Senator HUDDLESTON. Well, that is a different program.

Mr. COMBS. Yes, at present prices we can live. As far as to tell this Committee what level that we would like to have, I couldn't answer that, sir. I am in business and I take the lean years and the good years and hope for the highest profit. But to set a figure, no sir, I couldn't. At the present figure we are making a little money. I don't know what it would be for 1975.

Senator HUDDLESTON. How many farmers—tobacco growers—does your organization represent?

Mr. COMBS. We are represented on a county basis, and basically we are the tobacco committees, the farm bureau tobacco committees in these counties basically. Of course, different counties have different numbers of membership, but Senator, I couldn't give you a figure on numbers of farmers.

Senator HUDDLESTON. OK. Thank you very much, Mr. Combs.

Our next witness is Joe Williams. We need to get Joe on so he can catch his plane.

#### STATEMENT OF JOSEPH R. WILLIAMS, PRESIDENT, TOBACCO ASSOCIATES

Mr. WILLIAMS. Thank you, Mr. Chairman.

Although I am president of Tobacco Associates which represents the Flue-cured tobacco grower from Virginia to Florida, I am speaking today as an individual because it was impossible on such short notice to get my board of directors together.

My primary interest is Flue-cured tobacco exports. The economy of the Flue-cured tobacco States is dependent upon 4 out of 10 pounds of production going into export trade. Due to revaluation, devaluation, and the floating dollar totaling approximately 32 percent of advantage to foreign importers, American tobacco in world markets during the past 2 years has been more competitive than at any time since the early forties. Fiscal year 1974 exports of U.S. tobacco and tobacco products for the first time exceeded \$1 billion. Exports for the first 9 months of 1974 are running 8 percent above the record levels of last year.

H.R. 17506 increases the price support of Flue-cured tobacco from approximately 93 cents per pound to \$1.32 for 1975. This increase nullifies all export advantages for Flue-cured tobacco derived from revaluation.

The U.S. Flue-cured tobacco support program has been the salvation of the Flue-cured tobacco grower. The level of support holds an umbrella over the world price and the committee should make a careful analysis to determine if \$1.32 support will bring unprecedented expansion in competing countries, all of whom, with the exception of Canada, grow and sell before the American farmer. The import duty on Flue-cured tobacco is less than 13 cents per pound which is not sufficient to prevent imports.

The world retail price of cigarettes outside of the United States is set largely by governments, and most governments are reluctant to increase cigarette prices during inflationary crises. Unless retail prices are increased, the foreign manufacturer has no choice but to look for reducers from alternate sources, including synthetics which will be in mass production in 1976.

Mr. Chairman, the tobacco program is the most successful commodity program in the world. I am hopeful that no attempt to place this bill before the Senate will be made without a rule of agreement prohibiting amendments, which would jeopardize the existing program.

Mr. Chairman, I would like to pay tribute to you, as well as to every member that sponsored this bill. The sponsors are personal friends of mine and friends of the tobacco farmers they represent. They are really trying to help their farmers during this critical inflationary period. Tobacco market quotas and price supports are interwoven into the economic fabric of the tobacco-producing States, the program has served the farmer well and it is my sincere belief that we are going to need this program more in the next 10 years than the last 40. Therefore, we must look at the long range as well as short term aspects of the bill. Changes so large, in 1 year, should be made only after thorough and extensive study and analysis.

The day of cheap tobacco is over and I think that both our domestic and export buyers have finally realized in view of spiraling production costs that if the American tobacco farmer continues to produce he must be paid a price that will give him a reasonable profit. Current prices on the auction floors indicate that both domestic and export buyers are fully conscious 1974 prices will largely determine total production in 1975.

Senator HUDDLESTON. Sorry, we only have 5 minutes until the next vote in the Senate so we will recess for about 10 minutes. Be right back.

[A short recess was taken.]

Senator HUDDLESTON. Mr. Jack Stofer is the next witness.

#### STATEMENT OF JACK STOFER, BURLEY FARMERS ADVISORY COUNCIL, RICHMOND, KY.

Mr. STOFER. Mr. Chairman, I come to you as a farmer and a tobacco producer. I want to point out a remark that the Department of Agriculture man made as to how efficient this program has been. We have

been led to believe down through the years that this is one of the best programs that the Department had and had basically paid its way, and I believe with the possible exception of a couple of years that it has paid its way.

I am concerned about the news media reports that the producers and the farmers, growers, are opposed to this program. This to me just doesn't wash. I can't visualize any farmer being against this program. It would be more money to him. It would be like a Senator or Congressman or anyone else in this room, sir, being offered an increase and saying I don't want it. This to me, I just can't understand.

Another thing I would like to point out that if the total poundage this year is anywhere near the Department of Agriculture's estimates we will possibly get a 10 to 15 percent increase for allotment for this coming year. If we do under the present program we would have just, I believe, with 12 percent, possibly just a little over 90 percent support price. With this increase I question very much whether it would be possible to get this crop growing. We would have a hard time convincing anybody that they can make a living raising tobacco.

There are a number of farmers—this isn't a cattle meeting—but there are a number of farmers who have to take a tobacco crop and pay their loans on what they lose on tobacco with cattle.

Another point I would like to make is that the taxes that tobacco returns are \$5.50 for every dollar that the farmer receives,  $5\frac{1}{2}$  to 1. This is something that you gentlemen should consider. On behalf of the growers of Kentucky I urge you gentlemen to give this bill serious consideration. The future of the farm program, the economy of the tobacco States are in your hands and I urge you, sir, to pass this bill.

Senator HUDDLESTON. Jack, do you know of any specific cases in your county where tobacco is not being grown because of a farmer's not being able to make a profit?

Mr. STOFER. There would be a very small amount in my county.

Senator HUDDLESTON. But there is some in every county in Kentucky?

Mr. STOFER. I would suppose there was. I would suppose there was.

Senator HUDDLESTON. Do you have any concerns about the export situation, or the import one?

Mr. STOFER. No, sir, I really don't. I just don't see this. The prices in the other countries are going to increase, perhaps not in relation to the prices that we have to pay for supplies, but certainly there is going to be a relationship.

Senator HUDDLESTON. Thank you, Mr. Stofer. I appreciate your testimony.

Dr. Milton Shuffett, University of Kentucky.

**STATEMENT OF DR. MILTON SHUFFETT, PROFESSOR, AGRICULTURAL ECONOMICS, UNIVERSITY OF KENTUCKY, LEXINGTON, KY.**

Dr. SHUFFETT. I am Milton Shuffett, professor of agricultural economics at the University of Kentucky. The purpose of my presence is to present data we have at the University of Kentucky on costs of producing burley tobacco.

When we speak of costs of producing tobacco we can't speak of a specific farmer because it varies so much from one farmer to the other in terms of input mix, the yields and the management levels, but I have chosen an example which I think is very typical of Kentucky, an efficient producer who is getting a yield of about 2,700 pounds per year, considerably above the average for all producers in the State, but we do have a number of good producers who yield 2,700 pounds or above.

From a number of farmers across the State we have tabulated the inputs used in producing an acre of tobacco and I have tried to price these on the basis of mid-1974 prices paid for lime, fertilizer, insecticides, and labor and various and sundry other inputs and have come up with a set of costs which are tabulated on the basis of labor, material and equipment costs for each of the phases of production for plant bed, field preparation, for setting, for growth of the crop, for harvesting and housing, and finally, for curing, stripping, and preparing for market.

The cost that I have on the basis of this calculation is a total of \$2,528 per acre, and at the yield of 2,700 pounds, an average cost per pound of 93.6 cents compared to the support price of the 1974 crop of 85.8 cents per pound.

In attempting to project cost increases for 1975, a projection at best, but an increase from 1974 to 1975 comparable to the increase of items purchased between 1973 and 1974, would indicate the cost per pound for 1975 would be somewhere in the range of a \$1.08 per pound compared to support at 96.6 cents per pound under the present formula.

This is my statement and I have a copy of the cost figures for your record.

Senator HUDDLESTON. Very good. I would like to have that in the record.

Have you done any projections on the utilization of tobacco, what the import-export situation is and how such legislation might affect it?

Dr. SHUFFETT. I have done no study, really, Senator, on this as such. We do know that domestically we haven't been able to produce enough tobacco to meet needs in recent years, partially because of drought and unfavorable weather and partly because of some pressure from cost of production and some intentional underplantings, that is these allotments we have spoken of that haven't been planted.

The export market, of course, for burley is a very important market. That has been very strong in the last couple of years and certainly I wouldn't, speaking selfishly from the standpoint of farmers in burley, want to do anything to jeopardize this.

Senator HUDDLESTON. Thank you very much, Dr. Shuffett.

Is Arthur Maze with us?

Mr. PERKINS. No, he is not here, but James M. Finch is here.

Senator HUDDLESTON. We have Mr. Christian scheduled next.

**STATEMENT OF STUART G. CHRISTIAN, JR., SENIOR VICE PRESIDENT, UNIVERSAL LEAF TOBACCO EXPORTERS ASSOCIATION, RICHMOND, VA.**

Mr. CHRISTIAN. Senator Huddleston, gentlemen, I am Stuart G. Christian, Jr., of Richmond, Virginia, Senior Vice President of the Universal Leaf Tobacco Company, Incorporated, whose corporate

offices are located in the same city. I appear before you today on behalf of the Leaf Tobacco Exporters Association.

Mr. PERKINS. Senator, I don't want to interrupt you, but we have several witnesses who have to get away on the plane tonight.

Senator HUDDLESTON. Naturally I would like to take care of my key people who are here.

Mr. CHRISTIAN. I will be glad to yield to the gentleman. I don't have the time, but I have come up here representing a very important segment of industry. I would simply like to present my testimony and I would like for the Congressman to hear it, too.

Senator HUDDLESTON. We are going to hear all of the testimony.

Mr. Finch, what time do you have to leave?

Mr. FINCH. I have to be at the airport at 8:20.

Senator HUDDLESTON. Who has to leave before that time?

Mr. PERKINS. Some at 8:20.

Mr. FINCH. The plane leaves at 8:20.

Mr. PERKINS. I certainly don't want to cut this witness short. I know that is important testimony and I know he may want to take 30 or 40 minutes.

Mr. CHRISTIAN. Congressman, I have three or four pages here. I would not want to take too much time at all.

Senator HUDDLESTON. Proceed.

Mr. CHRISTIAN. Thank you.

I appear before you today on behalf of the Leaf Tobacco Association, whose offices are located in Raleigh, North Carolina. The company by which I am employed is a member of the Leaf Tobacco Exporters Association. The total membership of this association is engaged in exporting, conservatively speaking, 60 percent of the tobacco exported from the United States. The exports of tobacco and tobacco products in 1974 are estimated to be well in excess of \$1 billion in value and achieve a favorable balance of trade in tobacco for our country amounting to approximately \$900 million.

Having given you this background, I wish now to speak on the subject before the committee. The House of Representatives of the Congress of the United States recently passed a bill, H.R. 17506. Our segment of the tobacco industry greatly appreciates this opportunity to appear before this distinguished group. Gentlemen, I speak in strong opposition to this bill. If this bill becomes law, it will have the effect of raising the support prices of Flue-cured and burley tobaccos by approximately 60 percent. The two types of tobacco which I have just mentioned are the two most important types exported with near one-half, or over 600 million pounds, farm sales weight of Flue-cured, and 15 to 20 percent, or 80 million pounds, farm sales weight, of the current crop, going to overseas markets. Exports can be expanded with increased production, which is now possible, but this cannot be done if American-grown tobacco is not competitive pricewise. A drastic support price increase resulting from this proposed legislation could have an immediate serious effect on exports and a long range disastrous effect on the entire U.S. tobacco export industry. Similar types of tobacco which have achieved acceptance on the part of world manufacturers of tobacco products are being produced in other countries of the world. The production of competing tobaccos is on the rise. A drastic price increase for U.S.-grown tobacco could encourage a sharp increase in overseas production.

By no means are we offering opposition to this bill in detriment to the American tobacco producer. Foreign purchasers of U.S. tobacco recognize the fact that the cost of producing a crop has substantially increased in these inflationary times. The 1974 Flue-cured crop, just sold, brought an average price of \$105.05 per 100 pounds as compared to a 1973 average price of \$88.07 per 100 pounds. Support prices for 1974 were set at a level of \$83.30 average. Burley tobacco, now in the process of being marketed, with half of the crop now sold, is going at an average price to date of approximately \$115 as compared to a crop average of \$92.84 in 1973. Burley is currently supported at \$85.07 per 100 pounds. The cost of tobacco grown elsewhere has risen also but generally these rises in cost have no more than coped with the inflationary costs in the countries involved.

Should the legislative bill under discussion here today become law, the 1975 Flue-cured crop would enjoy a price support at a level of approximately \$132 per 100 pounds as compared with a market price of \$105.05 in 1974. The Secretary of Agriculture on November 27, 1974, announced a 15 percent increase in production for the Flue-cured crop in 1975 under the production control as prescribed by law. Under the legislation covering the control of tobacco production, the Secretary cannot reduce the crop size after he has made the aforementioned announcement for an increase. This increase was granted after the Secretary had obtained and considered the wishes and advice of the growers and buyers.

The association which I represent asked for this increase with the view that any more that would decrease exports could mean a buildup of Government-supported loan stocks which are now at record low levels for Flue-cured and nonexistent for burley.

Obviously then, this is a critical and complex matter which is deserving of detailed and sophisticated analysis. Perhaps then, the preferable course would be to pursue a detailed study under the auspices of the Secretary of Agriculture in order to insure that all the relevant economic factors are considered with a view not only to the general welfare of the tobacco industry, including the farmer, but also the position of the United States in this important area of world trade.

Gentlemen, thank you for allowing me this time and I urge you to oppose bill H.R. 17506 which we, as an important part of the tobacco industry, urgently submit would be damaging to our industry as well as to our national welfare and economy.

Thank you, sir.

SENATOR HUDDLESTON. Without getting into proprietary information, I assume you are one of the major tobacco exporters in the country?

MR. CHRISTIAN. Yes, sir.

SENATOR HUDDLESTON. What is the scope of your operation and the kind of competition that you encounter?

MR. CHRISTIAN. Sir, we operate, the company I represent operates in 17 different overseas countries where a lot of the places we actually produce tobacco ourselves, other places we buy it under contract or auction.

We feel that we have a fairly close contact with what the world tobacco industry wants and what they need and the competition.

Senator HUDDLESTON. In the countries which produce crops which compete with ours, aren't they undergoing price increases, too?

Mr. CHRISTIAN. Yes, sir.

Senator HUDDLESTON. Cost of production is up?

Mr. CHRISTIAN. Yes, sir.

Senator HUDDLESTON. So we could increase our prices some without throwing our present situation out of balance?

Mr. CHRISTIAN. Senator, just to be specific on actually what has taken place in the current crop in Kentucky, the company that I represent has had several major orders from overseas manufacturers either curtailed or completely eliminated.

Senator HUDDLESTON. For what purpose?

Mr. CHRISTIAN. Sir?

Senator HUDDLESTON. For what purpose?

Mr. CHRISTIAN. Because the prices were too high for them already. So they have gone to Korea and other markets. The prices in other countries will be higher, there is no doubt about it, but the spread is so tremendous now that—for example, in Brazil, to use a specific country, tobacco, can be produced a great deal cheaper than it can in this country. It is a matter of how much encouragement you want to give production down there.

Senator HUDDLESTON. What happens to the export trade if we have low support? Is this trend of not producing all of the allotment that is now available related to that?

Mr. CHRISTIAN. This would be very detrimental to the industry, sir.

I had a chance a week ago Monday to talk to a group of growers from Georgia Farm Bureau Federation and they told me at this meeting that they were prepared to produce a crop, all they could produce, and they were well satisfied with the return that they got on this current past crop.

Senator HUDDLESTON. We have heard growers, though, who indicate that with the support price what it is and even projected into next year that it is not substantial enough to encourage production, with costs continuing to go up.

Mr. CHRISTIAN. Senator, we as an industry and these other gentlemen sitting here with me, who represent companies not in our association, that is the reason we asked them to appear. I think it is safe to say we as an industry have no bones to lick with support prices as long as they are reasonable. We feel that a 60-percent increase in 1 year would do a great deal of detriment to our export business.

Now, I know that you can get a lot of arguments against that. The only thing I can tell you is what those of us in the export feel, and we seriously submit we feel this, and we think, without going into too many details here tonight, that our fears are well grounded.

Senator HUDDLESTON. Would you agree there is some improvement that could be made in the projected support price for next year without being detrimental?

Mr. CHRISTIAN. Senator, I think I point out here in my statement that this is something that has to be analyzed by people who know the facts. Certainly I am not an economist.

Senator HUDDLESTON. We could increase the support price considerably and still be under the present market price and the projected market price for next year?

MR. CHRISTIAN. This is true.

Senator HUDDLESTON. Would it be harmful to do that?

MR. CHRISTIAN. You talk about \$132 per hundredweight. This would put the grades which are normally sought after by the export trade at a tremendously high level. Let's say for instance the top price in Kentucky varies every day. I have heard \$120 mentioned here today. That is on top tobacco and unfortunately—if the level was changed you could have 82 of, this could be supported at 155 or 160, and these are the grades that the export market goes for, the better qualities, because they can get the inferior grade elsewhere at a much cheaper price.

Senator HUDDLESTON. Thank you very much.

MR. CHRISTIAN. Thank you, Senator.

Senator HUDDLESTON. Thank you, Mr. Christian.

What is Mr. Shelton's situation?

#### STATEMENT OF HENDRICKS L. SHELTON, PRESIDENT, EXPORT LEAF TOBACCO COMPANY, RICHMOND, VA.

MR. SHELTON. Yes, Mr. Chairman.

First of all, I would like to say I appreciate the opportunity of appearing here today and give some views which I think are pertinent to the situation under review.

My name is Hendricks L. Shelton. I am president of Export Leaf Tobacco Co., which is a 100-percent owned subsidiary of British-American Tobacco Co., which is the largest tobacco company in the entire world.

The sole function of Export Leaf Tobacco Co. is the procurement and shipment of all types of American tobaccos to our associated companies both domestically and overseas and to some other sources.

Our company has been shipping all of these types, primarily flue-cured and burley tobaccos, for about 62 years to more than 50 countries throughout the world. As you know, a number of these countries are producing tobacco locally. However, they would desire to continue to import sizable quantities of quality American tobaccos to blend with the indigenous growths and to supplement their present production.

I am convinced that the enactment of the bill presently under review would have profoundly detrimental effects on the exportation of American tobaccos. This is so because there are a number of countries who are presently importing American tobaccos which would not be able to purchase American tobacco if the increase in support prices materialized to the point as envisioned in the bill presently under review if this bill should be enacted into law and become a reality.

Should this occur, there is no question whatsoever but what there would be a rapid acceleration in the production of tobaccos of all types overseas. Of course, this would reduce the exportation of American tobaccos, and naturally would in the final analysis be detrimental to the American tobacco producers.

In addition to what I have said, this bill, if enacted into law would also have an inflationary—considerable inflationary impact upon the country's economy at a time when concerted endeavors are being made to alleviate this problem. Further, it would also have a very undesirable effect on the balance of trade.

In conclusion I would just like to say that it is my sincere feeling that if this bill is enacted into law it would not serve the best interests of the tobacco program in this country.

Thank you, sir.

Senator HUDDLESTON. Mr. Shelton, most of your testimony seems to be opinion. Do you have any figures that would indicate just how great a disadvantage our product would be compared to the other products, given the fact that products in other countries are undergoing price increases?

Mr. SHELTON. Well, they are undergoing price increases but not nearly so rapidly as we are experiencing in this country.

Now, we visit our associated companies all over the world from time to time and in turn we have associates visiting us from time to time.

Senator HUDDLESTON. Which they would like to buy at the cheapest price possible?

Mr. SHELTON. I couldn't argue that point. I don't think they are unrealistic about it at all. They realize the American grower has to have a price support program he can live with. But they are, almost in all instances, vastly concerned about the impact of any major increases or radical increases in the prices of American tobaccos.

Senator HUDDLESTON. Thank you very much.

Mr. Brooks, do you have a statement?

**STATEMENT OF VINCENT E. BROOKS, PRESIDENT, AMERICAN LEAF ORGANIZATION, IMPERIAL TOBACCO CO. OF GREAT BRITAIN AND IRELAND, WILSON, N.C.**

Mr. Brooks. A very brief one, Mr. Chairman. I did not plan to make and have not prepared a formal statement. I only wish to endorse wholeheartedly the prepared statement.

Senator HUDDLESTON. If you would like to submit it for the record.

Mr. Brooks. Because I would like to speak to two particular points in Mr. Lanier's statement and the concern that I have heard you express several times. I think I can point out to you what can happen on the exports from my own experience.

I am President of the American Organization of Imperial Tobacco Co., and unfortunately we do not use any burley tobacco because the British market is strictly a straight Virginia type market. After the United Kingdom is fully in the Common Market it probably will use burley tobacco for American blend type cigarettes.

Mr. Lanier's statement in which he says the United Kingdom has been the major exporter is quite true and has been for some 300 years. To speak to the point he mentioned, between the years of 1960 and 1964 which he was talking about the purchases of Flue-cured tobaccos that we made in this country made up better than 50 percent of the tobacco used in our United Kingdom products—we had then, I guess, probably 66-68 percent of the United Kingdom business. The year 1965 when Rhodesia declared UDI we were using about 50 percent or less U.S. tobacco. Immediately after UDI, because of the shortfall created by being cut off from Rhodesia and the fact the United Kingdom was not buying Rhodesian tobacco and still is not, we went up to nearly two-thirds U.S. tobaccos of what we used. Since 1971 we have started to go down. We have found numerous countries in other parts of the world where we can buy tobaccos that satisfy some of our needs quite a bit cheaper than in the United States.

Senator HUDDLESTON. Is the price the only consideration?

Mr. BROOKS. No. What I was going to say now is we would like to continue to buy and use a greater proportion of American tobacco, because it is still the best quality tobacco in the world, but from economic factors we have had to change. This year we will probably be using somewhere between a third and 50 percent U.S. tobaccos.

Senator HUDDLESTON. What do you think the consumer wants you to do, buy better or lower price tobacco.

Mr. BROOKS. They are more interested in the price right now.

Another point I would like to speak to that Mr. Christian and Mr. Shelton made is that we, producers, buyers and warehousemen, are all in this together, and a high support price guarantee is going to accelerate production in all these other countries enormously. In a few years every tobacco buying company in the world will if they are not already doing so be searching the world over for vast quantities of cheaper tobaccos that can be used in place of U.S. tobaccos. My concern is for the future.

Senator HUDDLESTON. Don't you think there is some room for improvement?

Mr. BROOKS. Definitely, but I think as Mr. Christian said, this is something that needs study and time. I don't think it should be jumped into hurriedly.

There was one other point I would like to make about synthetic tobacco, if you can spare me the time.

Senator HUDDLESTON. That has been mentioned, but go ahead.

Mr. BROOKS. Our company is engaged in developing this material, and the original decision taken to produce it wasn't just to replace tobacco, but mainly because of the smoking and health concerns. People in the United Kingdom are far more concerned with the Smoking and Health issue. The other side of it, in the last year or two, is the possibility of using some of it to save spending sterling for hard currency outside the United Kingdom.

But my personal experience is that these sort of guaranteed minimum prices would make the production of synthetic tobacco far more viable than it ever would be otherwise.

Thank you very much.

Senator HUDDLESTON. Thank you, Mr. Brooks.

I am going to skip this vote on the floor so that we can proceed without interruption I want to make sure my friends from Kentucky get back all right.

Our next witness will be Dr. Charles Leach.

Mr. PERKINS. I want to say a word in introducing Dr. Charles Leach. I have known him for many years and he has been one of the most generous surgeons this country has ever produced and in my judgment he is one of the most knowledgeable men on tobacco in the United States. If we had a gentleman like him as Head of the Department of Agriculture the situation would be quite different today.

Senator HUDDLESTON. I will nominate him—proceed, sir.

#### STATEMENT OF DR. CHARLES LEACH, SHARPSBURG, KY.

Dr. LEACH. I am Dr. Charles Leach.

Mr. Chairman, I am going to delete for the sake of time and not repeat the cost syndrome of Mr. Shelton and Mr. Balden. I am in per-

fect agreement with that. I think there is a 25 cent piece out of every dollar that is put in that price for maintenance and the utilization of the farm buildings necessary to cure burley tobacco.

I think a great many of these people are living out of that 25 cents, and as you drive through rural Kentucky you cannot help but appreciate the failure of maintenance. It doesn't have the beauty that it did 10 years ago. The barns are in ill repair. Everything looks ragged and bare. I think that is because they are not being maintained because this 25-cent piece in the cost is being utilized to live on.

In your opening remarks, Mr. Chairman, you said that you are interested in doing something for the welfare of the thousands of people dependent on tobacco—

Senator HUDDLESTON. I wish you wouldn't use that word welfare. I am trying to keep them off welfare.

Dr. LEACH. I have to.

We took the time in our tricounty and found out that all agricultural workers in our part of Kentucky that are married are on food stamps. Fifty percent of the sharecroppers that grow this tobacco are on food stamps.

Now, I don't know what type of way of life you had in mind, but I only wish to emphasize if you are accepting this it isn't a good way of life, that they have.

Now, I read and hear much comment about the use of land in growing a crop which is neither foliage nor consumable human food. I think that these people are somewhat ill advised. I say that on the basis that throughout our section of Kentucky it does not lend itself to tillable crops, any part of it. It is not competitive in any way with the cereal-producing States or segments of States so that it can be utilized other than for forage and tobacco. There is no other way to use it.

I don't know as I have any other comment excepting a plea that there is a way of life established for the tobacco tenant and the tobacco grower.

Senator HUDDLESTON. You grow several—

Dr. LEACH. We have an allotment, 50,000 pounds.

Senator HUDDLESTON. How many acres do you use in growing that?

Dr. LEACH. Twenty, nineteen.

Senator HUDDLESTON. Your present support price is just unrealistic compared with the production cost?

Dr. LEACH. That is correct. I go along with the other gentlemen that have preceded me. I have all of it worked out, but there is no use to repeat.

Senator HUDDLESTON. If you have anything that you would like to submit for the record—

Mr. PERKINS. I think you should go into that for the Senator, what is your profit and the problems?

Dr. LEACH. I can do it in a very few moments. Yesterday we reviewed three growers of 50,000 pounds or more in the tricounty area adjoining us. The net profit on 50,000 pounds a year ago was \$5,000.

Senator HUDDLESTON. A total of 50,000 pounds?

Dr. LEACH. Yes. Now, that did not vary. The entire operation cost does not net 3 percent on the capital investment. In the total area

there. There is no investment in that area agricultural-wise that matches a 3-percent profit.

Senator HUDDLESTON. 50,000 pounds as an allotment is generous in Kentucky. It is very much more than the average and on the average smaller crop, they are squeezed even greater, aren't they?

Dr. LEACH. That is for sure, and that is what has happened.

Senator HUDDLESTON. So the small farmer has his back up against the wall; the 1-, 2-, 3-acre farmer is in even more trouble than those who produce five and above?

Dr. LEACH. That is a correct statement.

Senator HUDDLESTON. Do you know of tobacco farmers who, under the present setup, intend to produce even less?

Dr. LEACH. We were informed at the courthouse in Nicholas County yesterday that there are 300 acres going to be passed up.

Senator HUDDLESTON. Just in that one county?

Dr. LEACH. Yes.

Senator HUDDLESTON. That is a substantial amount of tobacco.

Dr. LEACH. Yes; indeed it is.

Mr. PERKINS. Tell us something about the comments you heard on the selling floor yesterday when you were visiting the tobacco warehouse where the sales were taking place.

Dr. LEACH. Right. I think this is something that needs to be mentioned on the price support level. It is not broad enough. In other words, regardless of grade, yesterday there was no basket, but no basket, that didn't sell on the floor that we were at all at \$1.21, every basket is allocated at \$1.21.

Senator HUDDLESTON. You are suggesting a true auction is not taking place?

Dr. LEACH. I am not suggesting that. I am suggesting there is no grade. I talked to the vice president of Reynolds. He said here is a basket I would like to pay \$1.40 for.

Mr. PERKINS. Was he there at the time?

Dr. LEACH. Yes; he said now here is one that we paid \$1.21 that should have been bought at \$1.05.

The only place today where the tobacco has anything to recommend it is in the county fair.

Senator HUDDLESTON. They get a blue ribbon?

Dr. LEACH. Yes. There is no way under this condition that you are going to grow quality tobacco. There is no reward for growing it, you might as well pour on everything and grow the poor quality. It is all the same price.

Senator HUDDLESTON. Does that average out, though?

Dr. LEACH. Average out to who? The man who grows poor tobacco gets the same dollar as the man who puts in the effort and produces a quality product.

Senator HUDDLESTON. But nearly everybody grows some poor tobacco.

Dr. LEACH. Not necessarily. There are beautiful crops of tobacco where the effort and so on is put in to accomplish it, the same as beautiful herds of cattle and there are lousy ones. It is all a matter of effort. Now, there is no compensation here in this spread for effort.

Senator HUDDLESTON. You believe a higher support price will encourage this?

Dr. LEACH. Plus a wider spread on your grades.

Senator HUDDLESTON. Would a higher support price do that itself?

Dr. LEACH. Certainly.

Senator HUDDLESTON. Would that bring about a better spread on grades?

Dr. LEACH. Certainly, and you would go back to——

Mr. PERKINS. That is the trouble today, the support price is absolutely too low and that is why your allocations instead of auctions, am I correct, Doctor?

Dr. LEACH. You are absolutely correct.

Mr. PERKINS. Is this figure of \$1.32 that we had all through the 1950's a realistic figure for growing tobacco and letting the growers make a reasonable profit and not an unrealistic profit?

Dr. LEACH. I know of no other figure that would be realistic.

Mr. PERKINS. You have heard some of this export talk here this evening, and I would trust your judgment in all occasions because you know about the conditions of the country in general and more about farming in general. You are an actual farmer as well as a great surgeon. Tell us your views on this export talk, since there is nothing in the pool.

Dr. LEACH. Well, the export talk that I have heard is similar to any forecast, whether it be the stock market, the bond market or the tobacco market; all forecasts are universally wrong. That is No. 1. I have lived a short time and come up distinctly with that concept of forecasts.

I don't believe there is any way with the world inflation that you are going to confront anybody that can now forecast the price of anything.

Mr. PERKINS. There was mention of the fact that this support price is inflationary. To my way of thinking—I want to ask you if you agree—it is not inflationary because it is based on the increase of other inflationary items that go into growing burley tobacco and if inflation is brought under control the price support will drop. Is that a true statement?

Dr. LEACH. Yes, sir.

Senator HUDDLESTON. Thank you very much, Dr. Leach, for your testimony.

Mr. Finch.

#### STATEMENT OF JAMES FINCH, PRESIDENT, BANK OF MAYSVILLE, MAYSVILLE, KY.

Mr. FINCH. Mr. Chairman, I would like to thank you and Congressman Carl Perkins for the invitation to be here. I am president of the Bank of Maysville, Maysville, Ky. I was raised on a farm, have a farm now, sell tobacco.

I truthfully think my duty at this meeting is to represent—well, I would say my duty and loyalty to my family and friends and my bank customers. I truthfully believe in a bank you should have a savings account. I don't care who the customer is, a little one or big one, but you need a savings account.

I think in the tobacco business you need a savings account and you need it badly and I think today's savings account is at zero. You can

never tell what tomorrow is going to be and next year you could be completely out of burley tobacco, or 50 percent, you could be hurt badly.

The farmer used to be considered—this doesn't sound nice, but it is true—a farmer used to be considered a second-rate citizen, but a farmer today in most cases has been educated. He has raised a nice family. His family has been to school. They belong to a church. They are good citizens in their community. They pay their taxes. They pay their way. I think a farmer is entitled to a living that is a good living just as well as the man, that belongs to the labor union or the wheat farmer or any other profession he wants to follow.

But today the American farmer, burley farmer—I am not too well versed on the South—but a burley farmer has high land costs. When a man comes into our bank—and we have the second largest bank in the Maysville community, \$35 million—when a man comes in and wants to go into the farming business, we loan it more on character than we do on what he wants to do. If he wants to go into the farming business—you talk about your high costs—I think one thing has been overlooked. You have to consider when that man comes into a bank to borrow money that farm will cost him between \$500 and \$1,000 an acre, add to it his taxes, interest, building upkeep, repair, overhead. All right. Then if he is going to be a tobacco farmer, add to that his enormous fertilizer costs, the cotton that goes on his bed, the seed he has to use, the expensive labor he has to hire.

I had a little fellow come in the bank Saturday and pay off a \$1,500 note. He had sold his tobacco Friday and was tickled to death.

He averaged \$1.18. I said, how did you make all this money? He said, I will tell you how. My wife and I live on the farm; we have a nice little farm; you loaned us some money to buy it; we put the tobacco out; I got a kid next door to help set it; my wife and I cut it; we put the tobacco in the barn; after it was cured up, my wife and I stripped it; and I hauled it into the warehouse on my pickup truck. That is the way I made money. That is about the only way a farmer can make money today. His overhead, his land costs are too high. His farming equipment is too high, his fertilizer is too high.

I don't know whether Congressman Perkins \$1.32 is the right figure or not. I am sure he didn't pick it out of the air. It came, I am sure, from a good solid foundation. I don't think the burley farmer is going to continue to farm under today's program and get hurt the way I think he is getting hurt today by what I call a short price.

I say I am not sure \$1.32 is right, but I know there has to be a change or you will not worry about import-exports. You won't have Kentucky farmers to raise tobacco. He can't afford to do it. He can go get a job doing something else and your tobacco program is hurt unless you pay him for it.

I think that is what this committee meeting is for, and I think the Department of Agriculture might as well make up its mind to accept an increase of some kind. What that increase is, Mr. Chairman, I do not know. It is up to the experts.

Senator HUDDLESTON. You made a good point. I don't think it has been stressed that the support price now doesn't truly reflect what the production cost would be if you took into account that so much of

these specialties, smaller allotments, family labor which they are not figuring any costs.

Mr. FINCH. This man who paid the \$1,500 note had practically no overhead at all, his wife and he did the work.

Senator HUDDLESTON. You also being in the banking business and in one of the major tobacco-selling areas in the State, in the world as far as that is concerned, what would happen to your county, and this would be true in many other counties in the State if we had a substantial reduction in tobacco production and if more and more farmers were not able to see their way clear to raise crops because of the low return?

Mr. FINCH. Bert Collins and I came up on the plane and I believe he is able to answer that question better than I can. Can I pass it?

Senator HUDDLESTON. Certainly. Maybe you will have a chance to get a bite to eat.

Mr. FINCH. See, this fellow is from Kentucky, too. I voted for him.

Senator HUDDLESTON. Thank you.

Mr. Collins.

#### STATEMENT OF BERT COLLINS, MAYSVILLE, KY.

Mr. COLLINS. I am Bert Collins from Maysville, Ky. I was raised on a 125-acre tobacco farm and went to the University of Kentucky. I worked until last December as a county agent and I have worked with tobacco all of my life.

On this particular issue you have before you, I want to say five simple things without any details. Why do we need this extra protection? Costs have gone up faster than the present system provides.

Tobacco needs to be grown by those who know how. Burley tobacco fits well into this kind of system. One of the reasons is that tobacco manufacturers have a habit of storing 2 or 3 years' supply of tobacco. If tobacco use goes down 3 percent they don't want to buy 3 percent less, they want to buy at 9 percent less. If it goes up 3 percent they try to buy 9 percent more, which makes for an unstable supply and demand price system for the individual farmer. Two years down and one up is about what it amounts to.

But really, the point I want to make is people are the most important item in this whole discussion. I mean the people that produce tobacco. Burley tobacco growers are small farmers. The average man who does the work is probably about 40 years old. He has a wife and two or three children. He also produces food and fiber. He is a good citizen and his children are good citizens. If he is forced out of what he knows how to do and has to go to Akron or Dayton or Middletown he is apt to be at the bottom of the economic ladder and in the long run costs you and I more in money and heartaches. I don't want this to happen. Your favorable action on this bill will be one step toward preventing it.

Senator HUDDLESTON. You don't share any of the concern that has been expressed about the U.S. pricing itself out of the market?

Mr. COLLINS. I am conscious that such things can exist but burley tobacco is a kind of commodity that this is not a paramount item, in my opinion.

Senator HUDDLESTON. I think it is accurate to say that you feel like we need a more flexible price support criteria that would be more responsive to the immediate gyrations in costs like we have had over the last year.

Mr. COLLINS. I made a little study once in the kind of work I used to do in Mason County, what would happen if tobacco went out. Forty percent would have to quit.

Senator HUDDLESTON. Forty percent of the farmers would have to go out of the farming business. It would affect production on other crops, too?

Mr. COLLINS. Yes.

Senator HUDDLESTON. Well, I think that is a good note to complete our first day of hearings on.

Mr. Collins, I appreciate your coming by.

Before we end today I would remind you again that tomorrow we will meet at 10 o'clock in S-126 of the Capitol.

I have to add in the record a telegram from George Stiles, president of the Kentucky NFO in support of the legislation we are considering; a telegram from Carl Hicks and Fred Bond of Flue-Cured Tobacco Stabilization Corp. expressing reservations about H.R. 17506; and a letter from Congressman Carl D. Perkins from Kentucky in support of the program.

[The above referred to documents follow:]

[Mailgram]

BUFFALO, KY., *December 10, 1974.*

Senator WALTER D. HUDDLESTON,  
*Senate Office Building,*  
*Washington, D.C.*

My name is George Stiles and I am president of the National Farmers Organization in Kentucky. I would like to present some facts concerning burley tobacco production and ask the Senate Agriculture Committee to pass favorable on the Perkins bill raising the tobacco support to 90 percent of parity. The cost of producing tobacco has risen enormously in the past 12 months. Plastic to cover the bed has risen from \$9 to \$22. Methylbromide gas up from \$.50 per can to \$1.15 per can. Fertilizer has doubled. Machinery costs increasing daily. Labor—the cost of labor is prohibitive—up ½ over the past year. Tobacco cotton more than doubled in price. Insecticides and sucker control more than doubled. The cost of production is causing farmers to drop below their allotted poundage and as a result this could cause farmers to lose their present program if production isn't as great as disappearance. This could prove to be the final blow to hundreds of family farmers in the burley belt. Tobacco is a luxury product, it is not a necessity of life, therefore, suffering will not be caused to the consumer if a price raise is initiated. The tax income to both Federal and State is enormous. Therefore, the farmer who produced it should be protected and allowed a reasonable income which the Perkins will permit. It is our belief that the allocation system now running rampage on the burley markets would be slowed or halted if supports are raised. With low supports the buyers pay the same price for all grades and all qualities. They pay a fair price for low grades and a lousy price for good grades. We urge the immediate passage of the Perkins Tobacco Bill since farmers are now closing arrangements for the 1975 tobacco crop.

Respectively,

GEORGE STILES,  
*President, Kentucky National Farmers Organization.*

[Telegram]

FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORP.,  
*Raleigh, N.C., December 10, 1974.*

Re H.R. 17506.

Senator WALTER D. HUDDLESTON,  
*Chairman, Senate Subcommittee on Agricultural Production, Marketing, and  
 Stabilization of Prices, Senate Agriculture Committee, Russell Office Build-  
 ing, Washington, D.C.*

We appreciate the invitation to appear before your committee at its hearings to be held on H.R. 17506 on Wednesday and Thursday, December 11-12, 1974.

It is regretted that we have not had an opportunity either to present merits of the bill to our board of directors or to discuss it with our members. We hope to discuss it on Friday, December 13, at the regular monthly meeting of the board of directors of Flue-cured Tobacco Cooperative Stabilization Corporation in Raleigh, N.C.

As individuals, with responsibilities as officers of stabilization, we take this occasion to say to you that the objectives of H.R. 17506 are of the greatest interest to flue-cured tobacco growers whom we represent. This interest in tobacco prices, in flue-cured tobacco domestic and export sales, and in the continuance of the tobacco control and support programs are so deep and so vital that any changes so large and so fraught with danger as are contemplated by H.R. 17506 should be made only after thorough and extensive study and after explanation to the flue-cured growers and after careful consideration by them.

We cannot speak for our board of directors, but, as individuals, we doubt very seriously the wisdom of adopting the proposed resolution forthwith.

CARL T. HICKS,  
*President.*

FRED G. BOND,  
*Secretary-Treasurer/General Manager.*

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CONGRESS OF THE UNITED STATES,  
 HOUSE OF REPRESENTATIVES,  
*Washington, D.C., December 11, 1974.*

Hon. WALTER D. HUDDLESTON,  
*Chairman, Tobacco Subcommittee, Committee on Agriculture, U.S. Senate,  
 Washington, D.C.*

DEAR SENATOR: We join together in urging you to take prompt action in bringing H.R. 17506, a bill to adjust the price support for tobacco under the Agricultural Act of 1949, to the Senate floor for an early vote.

Recognizing that you, too, know that speed is imperative in this matter, we nevertheless take this opportunity to reiterate for the record some of the major reasons.

Rapidly escalating costs of production during the last year have virtually erased all chances that the tobacco farmers of the country have of making a reasonable profit. Present market prices, although substantially above the 85.8¢ support price in many cases, do not cover production cost. Growers by the hundreds all across the country have indicated their intention of dropping out of production if a better return is not received. We are sure you recognize that this will mean serious dislocation in the economy of our State and of the tobacco industry generally.

The price support formula under the present law based upon average price for the preceding three calendar years would work reasonably well in normal times. The extraordinary inflation in the cost of production items has proved decisively that the formula is not adequate for the present economic situation.

The Department of Agriculture has stated that reversion to the pre-1960 formula of 90 percent of parity, as required by this bill, would yield a support price of \$1.32 for burley and \$1.22 for flue cured. We maintain that these levels are not unreasonable in the face of the tobacco growers' enormous cost of production; therefore, we urge prompt action by the Committee and by the Senate on H.R. 17506, which the House unanimously passed on November 26.

Sincerely,

FRANK A. STUBBLEFIELD,  
 TIM LEE CARTER,  
 CARL D. PERKINS.

Senator HUDDLESTON. The subcommittee will stand in adjournment until 10 a.m. tomorrow.

[Whereupon, at 6:20 p.m., the subcommittee was adjourned until 10 a.m., Thursday, December 12, 1974.]

The committee will stand in adjournment  
 until 10 a.m. tomorrow.  
 The session at 8:30 p.m. the committee was adjourned until  
 10 a.m. Thursday, December 18, 1974.

## TOBACCO PRICE SUPPORTS

THURSDAY, DECEMBER 12, 1974

U.S. SENATE,  
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,  
MARKETING, AND STABILIZATION OF PRICES OF THE  
COMMITTEE ON AGRICULTURE AND FORESTRY,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10:10 a.m. in room S-126, the Capitol, Hon. Walter D. Huddleston, presiding.

Present: Senators Huddleston and Helms.

Also present: Congressmen Perkins, Natcher, Rose, and Daniel.

### STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM THE STATE OF KENTUCKY

Senator HUDDLESTON. The subcommittee will come to order and we will continue our hearings on the price support for tobacco.

The first witness this morning will be Mr. Phillip Wells. Mr. Wells.

### STATEMENT OF PHILLIP B. WELLS, PRESIDENT, BURLEY AUCTION WAREHOUSE ASSOCIATION, GLASGOW, KY.

Mr. WELLS. Thank you, Senator. If you don't mind, I'll just read my statement.

Senator HUDDLESTON. Very good.

Mr. WELLS. Mr. Chairman, I'm Phillip Wells, Glasgow, Ky., president of the Burley Auction Warehouse Association. We are a trade association of the owners and operators of over 90 percent of the warehouses that sell burley tobacco in the burley belt, which includes the States of Kentucky, Tennessee, Virginia, West Virginia, Ohio, Indiana, North Carolina, and Missouri.

We represent thousands of people whose income is created by our particular part of the tobacco industry.

The burley tobacco price support program is a "tobacco grower program," and the sole purpose of this program is to guarantee the grower a fair price for his tobacco, based on his cost of producing his crop.

The present "average" price support is 85 cents a pound. Burley tobacco sold in my warehouse yesterday for \$1.21 a pound, and this is generally true throughout the burley belt. This fact, all by itself, proves that the present price support is too low.

If our price support has been realistic in any past years, it is certainly not realistic today.

A recent study made by the Department of Agriculture at the University of Kentucky shows that the 1974 cost of producing one pound of burley tobacco was 93.6 cents.

We have already seen the basic truth that the farmer simply will not grow this tobacco unless he gets a fair return for his hard work and investment.

During its entire history, the price support program has not lost \$1 on the resale of any tobacco taken under loan by the burley cooperatives.

For all these reasons, the Burley Auction Warehouse Association strongly recommends that the U.S. Senate prepare legislation to establish an "average" support price for burley tobacco in the range of \$1.15 to \$1.20 per pound for the 1975 crop.

Senator HUDDLESTON. Would you agree that it wouldn't be appropriate to change in the middle of the marketing season.

Mr. WELLS. Yes. I don't think that would be appropriate at all. And I talked to some farmers that still have tobacco, and they don't think so, either.

Senator HUDDLESTON. Do you know of instances in your county or throughout your section of Kentucky where tobacco is not being raised?

Mr. WELLS. Yes, I do.

Senator HUDDLESTON. It is not being used?

Mr. WELLS. Yes, several.

Senator HUDDLESTON. Do you think that the criteria that is now being used to determine the support price, the 3-year averaging, should be changed, to more adequately reflect cost increases?

Mr. WELLS. Yes, this is too low, the price quotas we have. The average is too low.

Senator HUDDLESTON. You indicate that we should have a bill that puts it somewhere in between \$1.10 and \$1.15?

Mr. WELLS. Well, \$1.15 to \$1.20 is what I said in the statement, but \$1.10 to \$1.15 would be all right.

Senator HUDDLESTON. Do you think a problem might develop on the coming down part, if costs come down. I don't anticipate it right now, but it might happen.

Mr. WELLS. I could see that that could cause a problem, but if you keep it on the 3-year average, it might not.

Senator HUDDLESTON. Slow that down.

Mr. WELLS. Yes.

Senator HUDDLESTON. Do you think we ought to change it and go back to the old parity concept of 90 percent, or, maybe adjust that to 85 percent?

Mr. WELLS. I have discussed that with several different people, and I have a lot of different opinions on it. But that's the reason I said here, let the Senate draft some legislation. Either way, it would be better for the Senate to do it.

Senator HUDDLESTON. But the important thing is, have a support price higher than now, which is not realistic.

Mr. WELLS. Yes; that's right.

Senator HUDDLESTON. And one that would be flexible enough to reflect sudden changes in cost production.

Mr. WELLS. Yes; that's right.

Senator HUDDLESTON. And one that at the same time would not jeopardize the market.

Do you have any concern with the impact of our tobacco prices on the export-import situation?

Mr. WELLS. Senator, if we don't raise—and I'm afraid we cannot—the present price, we are going to imports then, too. If we can get the price up, I feel we can produce enough to satisfy the industry, and therefore we cut out a lot of import.

Senator HUDDLESTON. You agree that the continuing trend of raising less tobacco than is allocated would also affect the program.

Mr. WELLS. Yes; it would have to import more of it.

Senator HUDDLESTON. I think you pointed out accurately that the Department has been able to dispose of its holdings without any substantial loss of money.

Mr. WELLS. Yes, sir. It's my understanding now that the cooperatives have no tobacco on hand, they sold it all.

Senator HUDDLESTON. Congressman, do you have any questions?

Mr. PERKINS. I don't have any.

Senator HUDDLESTON. Well, we appreciate very much your coming and testifying.

Mr. WELLS. Thank you.

Senator HUDDLESTON. Mr. John Berry? Nice to see you, sir.

#### STATEMENT OF JOHN M. BERRY, PRESIDENT, BURLEY TOBACCO GROWERS COOPERATIVE, LEXINGTON, KY.

Mr. BERRY. Nice to see you, Senator.

Mr. Chairman and members of the committee, I am John M. Berry of New Castle, Ky. I am president of the Burley Tobacco Growers Association, Lexington, Ky., an organization of continuous creditable usefulness to burley tobacco farmers since January 1922, the date of its organization.

One of its principal interests, and promotions was the enactment of the old AAA legislation and then the Agricultural Adjustment Act of 1938, as well as the amendatory measures in subsequent years.

This association under contract with Commodity Credit Corporation has operated the price support program for burley tobacco since January 1941. It serves a membership of approximately 350,000 tobacco farmers in the States of Kentucky, West Virginia, Ohio, Indiana, and Missouri. About 250,000 of its members reside in Kentucky.

For 34 crops this association has striven, at actual administrative cost to the Government, to demonstrate the workability and practicability of the price support program coupled with production control. The effort has been successful because conjunction of the two programs is economically sound in principle. And because of their combined economic soundness these programs have withstood discounting criticisms and assaults during their history. Even financially, the price support program for burley tobacco is in the black. Benefits to our members are incalculable; and the resulting income tax revenues paid by farmers to governments is beyond estimate.

Fear of the loss of money and the consequent vulnerability of the program has been all the while the obsession of this Association and has entailed to some degree at least the personal sacrifice of some of

its people. Preparation of the defense of the price support program against the day of reckoning has been in progress since we began the operation and that defense is impressive and formidable.

A part of its success is exemplified by the "Statement of Operations Covering All Crops Handled—1940-1973—as of March 1, 1974," which I wish to file as part of this statement.<sup>1</sup>

Senator HUDDLESTON. It will be accepted in the record.

Mr. BERRY. This exhibit shows among other things that we have received under loan 1,581 million pounds of burley tobacco on which we advanced to farmers \$855,055,000.

The program has survived attacks; this and other organizations identified with it have survived attacks; and the individuals in charge of these organizations have survived attacks.

We propose to carry on with the same competence, dedication and success. But, if the proposal in this bill is enacted into law, we envision failure.

It is believed that the buying interests will take only a small portion of the production from the auction market, at a bid of \$1 above the support rate and contentedly allow the remainder to accumulate in huge inventories of the associations, where it will repose for years encumbered by yearly added carrying costs, until the manufacturers in their deliberate time decide to use some of it for blending with their increasing quantities of imported burley tobacco, and only then at prices much less than the total costs to the associations.

Some would infer that we are alarmists over the use of foreign grown burley. We are, because we can remember when the imports of flue-cured and burley tobaccos did not warrant the publication of the amount. Then, in 1961 the figures began to appear in negligible but growing quantities, 100,000, 200,000, 300,000, 400,000 pounds, a half million pounds.

And then, for 1967 these imports amounted to 600,000 pounds. And now for the first 6 months of 1974 the figures show the importation of 34-million pounds of Flue-cured and burley tobacco, at that annualized rate an increase of 1,000 percent in 7 years.

The 1973 report of foreign burley stocks in the inventories of dealers and manufacturers shows the accumulation of 35,925,000 pounds, whereas the same report for 1974 shows 88,353,000 pounds of burley tobacco, an increase in 1 year of their stocks of a little in excess of 52 million pounds. And we are more alarmed when we hear of the increasing burley production in Mexico, South America, Costa Rica and elsewhere perhaps by U.S. tobacco people. This foreign grown burley is cheaper but good enough in quality when blended with our American-grown burley.

And even if transshipped to the domestic licensees, as we understand it is claimed, it is displacing our burley in foreign usage. And I want to say in connection with the operations in foreign countries by U.S. tobacco people, particularly the burley people, that these dealers, producing cheaper and commoner tobacco in their foreign projects will enjoy greater and greater profits as these tobaccos are more and more used by the domestic manufacturers.

<sup>1</sup> See p. 66.

Since 1947 we have developed a respectable export business in burley tobacco, due to the promotion work of this association in collaboration with the dealers and the Department of Agriculture. Prior to World War II between 10 and 20 million pounds of burley was exported. And while our annual foreign trade does not compare with the 600 million pounds of Flue-cured, last year 79 million pounds of burley were exported; and for the first 6 months of 1974 burley exports amounted to 44,700,000 pounds.

We want to, and we can increase this business. But we can lose it if the price of our more desirable tobacco is too much above the world competitive price level of these less desirable simulative tobaccos.

If this bill becomes law, we may well expect this condition in both the domestic and foreign trade to worsen because, as we are informed, the projected floor would be \$1.42 per pound in 1975. Under the law as it is, the 1960 act, the projected loan rate will be for burley \$96.10 per hundred.

We have struggled with huge inventories of burley tobacco under loan from the beginning of the program in January 1941 until about a year ago.

In the spring of 1973 this association's holdings had been reduced to 212 million pounds of tobacco, acquired from the 1962 through the 1972 crops, upon which there remained an indebtedness to Commodity Credit Corporation of \$172 million for advances to farmers and carrying charges. At one time we held 400 million pounds.

Under the proposal in this bill we foresee the accumulation of a burley tobacco loan inventory of unprecedented size and the inevitable loss of millions of dollars. Demand for our tobacco on the auction market will have declined because of the too high support level and the flood of incoming foreign grown burley tobacco.

Of course it's true that the cost of producing burley tobacco has escalated enormously but we cannot fail to remember when losses escalated into bankruptcy, foreclosures and disaster when tobacco farmers had no voice, no bargaining power and no price protection in the marketplace. This same plight can recur for them for want of production control and price supports, whose deaths will be insured by the loss of millions of dollars to the Government due to the stockpiling of huge inventories under loan.

Our major concern is preserving the continuity and soundness of the tobacco price support program.

Friends of tobacco farmers in the Congress, as in the past, will be called upon to defend the price support program; and available to them will be the defense we have perfected in 34 years of operation.

But, if this bill should pass there will build in a short time an indefensible condition in the opinion of the American taxpayers; and the tobacco farmer, as he was for centuries, will be bereft of any voice, bargaining power and price protection in the market.

And so we say to this committee and to the Congress, save, don't risk the loss of this program.

Mr. Chairman, in addition I would like to file an editorial from the Courier-Journal with respect to this bill and the affect on our prospects in burley tobacco.<sup>2</sup>

Senator Huddleston. I accept that as part of the record.

<sup>2</sup> See p. 67.

Mr. Berry, obviously you are opposed to H.R. 17506. Do you, however, think there is any room at all for increasing the support price, which I believe will be about \$96.10 for next year?

Mr. BERRY. Mr. Chairman, I understand that this \$96.10 per hundredweight was projected on the basis of the inflationary rate at about mid-September. And it is anticipated that this inflationary spiral will continue; and if it does, it's not unreasonable to suspect, or indeed it may be conservative to anticipate that the loan rate for burley tobacco next year will be \$1 per hundred.

And I believe, and we in the Burley Association believe that the accumulation of a huge inventory of burley tobacco at that base cost, to say nothing of the carrying charges that would accumulate over a period of possibly 10 years would mean that losses would be inevitable; and I don't think—

Senator HUDDLESTON. Losses to the program.

Mr. BERRY. To the program. And I don't think the taxpayer or the Congress is going to indulge us in losses. After all, we are not producing a food, or a fiber; and you gentlemen up here know better the years proposals to discontinue all appropriations. We even hear proposals to discontinue quotas and discontinue price support, and we situation than I do. But I know that we have been hearing over the are apprehensive about it.

Senator HUDDLESTON. We had one like that in the Senate 2 weeks ago.

Mr. BERRY. I heard about it.

Senator HUDDLESTON. What about the formula used, the criteria, do you see any need to change that?

Mr. BERRY. We cited in the statement our export effort in 1947, and we did modestly well. And our friends in Flue-cured became very apprehensive about their export business because of the level of the support price. And they suggested and requested we join them in an effort to modify the old parity formula for the calculation of loan rates. We did so, we came here, and as the result of the joint and unified efforts of the tobacco people, the act of 1960 was passed, which tied the loan rate thereafter to the 1959 level multiplied by a factor which was the ratio of the average of the 3 previous calendar years of costs to the 1959 cost level; and it passed.

And under that now, we will have next year, if the projections are reliable, \$96.10 a hundred pounds, or possibly a dollar. And I think the average of previous years provides a much more comfortable cushion to the decline than to take the previous calendar year cost because if the cost of production begins to decline drastically, which very well could be the case, that formula, or an amended formula based on the previous calendar year would not be half so comfortable, so resistant to decline as the 3-year calendar year average. So, I would not disturb that.

Senator HUDDLESTON. How do you feel about proposals to modify the formula—to reduce it to 2 years or keep the three and give the most recent year added weight, maybe double weight, to try to reflect more accurately the actual costs the farmers are incurring for their current crops?

Mr. BERRY. Well, that might be quite practicable and useful, and beneficial. I have not reflected upon that concept, but I should be glad to, and try to understand it.

Senator HUDDLESTON. Do you believe this \$96.10 projected for next year is going to be enough to encourage full utilization of allotments?

Mr. BERRY. I do. Not in all instances, Mr. Chairman, there will be people still who would not use their allotments, and there is a significant development in the production of burley tobacco, 13 million pounds of burley tobacco are represented by the nonactive quotas in Kentucky; 17 million pounds are represented by the nonactive quotas in Tennessee. But I heard recited yesterday the experience of one farmer who advertised a house for rent in the Shelbyville, Ky. area, and he said, "farm work and tobacco raising." And before the following Friday night, having published his ad on Thursday, he had had eight applicants.

And I think you are going to see people, necessarily, per force, coming back from the industrial centers. They are already out of employment. And I don't think, I doubt that most of them would be content just to sit and twiddle their thumbs, and collect their unemployment pay; I think they are too proud, the family heads are. I think they will devote themselves to doing any gainful work that they can, even in the tobacco patch.

Senator HUDDLESTON. What reason would you give for this lack of utilization?

Mr. BERRY. My understanding is that it is made up—and I'm not saying that I am absolutely reliable on this score—but my understanding is that it's the urbanites and the small allottees who are industrially employed, who are not keeping their quotas active. But I think you will see a reactivation of them in this year.

Senator HUDDLESTON. You indicated that if the support price got too high, company buyers would take a lot less of the tobacco, buy a smaller amount of it, and pay just slightly above the support price. What leads you to believe that—is it based on history?

Mr. BERRY. Well, it's not a very long history. When you think that in 1961 there was scarcely any Flue-cured and burley imported into this country. I can remember before that, and I think I can recall it accurately, when the figure was 5,000 pounds; and then, beginning in 1961 it rose, the figures increased, as I have stated in the prepared testimony.

And the significant, and startling, and alarming fact is that last year—this year in 1-year's time, the stocks of foreign grown burley tobacco imported into this country and in the inventory of dealers and manufacturers increased \$52 million. Now, if that rate should continue, that will cut our quota in half in a very short time.

I know of one dealer in Lexington, Ky., who has an operation in Costa Rica, and is building bonded warehouses in Lexington to store his Costa Rica production.

Senator HUDDLESTON. In those past years, though, wasn't the Department able to dispose of the tobacco to these same manufacturers?

Mr. BERRY. Yes. And mind you, we have had a very drastic drop in the production because of two adverse growing seasons. And in the past 12 months we have moved out of our inventory, and it's exhausted now, about 120 million pounds of burley tobacco. But while we were doing it, look what's coming in. And they say it's harmless because it's transshipped; but it's transshipped in competition with American-grown burley.

Senator HUDDLESTON. Do you foresee a danger that a high support price might induce too much to be grown, and then maybe require a reduction in allotments?

Mr. BERRY. Well, that could necessarily follow, of course if there is too large a production. Our largest production was in 1963, 755 million pounds.

Now, there are practical people, for example, the board of directors of this association, who are farm people, they are competent and knowledgeable farm people, and some of them have been vacillating on this problem, on this proposal. And yesterday I submitted this statement to them, we were in session; and with enthusiasm and unanimity they approved it, and I am happy to say even commended it. I was concerned about that.

Senator HUDDLESTON. What do you think the maximum support ought to be for the next year? And how did you derive your figure?

Mr. BERRY. Mr. Chairman, in tobacco, historically, it's unheard of, except following World War I, when it was \$1 a pound, and a cent maybe the next day, when we had no voice, when we had no say, when we had no protection, no bargaining power. And here, for 34 crops because of this program we have had a sustained economy, and all one has to do is ride over and view the landscape in Kentucky, and he can see the fruits of this program.

And it's, I think, ill advised—and I admire its author, its authors and appreciate them, and they have never failed to respond one time. But, they have had advice. It's a dreadful risk to take, to cripple this program, and even lose it.

Senator HUDDLESTON. Let me ask you one more question, sir. One of our witnesses alluded to the fact that on the market today there is little price difference between the various grades of tobacco, and he indicated that the low support price might be contributing to that. Would you agree with that analysis and do you believe a better support price would perhaps bring back a better differential in price?

Mr. BERRY. Mr. Chairman, I think one can examine the loan schedule, the loan rate schedule on tobacco, and it's conceived upon the idea that there should be a differential between the low and the high, the common and the good.

Now, we can't do anything about the behavior of the buying interests. If they want to put it all through the same price hold, they can do it; and we can't do anything about it. But, when it gets down to a level, we have something to do with it.

Senator HUDDLESTON. Then you don't believe the loan support price particularly affects this?

Mr. BERRY. I do not see it influencing it. There might be some remote possibility of that, but I do not see that as a contributor.

Senator HUDDLESTON. We are hearing some complaints that the procedure being used now is not a true auction process.

Mr. BERRY. That has caused a lot of agitation in Kentucky. I spent Thanksgiving day, rather than eating turkey, arguing with a board of trade in Lexington.

Senator HUDDLESTON. Talking turkey.

Mr. BERRY. Talking turkey, all right, sir. There has been a great amount of agitation about it, even the general assembly was confronted

with it in someone's proposal. The warehouse people are not to blame for that, they have no choice.

But to dispose of the tobacco—or, they can indeed reject the sale of it, if they want to, but that involves them very critically with their customers, and so they can't do anything.

Now, everyone comes on the floor the first day, or the first week, or the second week, and they all have the same price, and they all indicate their interest in the offering at the same price by their uplifted hands with three fingers, or four fingers, or five fingers, what have you. The warehousemen and the auctioneer simply have to dispose of the tobacco under the circumstances. There may not be because of the condition of the market a genuine true auction, but it moves. But it does not result in allocation because of the warehouseman's fault.

Senator HUDDLESTON. Well, does the support price have any bearing on it?

Mr. BERRY. I don't think it does at all. I don't see why the support price would have anything to do with that. Historically, this has been a matter of argument and concern when we started this program in January 1941. We discussed it, we argued, we theorized about it and concluded that the right thing to do in the marketplace was to disclose our presence, and assume the status of a buyer; and write upon the basket ticket the support price for that particular grade of tobacco, and we did so. And there were those who said to us, don't do it.

Senator HUDDLESTON. You are talking about the warehouse?

Mr. BERRY. No, sir, I am talking about our function in the marketplace. We concluded that we should disclose it. So, it—the loan rate—provided a starting bid for the tobacco, it hurried up, hastened, speeded up the auction sale, and oftentimes the bid would be just a dollar above our loan rate which was required of the trade to get the tobacco, else it would go into our inventory.

It would go into the inventory of our organization that had assumed the role and status of a buyer in the market so that no one could complain; and it had other incidental benefits.

Now because of production control and a sensible control of supply which the trade is now saying has been too stringent—and perhaps that's true—maybe it ought to have been more, so that the active quotas would have produced more, having the opportunity to and the right to.

But anyway, the support price is no longer the first bid now. The support price—the bid price, starting bid price is what seems to be the maximum, and that everybody is willing to pay the maximum; and it doesn't matter whether it's the commonest tobacco visually, measured by the historical concept of quality, as one ever saw. I visited a sale in a warehouse last Wednesday, a week ago yesterday, and the market had moved, had shown some improvement from one side of the floor to the other, and had reached \$1.20. And I was there with some of our people who are knowledgeable, far more so than I am about tobacco, its characteristics and its uses, utilization, and what have you. And there we saw a black, mix-stripped, muddy, wet, sour basket of tobacco that brought \$1.18.

Well, I think you are going to see some differentiation with respect to that tobacco. It becomes a matter of how much they can absorb in

connection with their purchases. But I don't think the price support figure relates to that, at least if it does, it doesn't do so damagingly to the grower for whom it was enacted. That's one thing.

There are people voicing opinions, and persuasively, and we encounter them, who are not pure growers of burley tobacco, and this is a tobacco farmer's program, and we want to keep it so.

Senator HUDDLESTON. One final question. Mr. Berry, would you want to recommend any refinement, or any change, or improvement in the present price support legislation?

Mr. BERRY. Our appraisal of it is, and of our Board yesterday is that it's wonderful as it is.

Senator HUDDLESTON. Leave it like it is.

Mr. BERRY. It might be that the notion of giving more weight to the last year in computing—in determining the factor for computing the loan rate is worth consideration and study.

Senator HUDDLESTON. Thank you very much. Congressman Perkins, do you have any questions?

Mr. PERKINS. Mr. Berry, I'd like to ask a couple of questions. Now, the first question, for the year of 1965 I presume you reported 2 million tons under loan, 7.2 percent; and 1966, 2.6 million pounds were under loan, 10.6 percent of the crop; and 1967, 64 million pounds went on the loan, 12 percent of the crop; 1968, 56 million pounds, 10 percent of the crop; 1969, 158 million pounds went under loan, 26.8 percent of the crop.

Am I substantially correct about those amounts that were under loan?

Mr. BERRY. I don't know, I don't have the chart that you are speaking from, nor the data that you compiled. But I'm sure you compiled it correctly, and I would accept your compilation.

Mr. PERKINS. I'm speaking about those amounts, and the biggest one is in 1969, where it was 26.8 percent, and then you renewed them, and we had to do something about a new piece of legislation, that's correct, isn't it?

Mr. BERRY. In 1969?

Mr. PERKINS. I mean, it wasn't passed until 1971. But it was somewhat of a problem.

Mr. BERRY. That was the poundage legislation, yes, sir.

Mr. PERKINS. What would you consider this year, the current market year, a reasonable price for the farmers to make, a reasonable return per pound?

Mr. BERRY. Mr. Perkins, I think the price he is getting per pound is excellent, I think it is the highest price, and highest sold crop of tobacco, relatively speaking, in the history of the business, considering quality. And I think some of these tobacco experts will agree with that.

Mr. PERKINS. The bill that I introduced proposes to revert back to the farmer a 90 percent parity that we had in existence in 1949, 1950, 1951, 1952, 1953, 1954, all through 1959; am I correct in that?

Mr. BERRY. That's true.

Mr. PERKINS. That is true.

Mr. BERRY. Your bill proposes reversion to the original parity, and I wrote you about it on November the 26th; and I said to you that I thought it would be inadvisable.



BURLEY TOBACCO GROWERS COOPERATIVE ASSOCIATION, LEXINGTON, KY.—STATEMENT OF OPERATIONS COVERING ALL CROPS HANDLED (1940-73) AS OF MAR. 31, 1974

(Dollar amounts in millions)

Crop year	Pounds received (millions)	Redried pounds (millions)	Yield (percent)	Adv. made	Handling costs	Adminis-tration costs	Interest paid or accrued	Insurance paid	Research and promotion	Total costs	Sales receipts	Total receipts	Gross earnings or loss
1940	26,224	23,267	89.43	\$3,793	\$448	\$101	\$93	\$15	---	\$4,440	\$4,992	\$4,992	+\$552
1941	5,020	5,292	91.07	4,882	106	79	122	4	---	1,067	1,271	1,271	+204
1942	16,351	13,628	83.45	4,937	371	288	190	32	---	5,620	5,987	5,987	+367
1943	113,899	101,968	90.18	33,559	4,224	1,440	2,102	168	---	40,341	41,296	41,396	+1,055
1944	28,058	25,087	90.88	13,126	3,091	1,440	2,174	36	\$36	15,076	15,379	15,474	+348
1945	81,038	71,858	89.65	34,476	3,037	1,440	2,174	161	---	40,042	41,599	41,713	+1,671
1946	28,223	24,980	90.01	10,491	1,061	162	104	63	18	12,183	13,046	13,080	+897
1947	31,155	27,527	90.42	12,415	1,455	178	87	53	39	14,957	15,108	15,158	+201
1948	88,756	78,232	89.62	41,394	4,394	346	5,094	163	74	31,013	49,662	49,737	+1,276
1949	80,467	71,831	90.44	28,204	3,891	317	2,904	323	74	35,438	35,988	36,078	+620
1950	87,892	74,627	90.33	38,670	4,263	337	2,758	333	82	43,743	46,151	46,277	+316
1951	165,261	148,682	90.93	88,334	8,604	765	5,638	711	147	11,289	11,385	11,385	+96
1952	56,450	50,819	91.66	35,631	2,918	366	272	272	99	43,807	43,020	43,020	-787
1953	3,817	3,153	91.63	2,308	286	129	4	16	---	2,849	2,849	2,849	---
1954	13,608	12,063	90.12	8,407	872	208	160	58	11	10,646	12,342	12,342	+933
1955	9,625	8,236	89.94	6,456	588	161	655	39	6	7,905	7,905	7,905	---
1956	11,055	9,770	90.09	6,600	690	248	785	36	15	8,375	8,202	8,202	-390
1957	7,871	7,035	91.19	5,031	517	202	620	26	8	6,404	6,202	6,202	-162
1958	8,344	7,327	88.90	5,522	531	175	555	20	---	6,881	6,577	6,577	-196
1959	55,144	48,519	89.27	30,017	3,560	304	4,957	20	78	38,965	37,937	38,028	-897
1960	174,449	154,817	90.19	99,238	11,506	711	15,938	283	---	127,676	128,158	128,524	+488
1961	97,676	87,473	90.61	57,802	6,842	530	12,048	112	---	77,334	77,389	77,607	+273
1962	36,480	32,439	90.42	25,018	2,644	280	5,740	---	---	33,699	33,402	33,566	+133
1963	59,288	51,414	88.23	41,183	4,077	325	7,440	17	---	52,353	52,594	52,594	---
1964	57,133	50,347	89.30	42,293	4,308	470	7,905	---	---	54,976	54,936	55,194	+218
1965	81,191	74,165	89.49	36,209	3,817	356	6,308	---	---	46,690	47,341	47,752	+1,045
1966	132,087	114,769	89.34	96,274	10,464	647	12,466	---	---	119,851	126,978	127,652	+7,801
1967	43,177	37,292	90.61	32,129	3,631	320	3,242	---	---	39,322	41,843	42,041	+2,179
1968	18,173	15,56	84.13	131	94	84	17	---	---	17,716	19,309	19,309	+1,593
1969	18,744	15,754	84.13	14,879	1,918	159	760	---	---	17,716	19,309	19,309	+1,593
1970	365	292	81.56	287	70	1	2	---	---	360	376	376	+16
Total	1,581,951	1,400,659	88.54	855,055	92,244	8,593	117,079	3,087	689	1,076,747	1,086,947	1,090,480	+3,733

[From the Courier-Journal, Dec. 11, 1974]

### PERKINS' BILL WOULD MISUSE BURLEY SUPPORTS

The wisest course for Senator Huddleston's agriculture subcommittee, as it opens hearings today on a House-passed increase in burley price supports, would be to ditch the measure. When Kentucky Congressmen Carl Perkins and Frank Stubblefield slipped the former's bill through the House late last month, they did burley growers no favor, even though the measure purports to raise the support price from an average of 85.8 cents per pound to \$1.32.

The bill is ill-advised, and badly timed, for three reasons. First, the manner of its consideration: it was introduced in the House one day and passed the next, with no committee hearings nor any opportunity for executive department comments. That maneuver, while legal, has attached a red flag to the measure. In addition, it's highly unlikely that the higher price-support level could become law before the end of the current congressional session, after which it would die.

Second, the plan for a 53.8 per cent jump in burley supports is the kind of extreme intervention in the market that could only backfire. Burley is presently selling for about \$1.20 a pound. If the Perkins-Stubblefield bill were adopted this year, according to Clayton Yeutter, an assistant secretary of agriculture, backing up the market with \$1.32 supports could force some \$155 million of the current burley crop into a government pool. Next year, with what likely will be a bigger crop, the Agriculture official predicted that more than half a billion dollars in federal supports would be needed to absorb any leaf not bid above the \$1.32 level.

#### EFFECT ON MARKETS

Thus, supporting burley at a price unrealistically higher than the probable market could only accelerate the trend toward more foreign-grown leaf in U.S. cigarettes. And that loss of domestic market could spur cuts in the burley poundage quota, leading farmers to demand lower price supports once again in order to regain the lost market.

The third reason the bill is bad, and its greatest threat to tobacco growers generally, is that the proposal would throw the price-support issue to the wolves. Although few members of Congress have been persuaded that the over-all costs of U.S. tobacco supports, export subsidies and grading programs are in direct conflict with the federal antismoking laws, the Stubblefield bill could gain votes for the bloc that thinks this way. And that could stimulate another effort to phase out price supports or kill them all at once.

Burley's future is chancy enough without driving more congressmen into a camp that thinks of national tobacco policy exclusively in terms of the health issue. Price supports are a floor worth keeping for times of rapidly falling prices, especially since so many small growers would be hurt. But they should not be used, as Congressmen Perkins and Stubblefield have attempted to do, to dictate the price of Kentucky's No. 1 cash crop.

Senator HUDDLESTON. Thank you, Mr. Berry.

Congressman Rose from North Carolina will make a statement at this time.

### STATEMENT OF HON. CHARLES ROSE, REPRESENTATIVE IN CONGRESS FROM THE SEVENTH DISTRICT OF NORTH CAROLINA

Mr. ROSE. Senator, Mr. Chairman, I appreciate the opportunity to come and say a few words about this bill that my good friend, the distinguished chairman from Kentucky, Carl Perkins has brought forth and engineered, and with the help of those of us who feel like he does, got it past the House of Representatives.

Back when the Flue-cured tobacco belt in my district opened—and I'm a Congressman that represents the Seventh District of North Carolina—the price that was paid by the tobacco companies the first few days of the selling season was so pitifully low that tobacco farmers almost revolted. Auction sales were stopped; thousands of pounds of

tobacco were burned in fires out in the countryside in my district. And with the help of Carl Perkins we introduced a bill in the Congress to raise the support price of Flue-cured and burley tobacco by 10 percent.

But because I'm not the legislative craftsman that Carl Perkins is, my bill remains today on the consent calendar, and the bill that he wrote and introduced made it through the halls of the House of Representatives.

What we are all here about today is the continuing traditional fight between the little tobacco farmer and the grand and glorious heritage of the tobacco establishment in this country. Comments were just made that we have had unity and solidarity in the tobacco family; and I tell you that has been a carefully laid, carefully executed, carefully designed program to pay the absolute bottom dollar to the American tobacco farmer.

What Carl Perkins envisions in his bill is the return to fairness at the marketplace. We don't have auction sales any more in my district, we have the division of the piles of tobacco among the various buying companies that are present. They don't auction, they pay 1 or 2 cents above the support price, and then they argue with the auctioneer in turn if he does not give the companies a rotation of the piles as he sells them.

The Department of Agriculture has just increased by 15 percent the tobacco allotment for next year. The Agriculture Department intends to keep going in this program for 1975. And I think it only fair, if we are going to have a 15-percent increase in the tobacco allotments next year, that we give the tobacco producer some guarantee by increasing the price support, by returning to the old method that was used for the determination of what the price support would be.

There are a great many wolves in sheep's clothing in the tobacco industry. There are a great many people who proclaim to be the friends of the tobacco program, and don't want to see it ended. I would be the last one in this room to do anything to destroy the tobacco program in this country; but I'll be one of the first ones to tell you that most of the people who are hollering, "Let's don't endanger the tobacco program" are using that fear to keep from facing realistically the fact that the little tobacco farmer is nowhere near compensated under the present price support formula for the tremendous increase in cost that he incurred in producing his 1974 crop.

Tobacco companies today freeze-dry tobacco; they touch it up; they use the stems; they make a paste out of the dust on the floor, and the sweepings, and they make that into cigarette products that they sell at ever-increasing profits, both in this country and abroad.

I was in London, England, recently and I talked to a company official in England that buys a tremendous amount of Flue-cured tobacco from my district. And I commiserated with him about the low price that our farmers were getting, and the need for an increase in our price support formula. And he laughed at me and he said, "Congressman, we have to put about \$10 a pound into that tobacco by the time we get it to England anyway, and a few more cents won't make that much difference."

Now, gentleman, I contend that some increase in price support is drastically needed, and I urge the Senate Agriculture Committee and

the Senate as a whole to adopt the bill that Congressman Perkins has introduced.

And, Senator, thank you for letting me come on such short notice.

Senator HUDDLESTON. Congressman, you say some price increase is needed, and you know that the support under Congressman Perkins' bill would be about \$1.32 for burley, \$1.20 for Flue-cured. Do you think that is the proper amount?

Mr. ROSE. I think that is a proper amount. The averaging system that we are now using will just clip the daylight out of our little tobacco farmers when you are averaging in the tremendous increase in cost that they were faced with in 1973.

Senator HUDDLESTON. If we send you a bill next week—do you think you'll get it passed in the House?

Mr. ROSE. We are going to do everything we can to get it passed.

Senator HUDDLESTON. I recall very well, of course, the unhappy experience during the early days in the Flue-cured market. Prices rose, though, substantially after a short time, didn't they?

Mr. ROSE. In this season you speak of?

Senator HUDDLESTON. Yes.

Mr. ROSE. Yes, sir, and we feel there was a direct correlation between the bill that Ed Young of South Carolina, Carl Perkins, Bo Ginn of Georgia, and Charlie Rose of North Carolina introduced to increase by about 10 percent the price support.

Senator HUDDLESTON. And you mentioned that buyers pay a few cents over the support price?

Mr. ROSE. Yes, sir.

Senator HUDDLESTON. Well, in Kentucky, now, they are paying about 35 cents over the support price. How high over the support price is it in Flue-cured?

Mr. ROSE. Well, in the beginning weeks of the Flue-cured season it was 1 to 2 cents above the price support. It did increase substantially later in the buying season, but then so did the quality of the tobacco.

Senator HUDDLESTON. Are there allotments in your State not being utilized as a result of the lower support price?

Mr. ROSE. Yes, sir. There are 14,200 allotments in my congressional district alone, and I estimate there are 45,000 to 50,000 people directly connected in my district with the production and sale of tobacco. A great many people were afraid of producing tobacco this year because of their fears about the marketplace, and what the price would bring.

But farmer after farmer has told me if the companies will buy their tobacco and pay them for it, they will produce it for them. And if they want more tobacco as they have said over the years, and we will have 15 percent more this year; if they are going to be willing to put their money where their mouth is and let our farmers get the cost of their production back, they will have the finest tobacco in the world.

Senator HUDDLESTON. Senator Helms, do you have any questions?

Senator HELMS. I was going to say, it's going to be difficult for me to say "the distinguished Congressman" because I'm used to calling him "Charlie."

Mr. ROSE. Thank you, sir.

Senator HELMS. Welcome, Charlie, Congressman Rose.

I wonder if you have any apprehension of the sort that is fairly prevalent in the mind of those of us in the Senate who are interested

also in tobacco, that there may be a risk of throwing the baby out with the bath water. You don't have a Ted Moss over at the House, but I guess you have people equally in opposition.

Mr. ROSE. I would be the first to tell you that we don't need to throw the baby out with the bath water. But I'm used to running up to the cliffs and looking over; and there are a lot of people who may be threatening to push this thing over the cliff in an effort to keep us from ever walking up there and looking over it.

Now, I would say to you, I am sure that with your good sense and judgment that you and your colleagues can find a way, and I hope you can, to bring this thing through the Senate in such a fashion that it will not mean an ultimate detriment to the program.

Senator HELMS. Well, I am not talking about a detriment, I am talking about an absolute destruction of it. I am afraid there is a growing disposition—I am talking about the Senate, I don't know about the House—thank the Lord they don't have the strength to do it yet, but I—

Mr. ROSE. Well, I have made an effort to make a distinction in the minds of those in the House who are opposed to cigarette smoking because of what the Surgeon General says it does to health, and a tobacco program which guarantees a fair return to the family farmers in your district in your State, and in my district that depends on tobacco as a way of life.

I am trying to reason as best I can with those who would ban all cigarette products from any manufacturer because of this fear about health hazards. I'm trying to divide their arguments about health hazards and smoking from discussions about a price support program that is designed to see that the family farmer in our States is adequately compensated for the family chores that you and I know go into the production of tobacco.

Senator HUDDLESTON. I'll be right back, will you take over the Chair?

Senator HELMS. All right.

Well, of course neither Senator Huddleston nor I, or the distinguished Congressman from North Carolina would be in office today had it not been for the tobacco growers.

Mr. ROSE. That's right.

Senator HELMS. And I think it's safe to say that we all three have their support. But aside from that, I share your views that this is the livelihood of countless thousands of people in our States.

Mr. ROSE. Yes, sir.

Senator HELMS. And I'm just as eager as you are to make sure that they prosper; and I'm just as regretful as you are that they are caught in the production cost spiral that is hitting everything.

I think we want to be very careful, Congressman, in assessing this, and maybe consider some compromise, as the distinguished Senator from Kentucky has mentioned yesterday and today—I don't know.

But, we certainly are delighted to have you here, and I am delighted to have you here.

Mr. ROSE. I'm sure with your good hands, that you will find a way.

Senator HELMS. We'll do the very best we can. And thank you for your excellent testimony.

Mr. ROSE. Thank you, sir.

Senator HELMS. Now we have Mr. John N. Parker, director of the commodity and marketing programs of the Virginia Farms Bureau Federation in Richmond, Va. We are delighted to have you, Mr. Parker.

**STATEMENT OF JOHN N. PARKER, DIRECTOR, COMMODITY AND MARKETING PROGRAMS, VIRGINIA FARM BUREAU FEDERATION, RICHMOND, VA.**

Mr. PARKER. Mr. Chairman and members of the committee, my name is John N. Parker, and I serve as director of commodity and marketing programs for the Virginia Farm Bureau Federation. As such I am not a tobacco producer, I am involved in a peanut farming operation.

Mr. Chairman, I appreciate the opportunity to appear before this committee to comment on H.R. 17506. The 49th Annual Convention of the Virginia Farm Bureau met during this week. Considerable attention was given to the provisions of H.R. 17506 during the 3 days our convention was in session. On Sunday evening, a special meeting was held of our organization? Tobacco Advisory Committee. On Tuesday evening, a special caucus of the delegates from tobacco producing counties was held. At both sessions the provisions of this bill were thoroughly discussed.

I might point out that Virginia produces not only burley tobacco, but also flue-cured, dark fired, and sun cured tobacco, and some Maryland type which is not currently under the production controls and price support program.

On Tuesday of this week the delegate body adopted a tobacco policy position which reads in part:

We recommend that the present price support and production control programs be continued. We further recommend that the formula by which the price support level for all tobacco is determined be thoroughly studied to determine whether changes should be made to provide a level more in keeping with current economic conditions. We oppose any change in the formula until such study is made.

I might add also to this statement that we should have included that the findings of such study be provided, or made available to all segments of the tobacco industry.

Since the present formula used to determine the price support level is based on a moving 3-year average, the price support level has not kept pace with rising costs of production in this period of rising inflation.

In view of the current economic situation, some adjustment to the formula may be justified. However, the adjustment proposed by H.R. 17506 is considered by us to be excessive until a thorough study of the situation shows it to be different.

We believe the enactment of H.R. 17506 would in effect cause the U.S. taxpayers to underwrite the world price of tobacco and in our opinion cause production outside the United States to increase substantially; it would reduce our ability to sell our tobacco at home and overseas; it would cause stocks placed under the loan program to accumulate rapidly; and, it would destroy the current favorable contribution which tobacco is making to our balance of trade.

The position of our organization should not be misinterpreted. We favor better prices to farmers for the products of his investment in land, labor, capital and management. However, we feel that the long range effects of price adjustments as severe as those contained in this bill should be carefully weighed.

We therefore request that this bill not be reported out of committee, that a thorough study be made of the present formula; and, if warranted, legislation be prepared to change the formula more in keeping with changing economic conditions.

I would inject, Mr. Chairman, that many of our tobacco farmers are also cattle producers; and our cattle producers are very much aware of what has taken place in the livestock industry in the last 18 months. The impact of a severe escalation in the price of cattle both live and in the dressed condition has reacted unfavorably, and as such we have a backlog of cattle in the country today.

Mr. Chairman, that concludes our statement, and we will respond to questions.

Senator HELMS. Well, you responded already in your additional remarks, Mr. Parker; it was an excellent statement.

The question to you that I thought I should pose, do you think a substantial percentage of your tobacco growers understand the tenuous world market situation regarding tobacco?

Mr. PARKER. Yes, sir.

Senator HELMS. And this plays a role in the adoption of the policy position that you stated in your statement?

Mr. PARKER. Yes, sir. I do regret, sir, that we did not know that such a bill was being considered, so that we might have taken this through our normal policy development process, which starts at the county farm bureau level, resolutions are adopted at that level; and then it comes to our State convention.

But in this emergency situation we had to take it directly to our Tobacco Advisory Committee on a Sunday evening, and I might add, they spent 5½ hours in discussion of this. And the convention adopted a position on it on Tuesday.

Senator HELMS. When you are talking about what appeared to be money in the pocket of tobacco growers or anybody else for that matter, a piece of legislation of this nature immediately has political overtones. I'm not characterizing this piece of legislation in that fashion, but I think it warrants, as your position clearly stated, careful assessment. We thank you for your testimony, sir.

The next witness will be Mr. Thomas B. Hall, Jr., executive director of the Virginia Dark-Fired Tobacco Growers Association, Farmville, Va.

From the floor. He is not here.

Senator HELMS. In that case, Mr. James Hoffman, Tennessee Burley Stabilization Corp., Knoxville, Tenn. Mr. Hoffman, if you will come forward. Welcome to the subcommittee, sir.

**STATEMENT OF JAMES HOFFMAN, BURLEY STABILIZATION CORP.,  
KNOXVILLE, TENN.**

Mr. HOFFMAN. Mr. Chairman, my name is James Hoffman, I'm a Tennessee burley tobacco grower, and I'm president of the Burley

Stabilization Corp. which operates the program for burley tobacco for Tennessee, Virginia, and North Carolina.

I do not have a prepared statement, Mr. Chairman, but I would like to go on the record as concurring in the statement of Mr. John Berry, of the Burley Tobacco Growers Association. Thank you.

Senator HELMS. Thank you for your appearance, sir.

Mr. Kuegel, I know Senator Huddleston will be regretful that he was not here when you testified; but if you will accept a North Carolinian, we are delighted to have you.

#### STATEMENT OF WILLIAM KUEGEL, OWENSBORO, KY.

Mr. KUEGEL. Senator Helms, Congressman Natcher, Congressman Perkins and members of this committee, it certainly is a privilege and honor for a grass root farmer to appear in front of your committee.

Senator HELMS. It's the other way around, we are delighted to have you.

Mr. KUEGEL. I have not prepared a statement due to the fact that as a farmer, talking to a farmer, I doubt that he would have a prepared statement.

I'm representing the farmers of Kentucky, Davis County, Owensboro, Ky., and every farmer needs all that he can get from a pound of tobacco, especially the small growers because the smaller growers have to hire their equipment, such as his highboys and other types of machinery pertaining to an acre of tobacco.

I have as an exhibit prepared comparable prices of land, and barns, tractors and fertilizer, nitrogen, MH 30, plastic tobacco sticks and fuel compared to 1972-73 and 1973-74. I feel that—

Mr. PERKINS. Tell us how that jumps up in comparison.

Mr. KUEGEL. Would you like a copy?

Mr. PERKINS. You are here, you tell us.

Mr. KUEGEL. All right. In our county, any land that will grow grain cost approximately \$800 an acre in the 1972-73 season; in the 1974-75 season it will be \$900 an acre.

Barns, in the 1972-73 season were \$8,000; and in the 1974-75 season \$10,000.

Tractors, that is a small tractor, 2030 John Deere, cost \$7,000 in 1972-73; \$9,200 in 1974-75.

Fertilizer, 5-10-15 most common, \$65 a ton in 1972-73; \$139 a ton in 1974-75.

Ammonia nitrate which is used a lot on burley tobacco, \$48 a ton, today it's \$180.

Urea in 1972-73 was \$60 a ton, today it's \$240 a ton.

MH 30, \$5 a gallon last year, \$10 this year.

Tobacco sticks, which is a small item, but when you produce a lot of tobacco it does cost, 6 cents, and today 14 cents.

Plastic, 100 yards \$2.95, today it's \$8.95.

Canvas, 100 yards was \$10, today it's \$24.

Tobacco seed, about \$1.50, today, it's \$4.50.

Fuel, 31 cents a gallon in 1972-73, and it's 42 cents today.

So, you see, there is a sizable increase in some of these personal items in producing tobacco.

I feel that even with the high support that Mr. Perkins' bill calls for, that in our area there will be no more tobacco produced next year than there was this year because of the high price of grain.

Our young people, our young farmers don't seem to be interested in tobacco. As I told one tobacco company in Owensboro, probably I will produce tobacco for the rest of my life at any price, but my son would not produce tobacco unless it was profitable, there are gains in it.

I think that Mr. Perkins' bill has increased the price of burley tobacco right now as much as 6 cents a pound. In our warehouse we sold last week at \$1.15, the next thing it went to \$1.18, and when we came back from lunch it was \$1.19. I think that is a direct reflection of this bill which is introduced in the House. And to me the farmer has already saved 6 cents from your bill, of which we are very proud.

I think a middle-of-the road approach to the price support is the best approach. I think in no way would the farmer want to jeopardize the tobacco industry. But the farmer, especially the small farmer, needs every dime that he can get from tobacco. He only has a small acreage, and he and his wife and his children raise this tobacco; and certainly he needs every penny that he can get from his tobacco.

I feel that a support, if it was supported from \$1 to \$1.20 would be adequate.

I have some exhibits pertaining to the cost of producing an acre of tobacco on our farm, as well as what the University of Kentucky said; and I wish to submit that.

Senator HELMS. Without objection exhibits 1, 2, 3 and 4 from Mr. Kuegel will be admitted in the record.

Mr. PERKINS. What is the cost that you are producing it?

Mr. KUEGEL. On our farm?

Mr. PERKINS. Yes.

Mr. KUEGEL. On our farm it's 60 cents a pound. Now, let me explain why ours is somewhat different than the university's. The university's is 69 cents plus 6 cents for selling. Our farm is different because we have presently labor available, and we work with our people. And consequently, when you do this, you are able to produce tobacco much cheaper than if you have to hire someone to raise your tobacco; and that is the reason we are able to produce in larger units. We raise approximately 80 to 90 acres of tobacco.

Mr. PERKINS. I was just wondering how that could be done.

Mr. KUEGEL. The high-boy costs us not as much, the machinery costs us not as much; and with larger units you are certainly able to do it much cheaper than in smaller units.

I appreciate again your letting me come and visit with you, and if there are any questions, I'll be happy to answer them.

Senator HELMS. I hope the two distinguished Congressmen will not hesitate asking questions.

I want to thank you for your very clear and precise testimony, we appreciate your coming, sir.

Mr. KUEGEL. Thank you, sir.

[The above-referred-to exhibits follows:]

## EXHIBIT 1

## HOW BURLEY COST AND PRODUCTION STATISTICS COMPARE WITH OTHER CROPS

[Figures are averages for Kentucky]

Crop	Ac./yield	Total returns	Total costs	Net return	Cost per bushel or pound
Corn (bushels).....	100	\$200-\$250	\$150	\$50-\$100	1.50
Soybeans (bushels).....	35	175	110	65	3.15
Wheat (bushels).....	40	140	80	60	2.00
Burley (pounds).....	2,700	2,430	1,620	810	.60

Source: As stated in the Tobacco Reporter by George Everett. These figures were computed for the year 1973.

Note: Costs per year of 1973, as shown above, \$0.60 per pound; costs per year, 1974 as shown on exhibit 2, \$0.69 per pound; estimated costs for 1975, \$0.82 per pound.

## EXHIBIT 2

## COSTS TO RAISE 1 ACRE OF TOBACCO IN KENTUCKY

	Labor hours	Costs	Material costs	Equipment
Plant bed.....	20 at \$2.50.....	\$50.00	\$70	\$20
Field preparation.....	11 at \$2.50.....	27.50	175	40
Setting.....	35 at \$2.50.....	87.50	3	40
Growing.....	35 at \$2.50.....	87.50	25	45
Harvest.....	50 at \$3.50.....	175.00	5	250
Curing.....	15 at \$2.50.....	37.50	40	20
Stripping.....	150 at \$2.25.....	375.00	25	120
Warehouse costs.....		162.00		
Total.....	316.....	840.00	343	535

Note: 2,700 lb selling at 6¢ per 100 lb = \$162; \$1,880 acre costs at 69¢ per pound.

## Exhibit 3

## Comparable prices, 1972-73 to 1974-75 season

1972-73	1974-75
Land \$800 A.....	\$900.00
Barns \$8,000.....	10,000.00
New tractors (2030 John Deere) 7,000.....	9,200.00
Fertilizer 5-10-15 \$65 ton.....	139.00
A. Nit 33 percent N \$48 ton.....	180.00
Uria \$60 ton.....	240.00
MH 30 \$5 gal.....	10.00
Tobacco sticks 6 cents.....	0.14
Plastic 295 per 100 yards.....	8.95
Canvas 10 per 100 yards.....	24.00
Tobacco seed 1.50 ¼ oz.....	4.50 1/12
Fuel 31 cents per gallon.....	0.42

## EXHIBIT 4

*Costs to raise one acre of tobacco on Kuegel Brothers Farm in Owensboro, Ky.*

Firing	\$50
Plant beds	50
Plow	14
Fertilizer	235
Setting	38
Irrigation	26
Plowing and h-Boy	10
Spray and top	22
Cutting and housing	90
Stripping	200
Stripping room	18
Hauling	5
Interest in investment	80
Interest on barn	300
Depreciation on barn	150
Sticks	25
Spray HMH 30-plus	24
Taxes and insurance	10
Total	1,347

Costs 54 cents per pound at 2,500 pounds per acre

Senator HELMS. Now we have Congressman Perkins, and we will be delighted to hear from you, sir.

**STATEMENT OF HON. CARL D. PERKINS, REPRESENTATIVE IN CONGRESS FROM THE SEVENTH CONGRESSIONAL DISTRICT OF KENTUCKY**

Mr. PERKINS. Mr. Chairman, first let me state that in my judgment, if the gentleman that testified from Virginia had submitted that resolution to his local people, I'm very confident that the people in Washington County will vote against it; Wise County would vote against it—all the southwest Virginia counties. I had a chance to talk to those people.

In the first place, my father was from southwest Virginia, and I have been acquainted with that throughout the years. And if he wants to go back home and submit that to the county farm bureau organizations, to any county organization of tobacco growers, I guarantee that they will, every one, turn it down.

The reason I appear here is because I am very concerned about the general welfare of the tobacco program in the future. I have been concerned about the general welfare of the tobacco farmer for the last year and a half. No one has made a greater contribution than Mr. Berry who had the growers association over a period of years, from the standpoint of the welfare of the tobacco industry.

We had the 90 percent support price when I came to the Congress on the five basic commodities, and tobacco was one of the commodities. And that remained in effect until 1960, and at that time there was such a tremendous poundage on loans, and furthermore, we had a slump in 1958; and it was thought that it was all right to combine the three years together in arriving at a price. There was a lot of discussion here in the Congress, the exporters particularly, were for making that combination of the 3 years. So, it was finally agreed to.

And we deviated, then, from the 90 percent of parity in 1961 because of the 3-year average. And the only way you can have a true parity figure is to base it on the previous calendar year, there is no other way to arrive at an accurate figure. But, notwithstanding, after sixties, and the greatest loan was in 1969 when the pool got 26.8 percent of the crop of 158 million tons. And we knew that we had to take some drastic action to save the tobacco program. The program had its problems, and the Congress had problems.

Every year that it comes up to the floor, Congressman Natcher works we adopted the 3-year criteria, we had tremendous loans all during the diligently to defend the tobacco program on the health issue, and he has always been successful. So, in this bill we decided to go to poundage quotas, and here is the reason. Some people would go 4,000 pounds an acre, using all the fertilizer they could possibly use; others would go 2,000 pounds an acre; 1,500 pounds. And we averaged it and gave them an average, and put it on a poundage quota basis, which put the house in order.

And since then, the loans have, for all intents and purposes disappeared, and the Flue-cured people got their house in order before the burley people got their house in order. And in 1971 only 2 percent of the tobacco was on loan, and we only had  $\frac{2}{10}$  of a percent; and only  $3\frac{1}{10}$  percent in 1972;  $\frac{7}{10}$  of 1 percent in 1973; 1974, this year, it's negligible. And on October 1, 1974, 139 million pounds, or 50 percent of what was there on October 1, 1973, was purchased by the Reynolds Tobacco Co., if I'm correct; and there is not a pound of burley tobacco today in the pool.

The reason I introduced this bill was to save the tobacco program, the burley and the Flue-cured program, after talking to hundreds of farmers, when I stopped at the Abbington, Va., warehouse. The farmers there were just unanimous. And after the market opened several people from the tobacco States got together and it was our expectation that we could get this through. We introduced the bill after the market opened at \$1.50, I knew that this bill would have some impact on the health thing. We counted the votes, and we passed it under unanimous consent.

So, it had its impact on the market, that's unquestionable. I knew the burley tobacco farmers were going broke in my area, in my district, and some relief had to be given to these people. The day the market opened at \$1.05. I knew that this bill would have some impact on the market. It was my hope that it would go right on through the Senate, and the House by unanimous consent. We did not have that fight—and by fight I mean the health fight.

I think that Congressman Natcher has to defend a sufficient number of health fights on the Appropriations Committee every year. We have gone to these people and talked to them, telling them our problems.

Now, then, you exported 86 million tons of tobacco this year. There is nothing in this bill different from the 1950's, the same identical farm bill without the crossing of a "t". Here prices are sky-rocketing, that's hard for some of you to visualize. But, ask the farmer, go and see the farmer, and I'm telling you, Mr. Chairman, the people who have made all these statements have not gone out there and talked to Tom, Dick, and Harry because 99 farmers out of 100 will tell you they are having desperate problems. Their cattle are bringing nothing, 20, 21 cents a

pound, the best grade of beef. The real cash problems these farmers have in Kentucky, they should be permitted to make a reasonable return and that's all we are asking. What's so wrong about 90 percent of parity today? Here is where it will stabilize the whole tobacco program. You've got poundage controls. In the fifties you did not have poundage controls. You are not going to have this great loan book, hundreds of millions of pounds are going on loan in the tobacco pool.

I think we should again permit quality tobacco in this country, and the only way to do it is to go back to the 90-percent formula, have true auctions on tobacco, and let the farmers earn a reasonable income. And the beauty about it is, they can stop this inflation. This bill is not inflationary. The reason the support price is up there is because of the items these farmers have to buy to produce tobacco; Ammonia nitrate tripled in 18 months, and we are talking about balancing it over 2 or 3 years; that's no way to write parity.

What businessman could sell his merchandise in any business today were he to average his cost price over a period of 3 years himself? That just doesn't make sense. Tobacco farmers, all you've got to do is ask the growers about this program, and the growers would be the last to want to do any harm to this program. They are worried about getting tobacco grown, and it's a grave problem today. But the way they get that tobacco grown is to adopt this bill. You eliminate all your leasing arguments throughout the various counties for some little people. Some big growers, some small growers say, "I'm not going to raise tobacco next year." You don't want to disturb the economy of the county.

Mr. Chairman, on November 26, the House by unanimous consent passed H.R. 17506, a bill to rescue the tobacco growers of this country from certain loss.

This is not an overstatement. Not in this generation have tobacco farmers been in such a serious bind. All across my district, and all across the tobacco lands of central Kentucky, farmers by the score have told me they are going broke.

Just a few days ago, a farmer who annually produces from 35,000 to 40,000 pounds of burley told me flatly that he would not put out a crop in 1975 if there is not some guarantee of a better price. He has to have a better price to keep from going into the hole.

It is as a representative of the hundreds of small growers in my area that I come here today to urge prompt subcommittee and committee action on this bill, so that we may speed it to final passage.

The tobacco farmers of the country need to know right now whether they are going to have a fair chance at making a profit next year. They just want an even break. They aren't asking for the certainty of a profit. They are simply asking that the Congress eliminate the certainty of a loss.

Banks in the tobacco-growing areas need to know right now what the Congress intention is with respect to the tobacco price support program. If we make no change, the bankers know that a loan on the 1975 crop is not likely to be a sound investment. And they will plan their loan operations for the future accordingly.

With a situation like this, it does not take a crystal ball to tell us what is in store for the tobacco industry. Hundreds of farmers will

drop out of production, the supply and demand situation will fluctuate wildly, and tobacco imports will rise to all time highs to satisfy the domestic demand.

I maintain that we do not need this major agricultural dislocation at a time when the economy is anything but healthy.

Mr. Chairman, House passage of this bill has produced some surprisingly diverse reactions.

Tobacco farmers in my district and elsewhere in Kentucky are hailing the action as a God send. But the Department of Agriculture seems to have gone up like a wheelbarrow full of Roman candles.

The press in our area over the past weekend carried a UPI story based on a statement to this subcommittee by an Assistant Secretary of Agriculture made it sound as if this little bill was going to wreck the entire economy, subvert the national defense, and give aid and comfort to the enemy.

According to the press, the Department believes the bill would require the Government next year to buy 561 million pounds of tobacco under the price support program, instead of the 70 million pounds under the present law.

In the first place, I don't know how they can determine what the market price is going to be a year from now, and consequently, how much poundage will go into the pool. If they have that kind of far-sightedness, it seems to me the President might well employ their talent at higher levels of economic policy development.

And in the second place, if the Department is worried about having a huge quantity of Government-owned tobacco in the price support pool, it ought to be comforted to know that the pool as of today is empty. It doesn't have a pound of tobacco in it.

A Department official is also quoted as saying that the bill would stimulate tobacco production abroad and lead to cuts in foreign demand for American tobacco. Then, he said, future market quotas for American tobacco farmers would have to be reduced, farmers' income would drop, and the law would have to be amended again to bring the support prices downward.

This, Mr. Chairman, is just the wildest kind of speculation. And there is no way to rebut figures that are simply picked out of the air and avowed to be future fact.

Frankly, I never heard such probable consequences assigned to a little bill that isn't over a page long. In my day, I've seen bills 2 inches thick pass the Congress without any appreciable impact at all on the country or the economy. To say that H.R. 17506 is going to rip and rend the fabric of the republic is a little much to believe.

What the bill is going to do is revert to the old system of 90 percent of parity that was in effect through the 1940's and 1950's. It repeals the present system, enacted in 1961, which provides a support price based on the average index of prices paid for the 3 calendar years immediately preceding the marketing year.

Now, the Department says this will establish a burley support price of \$1.32 a pound, and a Flue-cured support price of \$1.22 a pound.

I don't have the statistics to check these estimates out, but I accept them.

If they are correct, Mr. Chairman, those prices are no more than adequate to cover the skyrocketing costs that growers have experienced over the past 12 months.

There is little to support the contention that such support prices will make the Government the final purchaser of the crop.

I have noticed with some interest that the auction prices have begun to move upward with the progress of this bill through the Congress. When we started, the averages were down around \$1 or \$1.08 a pound. By last week they had risen to \$1.12 or \$1.15. And this week, the auction average is around \$1.20, I am told. I suspect, Mr. Chairman, that they will continue to rise to the point necessary to keep the tobacco out of the pool.

Now, if the Department of Agriculture is going to come in and tell us that higher market prices are bad for the farmers, this presents a strange new kind of economics.

The tobacco farmers in my district would not be surprised at this interpretation. Many of them have noticed for several years now a distinct lessening of interest on the part of the Department in the problems of the small farmers, the small growers, and the small livestock producers. In their view, it is no radical departure for the Department to come around and tell them, "A higher price for your crop is not good for you."

After all, the Department has done little if anything to combat the enormous cost increases that have hit farmers in recent months and years. Nobody seemed to be concerned about the doubling, tripling, even quadrupling of the cost of fertilizers needed to produce the tobacco crop—or any other crop.

I haven't heard anybody over at the Department complain about the soaring cost of farm equipment and machinery to harvest the crops.

And these are not the only increases in costs by any means. Farm labor is scarce, and expensive.

Since we abandoned the 90 percent of parity system back in 1960, taxes have risen sharply. The cost of land itself is more than doubled. The cost of crop housing has risen drastically.

All of these increased costs, taken together, have put the tobacco farmers in an impossible squeeze. They cannot get out of it under the existing price support system. They can only cut their losses and quit growing tobacco. I can't believe anyone wants that.

It is hard for me to believe that a bill that seeks only to increase the price support for tobacco could raise as much animosity as this one apparently has.

I know that the tobacco exporters are opposed to it. It means that they will have to pay a few pennies more for the tobacco they sell and ship to their international customers. It means that they will have to be shrewder traders in the future to make the profits they have in the past.

But there comes a time when even the exporters have to look to basics—and in this case that means the farmers who grow the tobacco in the first place.

If the farmers don't continue to produce their crop, the exporters simply won't have anything to sell abroad. They can't even buy tobacco from the pool, because there won't be any pool.

I think they are being shortsighted in their opposition to this bill. Just as I think the Department of Agriculture is being shortsighted. I hope they see the light before it is too late to salvage an honorable

agricultural industry that was born with the settlement of America.

I hope the Senate will raise its head above this thicket of opposition and look to the well being of our tobacco growing farmers beyond.

Senator HUDDLESTON. Thank you very much, Congressman.

Congressman Natcher?

**STATEMENT OF HON. WILLIAM H. NATCHER, REPRESENTATIVE IN CONGRESS FROM THE SECOND CONGRESSIONAL DISTRICT OF KENTUCKY**

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

Mr. Chairman, Members of the Committee, I want you to know that I appreciate the opportunity to appear at this time to discuss with you briefly, Mr. Chairman, one or two matters that I have in mind that I think are of great importance at this time to the tobacco producers.

I join with Mr. Wells and Mr. Kuegel in their statements.

I think the price support program that we have now for tobacco is too low. I have served now on the Committee on Appropriations for 20 years, and I serve on three subcommittees, Mr. Chairman, as you know. I serve on the subcommittee that appropriates the money for the Department of Labor and the Department of Health, Education, and Welfare; and also on the subcommittee that makes the recommendations for the Department of Agriculture and for environmental and consumer protection.

I do not join with some of my colleagues in the House who believe that, regardless of the situation today, a lot of tobacco legislation should be introduced and it would not affect this program.

Mr. Chairman, this last year my friend Carl Perkins, who sits down here at the end of the table, and my friend Dan Daniel who has just appeared, joined with me on the floor at the time one of our friends from New York City decided, since no tobacco was produced in his district, he would offer a little amendment that would take out of the tobacco program certain amounts that would be the first brick out of the wall, Mr. Chairman, to destroy the tobacco program.

They come in, you know, when we present this bill to the House, and they offer amendments that no part of the money contained in this bill shall be used for any purpose concerning tobacco.

Now, I state to you quite frankly that I don't join with some of my friends who believe that regardless of the type of legislation, changes in the tobacco program would cause no trouble. Every year for several years we have had the same fight.

I do believe, and I hope that the committee that you gentlemen serve on in the Senate, and the committee in the House can make some move to change the formula as far as price support for tobacco is concerned. If you took a vote in the district that I represent in Kentucky, I think the majority of the tobacco producers would tell you that the formula is not adequate today—there should be some change.

Now, Mr. Chairman, whether that should be an H.R. 17506, I'm going to be right frank and honest with you, I don't know the answer to it.

Now, I am hoping that we can maintain this program and continue to support it in the House and the Senate like we have done

through the years. I go from one subcommittee where we have money being expended down at the Research Triangle down in North Carolina that runs now several hundred million dollars. As far as cancer is concerned, well, I remember in 1964 when the Surgeon General brought in his report and just pointed his finger at tobacco. Since that time, Mr. Chairman, as you and the members of your committee well know, we have had to make every effort to save our tobacco program.

Now, I don't want to do anything to destroy the tobacco program. I do believe, and I join with my friend Carl Perkins and these other gentlemen who testified, that have said to you gentlemen that there should be a change in the formula. I think that is true, and I hope that it can be done.

I appreciate the opportunity to be present at this time. I want to join, as I said, with you and my friend Mr. Perkins and these other witnesses who appeared requesting that the formula should be changed. Thank you, Mr. Chairman.

Senator HUDDLESTON. I think we all agree in that, that the purpose of this hearing is to lay a case, to determine what conditions now exist and what they require.

Congressman Daniel will make a statement at this time.

**STATEMENT OF HON. W. C. DAN DANIEL, REPRESENTATIVE IN CONGRESS FROM THE FIFTH CONGRESSIONAL DISTRICT OF VIRGINIA**

Mr. DANIEL. Senator, thank you very much for the privilege of attending briefly. My administrative assistant who has been active in the tobacco program for many years has attended here throughout; and I simply wanted to come over here this morning to reemphasize what the gentleman from Kentucky, Mr. Natcher, has said, that we are interested in maintaining the tobacco program.

We believe if it isn't maintained, the \$5 billion that we have received in tax revenues from tobacco every year, which goes to assist these people up in Westchester County that you mentioned a few moments ago, might not be as lucrative, perhaps, as it has in the past.

And with respect to the effect of tobacco on health—of course I'm not a doctor—but I served in the General Assembly of Virginia for many years, on the finance committee, and each year we would have a proposal, to raise the tax on tobacco—and I use my grandmother as an example. Tobacco did kill my grandmother; it killed her after 99 years and 11 months. So, she did pretty well, I think, with her use of tobacco.

I simply want to express my appreciation to you, sir, and to Senator Helms for holding this meeting; and I know it demonstrates your continued interest in the tobacco program.

Thank you very much.

Senator HELMS. Mr. Chairman, I might add that we invited Marvin Goode to the stand here this morning; he is a great friend of yours.

Mr. DANIEL. Yes, sir; he is a great American and a supporter of that tobacco program. Thank you very much.

Senator HUDDLESTON. I think all who have participated in this hearing want to do what is in the best interest of tobacco, what is best for

the tobacco farmer. Our objectives are the same, although there are some differences regarding approach. We have made a record with considerable information and testimony on which to proceed, and everybody agrees that we need to proceed with diligence and with caution, and not to do anything that might prove to be detrimental.

At the same time, we must seek any proper and necessary adjustments to assure that the tobacco grower has a reasonable amount of protection, and thus will encourage the continued growing of tobacco, and we must encourage the continuation of a program which has been working reasonably well throughout the years.

We in our own subcommittee have great friends in tobacco, like Senator Helms, who is here; and we have others who see tobacco as not a very important aspect of their service on the Agriculture Committee.

Of course, it has been stated a number of times here that the U.S. Senate as a whole is something else again on this particular subject. But we will do the very best we can on the basis of the information that we have gathered during these 2 days, and I want to express my appreciation to all who have participated including Congressman Perkins. There is probably no person in the Congress of the United States who is closer to the people he serves than Congressman Perkins. When he makes a statement about their needs and desires, you can be pretty well assured that reflects the conditions existing at the present time. The other Members of the Congress and the witnesses have been very helpful, and particularly Senator Helms who has a very high interest in this subcommittee.

Senator HELMS. Mr. Chairman, let me say that we certainly have an eloquent spokesman for tobacco in Kentucky; there is no man in the Senate of the United States who is more dedicated to the preserving of the tobacco program than the Junior Senator who will soon be the Senior Senator from Kentucky, and I commend him and thank him for letting me participate in these hearings.

Senator HUDDLESTON. I have two statements here for the record, one from Mr. Burress from the Association of Dark Leaf Tobacco Dealers and Exporters; and one from Mr. John H. Logan, the President of the Burley Leaf Tobacco Dealers Association.

[The prepared statement of Mr. Burress and Mr. Logan follows:]

STATEMENT OF CHARLES R. BURRESS, JR., PRESIDENT, ASSOCIATION OF DARK LEAF TOBACCO DEALERS AND EXPORTERS, SPRINGFIELD, TENN.

The *Association of Dark Leaf Tobacco Dealers and Exporters* would like to go on record as being opposed to H.R. 17506 presently being considered by this committee.

The 1974 auction prices for American tobacco of various types have increased 15 to 25 percent. Any additional price increases at this time could price American tobacco out of the World Market.

At the same time large increases in support price of tobacco could result in over production, and over production would result in large stabilization stocks. We have had these before, and in the past have seen the price of these surplus stocks drastically cut to move them into the World Market. We should try NOT to start this cycle again.

STATEMENT OF JOHN H. LOGAN, PRESIDENT, BURLEY LEAF TOBACCO DEALERS ASSOCIATION, BOWLING GREEN, KY.

The Burley Leaf Tobacco Dealers Association is of the opinion that the proposed change in the law raising the support levels for tobacco would jeopardize our entire tobacco program.

Our association has been actively promoting increased production of American burley tobacco to meet the expanding foreign and domestic demand. We realize that the main deterrent to increased poundage has been the rapidly rising production costs to the growers. Our awareness of this situation has been evidenced in the marketplace this year by the record-high prices that we are paying for the leaf; up \$21.58 per hundredweight, or 23% over last year's prices during the first two weeks of sales.

We have always advocated price supports, since we feel that a grower should know when he plants his crop that he is insured of a reasonable return on his investment in seed, fertilizer, machinery and labor costs. This is the intended purpose of a support program, to provide a floor under the growers return, and not to be used to dictate prices on the markets.

The pitfalls in such an increase at this time should be plainly evident. Imports of foreign-grown tobacco have increased considerably during our recent years of underproduction. A leap of this size in the price of American leaf could increase this inflow to the full extent of the available supply, and serve to bring about an eventual outcome exactly opposite to the aims and intentions of the proponents of this action.

The leaf not purchased by the companies at these inflated support levels and taken under the support program would be a drain on the American taxpayer for years until the world price for tobacco caught up to the prices of the tobacco held by the associations.

The Burley Leaf Tobacco Dealers Association is opposed to the proposed legislation contained in H.R. 17506.

Senator HUDDLESTON. The record will remain open for a week to receive any additional material that might be submitted. And with that, the hearings are adjourned.

[Whereupon, at 12 o'clock noon the subcommittee adjourned, subject to call of the Chair.]

## ADDITIONAL STATEMENTS FOR THE RECORD

### STATEMENT OF HON. JOHN B. BRECKINRIDGE, REPRESENTATIVE IN CONGRESS FROM THE SIXTH DISTRICT OF KENTUCKY

Mr. Chairman, I commend you and the Production, Marketing, and Stabilization of Prices Subcommittee of the Senate Agriculture Committee for holding hearings on H.R. 17506, a bill to revise the method provided in the Agricultural Act of 1949 (as amended in 1960) for setting price support levels for tobacco.

The present system, which bases the level of price support on the average of the index of prices paid by farmers the past three calendar years, worked fine for many years. But in times such as we have now of rapidly rising prices farmers must pay, the three-year average method does not adequately reflect the spiraling costs of production. I support a change in the law to correct this inequity.

We need to proceed without delay to devise a change in the formula that will raise the support level more nearly in line with current costs of production, while ensuring against the dangers inherent during any periods of decreasing production costs to farmers, and having a minimal effect on the import-export situation. Such change should command the broadly-based support that is so necessary if this legislation is to receive favorable action in both houses of the Congress and approval by the President.

Thank you, Mr. Chairman.

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### STATEMENT OF THOMAS B. HALL, JR., GENERAL MANAGER, VIRGINIA DARK FIRED TOBACCO GROWERS MARKETING ASSOCIATION, INC., FARMVILLE, VA.

Mr. Chairman and members of the Committee. For the record my name is Thomas B. Hall, Jr. of Farmville, Virginia. I am General Manager of the Virginia Dark Fired Tobacco Growers Marketing Association and also General Manager of the Sun Cured Tobacco Marketing Cooperative. In this capacity I represent a vast majority of the growers of both Type 21 Virginia Fire Cured tobacco and Type 37 Virginia Sun Cured tobacco.

I respectfully oppose HR 17506 and request that action on this legislation be delayed until a study can be made to determine what would be the best course of action.

Under the present law support prices on Type 21 and Type 37 tobaccos is at a figure too low to really be of any consequence since every grade is bringing at auction from 20¢ to 40¢ per pound above the support price for that grade. However to raise the support price to the level this legislation would enable could foreseeably support these types of tobacco at a level higher than the industry could pay and would certainly jeopardize a strong export market which currently purchases about 70% of the production of these two types.

Therefore I believe that a study should be initiated to determine at what average price these tobaccos should be supported that would most benefit the tobacco producer.

I appreciate the opportunity to present my views to the Committee.

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DIBRELL BROTHERS, INCORPORATED,  
Danville, Va., December 10, 1974.

HON. HERMAN E. TALMADGE,  
U.S. Senate,  
Washington, D.C.

DEAR SENATOR TALMADGE: I have been informed that on November 26, 1974, the House of Representatives passed a bill commonly known as the Rose/Perkins bill which, if it were to become law, would have the effect of drastically increasing the support prices for U.S. flue-cured and Burley tobaccos. It is estimated that the provisions of the Rose/Perkins Bill would increase the average support price to approximately \$1.30 per pound.

The effects on the tobacco industry in this country were the Rose/Perkins Bill to become law would be devastating. The price of U.S. tobacco would be so high that exporters would find foreign demand materially reduced. Equally, an artificially high price would undoubtedly force U.S. manufacturers to greatly increase their imports of foreign grown tobaccos. The end result of the Rose/Perkins Bill would be that demand for U.S. tobacco would drop sharply, and the U.S. government would be again in the position of placing under loan a significant percentage of the total U.S. tobacco production.

The inflationary impact of the Rose/Perkins Bill as well as the eventual demise of the tobacco industry, from farmer to manufacturer, were it to become law are obvious. I respectfully submit my opinions and insights and request that you vigorously object to the Rose/Perkins Bill becoming law.

Yours very truly,

R. B. BRIDGFORTH, Jr., *President.*

[Telegram]

STATEMENT OF S. MASON CARBAUGH, COMMISSIONER, VIRGINIA DEPARTMENT OF AGRICULTURE AND COMMERCE, RICHMOND, VA.

We respectfully request that action on H.R. 17506 now pending before your committee be delayed until the tobacco industry has had an opportunity to study its effects. We know that enactment of H.R. 17506 would have far reaching effects on the tobacco industry in Virginia. Based on our limited knowledge we feel that it would be extremely detrimental and on that basis would have to oppose it. On the other hand an objective study of the situation could show that the provisions of H.R. 17506 would be helpful and if so merit the support of the industry.

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