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HEARING

BEFORE THE

SUBCOMMITTEE ON TOBACCO

OF THE

COMMITTEE ON AGRICULTURE

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

H.R. 3416

MARCH 15, 1977

Serial No. 95-KK



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LEASING OF FLUE-CURED TOBACCO MARKETING QUOTAS

TUESDAY, MARCH 15, 1977

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

The subcommittee met at 10:10 a.m., pursuant to notice, in room 1302, Longworth House Office Building, Hon. Dawson Mathis (acting chairman of the subcommittee) presiding.

Present: Representatives Rose, Breckinridge, Jenrette, Wampler, and Sebelius.

Staff present: Fowler C. West, staff director; Hyde H. Murray, counsel; William A. Imhof, associate counsel; Eleanor Walsh, clerk; Christine Abram, James A. Culver, Carol Ann Dubard, Charlotte H. Farwell, and Leighton W. Lang.

Also present: Representative Charles O. Whitley.

Mr. MATHIS. The Tobacco Subcommittee will come to order.

Mr. Jones of North Carolina, the chairman of the subcommittee, is ill this morning, with apparently a touch of the flu. He has asked me to preside in his absence.

The subject for consideration before the subcommittee this morning is H.R. 3416 by Mr. Jones, and others, relating to the leasing of Flue-cured tobacco marketing quotas.

[H.R. 3416 and the report from U.S. Department of Agriculture follow:]

[H.R. 3416 95th Cong., 1st Sess.]

A BILL To amend section 316(c) of the Agricultural Adjustment Act of 1938 to provide that leasing of flue-cured tobacco acreage-poundage marketing quotas after June 15 of any year be permitted only between farms on which at least 80 per centum of the farm acreage allotment was planted for such year

Be it enacted by the Senate and House of Representatives of the United States of American in Congress assembled. That section 316(c) of the Agricultural Adjustment Act of 1938 is amended by striking out the second sentence and inserting in lieu thereof "Any lease of Flue-cured tobacco acreage-poundage marketing quotas from any farm with an acreage-poundage marketing quota in excess of two thousand pounds filed on or after June 15 in any year shall not be effective unless the acreage planted on both the lessor and the lessee farms during the current marketing year was as much as 80 per centum of the farm acreage allotment in effect for such year."



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

March 15, 1977

Honorable Thomas S. Foley
Chairman, Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

This replies to your request of February 14 for a report on H. R. 3416, a bill "To amend section 316(c) of the Agricultural Adjustment Act of 1938 to provide that leasing of flue-cured tobacco acreage-poundage marketing quotas after June 15 of any year be permitted only between farms on which at least 80 per centum of the farm acreage allotment was planted for such year."

The Department does not oppose passage of the bill.

H. R. 3416 provides that any lease of flue-cured tobacco acreage-poundage marketing quota from a farm having an acreage-poundage marketing quota of more than 2,000 pounds filed with the appropriate county ASCS committee on or after June 15 of any year, shall not be effective unless the acreage planted on both the lessor and lessee farms during the year was as much as 80 per centum of the farm acreage allotment in effect for such year. Under present legislation, such leases are not effective unless the acreage planted was as much as 50 per centum of the farm acreage allotments in effect for the year.

Flue-cured tobacco is not planted as late as June 15. Accordingly, leases of acreage-poundage marketing quota to transfer production from one farm to another are necessarily effected before that date and leases filed on or after June 15 are for transferring marketing quota from one farm to another for the marketing of tobacco which is already at least partly produced. Higher than expected yields per acre frequently result in production in excess of a farm's marketing quota and create substantial demand for leasing marketing quota during the marketing season. In many instances, the prevailing prices for leases are higher during the marketing season than during the preplanting season. In such situations, a producer can profit by leasing acreage-poundage quotas early in the year solely for re-leasing later in the year. The provisions that leases filed on or after June 15 shall not be effective unless the acreage planted on both the lessor and lessee farm was a specified per centum of the acreage allotment, limits leasing solely for the purpose of re-leasing and thus, makes a greater proportion of the leasing opportunities available for leasing for the purpose of producing the tobacco. It has been reported to the Department that the practice of leasing for the purpose of re-leasing is increasingly limiting the availability of acreage-poundage marketing quotas for leasing by farmers who desire to increase their production and escalating such farmers' leasing costs.

Honorable Thomas S. Foley

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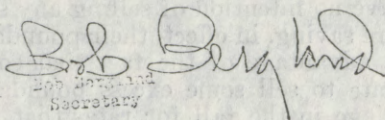
An increase from 50 per centum of the farms' acreage allotment to 80 per centum of the farms' acreage allotment which must be planted as a condition for leasing on or after June 15 would curtail to a considerable extent the practice of leasing solely for the purpose of re-leasing at higher prices. At the same time, it would not preclude the re-leasing in instances where changes in circumstances result in moderately less tobacco being planted on a farm than had been planned.

The enactment of this bill will require only minimal, if any, additional expenditures.

The quality of the environment will not be effected by the adoption of this proposal.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's objectives.

Sincerely,


Bob Dargatzis
Secretary

Mr. MATHIS. Our first witness this morning is our colleague from North Carolina, Charles Whitley.

Congressman Whitley, we would be happy to hear from you at this time, sir.

**STATEMENT OF HON. CHARLES O. WHITLEY, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF NORTH CAROLINA**

Mr. WHITLEY. Thank you, Mr. Chairman.

I appreciate the courtesy being afforded me in testifying on this bill this morning. As you know, Mr. Chairman, I represent the Third District of North Carolina. As you may not know, the Third District of North Carolina produced more Flue-cured tobacco last year, both in terms of poundage and in terms of dollar sales, than any other district in the United States.

Therefore, I am sure it comes as no surprise to you and members of the subcommittee and others who are here this morning that I have a very intense interest in this subcommittee.

I join you in regretting the absence of our colleague who is the chairman of this subcommittee, who has introduced the bill which we have before us.

He and I have attended a considerable number of meetings with farmers, leaders of farm organizations, and others interested in tobacco in recent months. I am sure if he were here he would agree with me that one of the things that has been brought out at every single one of these meetings was the very strong feelings on the part of farmers that the so-called fall leasing of tobacco is being abused.

As you know, this subcommittee, the full committee, and the Congress a few years ago authorized one farmer who had produced less than the pounds of tobacco he was authorized to sell; to transfer to

another farmer, who might have produced more, the right to sell some of his poundage.

There is no questions in the minds of any of us about the feasibility, the practicability, and the desirability of the normal leasing program whereby one farmer in the spring can lease from another farmer the pounds of tobacco that he is authorized to plant, to grow, and to sell.

But what we are talking about, and what this bill addresses, is the matter of leases and transfers of the privilege that take place after June. Of course, no Flue-cured tobacco is planted after June.

The law that we presently have on the books says that if one farmer has planted as much as 50 percent of his allotment and has failed to produce as many pounds as he is uauthorized to hell, he can transfer and lease the privilege to sell those pounds he is short to another farmer who has produced more.

As a result of this, there is a strong belief on the part of many farmers and many producers of tobacco that there are those who are deliberately underplanting, who have no intention of selling any significant quantity of tobacco, who are saving, in effect, their poundage until the fall when they can take advantage of the fact that some farmers may be somewhat desperate to sell some excess poundage. Then they are leasing their poundage in the fall for rates that are going as high as 50 cents a pound.

The farmers believe that this practice is a widespread one and that it poses a threat to the program. In every meeting that I have attended there is a feeling among the farmers that was virtually unanimous that this practice ought to be eliminated.

It is the feeling of Chairman Jones of this subcommittee and many other members of Congress who have looked at this program that this bill, which requires both the lessor and the lessee to have planted at least 80 percent of their crop, will go a long way toward eliminating the abuses in the so-called fall leasing program.

It is not very feasible, economically, to plant as much as 80 percent of crop of Flue-cured tobacco if you are not really serious about it. If you go to all the trouble and expense of planting 80 percent of it, both the lessor and the lessee, to engage in this kind of transaction it is the belief of Mr. Jones and many others who support this legislation that the so-called fall leasing program would do what it has been designed to do. It will let the farmer who has slightly underproduced his quota to transfer his privilege to the farmer who has slightly over-produced.

This bill would eliminate the brokering, the deliberate underproduction, and the deliberate overproduction which is designed to take advantage of what we now seem to find is a loophole in this leasing law.

I want to speak very strongly in support, this morning, of H.R. 3416. I would welcome any questions that any members of the subcommittee might have.

Mr. MATHIS. Thank you, Mr. Whitley.

Do any members of the subcommittee have any questions of Congressman Whitley?

[No response.]

Mr. MATHIS. If not, we appreciate very much your taking the time to come and testify before us.

Mr. ROSE. Excuse me, Mr. Chairman—

Mr. MATHIS. Yes, Mr. Rose?

Mr. ROSE. Mr. Chairman, thank you.

I especially appreciate Mr. Whitley's presence here today because it is my understanding that the Democratic caucus may take some action tomorrow that may join Mr. Whitley as a member of our ranks as a member of the Agriculture Committee.

We look forward, sir, to that possibility.

Mr. WHITLEY. Thank you, Mr. Rose. I appreciate this opportunity.

Mr. MATHIS. Thank you, Charlie.

Our next witness this morning is Mr. Bill Lanier, who is Director of the Tobacco and Peanut Division of the Department.

Bill, we would be happy to hear from you at this time. We welcome you back before the subcommittee.

STATEMENT OF WILLIAM L. LANIER, DIRECTOR, TOBACCO AND PEANUT DIVISION, ASCS, U.S. DEPARTMENT OF AGRICULTURE

Mr. LANIER. Mr. Chairman and members of the subcommittee, I am William L. Lanier, Director, Tobacco and Peanut Division, Agricultural Stabilization and Conservation Service, USDA. I have with me Robert Hieronymus, Chief of the Tobacco Branch of the Tobacco and Peanut Division, and James Davis, Deputy Director of Program Operations Division, ASCS.

We are pleased to give the Department's views on H.R. 3416, a bill "To amend section 316(c) of the Agricultural Adjustment Act of 1938 to provide that leasing of Flue-cured tobacco acreage-poundage marketing quotas after June 15 of any year be permitted only between farms on which at least 80 percent of the farm acreage allotment was planted for such year."

Section 316(c) of the Agricultural Act of 1938 provides that a lease and transfer of a tobacco farm allotment shall not be effective until a copy of the lease is filed with and determined by the county committee of the county in which the farms involved are located to be in compliance with the provisions of section 316—and that any lease of flue-cured tobacco acreage-poundage quotas from a farm having an acreage-poundage quota in excess of 2,000 pounds filed on and after June 15 in any year shall not be effective unless the acreage planted on both the lessor and lessee farms during the current marketing year was as much as 50 percent of the acreage allotment in effect for the year.

H.R. 3416 changes these provisions of the current law only by specifying that as much as 80 percent—instead of as much as 50 percent of the farm acreage allotments in effect shall have been planted.

Flue-cured tobacco is not planted as late as June 15. Accordingly, leases of acreage-poundage marketing quota to transfer production from one farm to another are necessarily effected before June 15. Leases effected on or after June 15 are for transferring marketing quotas from one farm to another for the marketing of tobacco which is already at least partly produced.

Because farmers cannot accurately predict their yields per acre, production frequently exceeds farms' marketing quotas. For such farms, there is a need to lease additional quota for the marketing of the tobacco produced. In many instances, the demand for leasing quotas to market tobacco already produced is such that the prevailing prices

for leases during the marketing season are higher than during the preplanting season.

This creates a situation in which a producer can profiteer by leasing acreage-poundage quota early in the year for the sole purpose of re-leasing later in the year. It has been reported to the Department that such leasing, solely for the purpose of re-leasing, is increasingly limiting the availability of acreage-poundage marketing quotas for leasing by farmers who desire to increase their production, and is escalating leasing costs.

Under current legislation, leasing for the purpose of re-leasing after June 14 is limited by the requirement that as much as 50 percent of the farms' acreage allotments shall have been planted. Thus, a farm having an allotment of 10 acres including any leased and transferred to the farm, could not have any marketing quota leased from the farm after June 14 unless the acreage planted to tobacco was as much as 5 acres.

Under H.R. 3416, if enacted, as much as 8 acres would have to have been planted for marketing quota to be leased from the farm after June 14.

An increase from 50 percent to a farm's acreage allotment to 80 percent of a farm's acreage allotment which must have been planted as a condition for leasing on or after June 15 would curtail to a considerable extent the practice of leasing solely for the purpose of re-leasing at higher prices.

This would leave a greater proportion of the leasing opportunities available for leasing for the purpose of producing the tobacco. At the same time, it would not preclude re-leasing in instances where a farmer leased for the purpose of producing but because of changes in circumstances planted moderately less acreage than was planned at the time of leasing.

By leasing acreage-poundage quota, a producer can enlarge his operations to a more efficient production unit in which the economies of mechanized planting, harvesting and curing can be utilized. Such efficiencies of production are believed essential to maintaining markets for flue-cured tobacco as prices for U.S. tobacco are generally higher than the prices for other tobacco in world markets.

It is, therefore, believed that producers' opportunities to lease acreage-poundage quota should not be diminished by the quota available for leasing being leased for the purpose of re-leasing at higher prices rather than for the purpose of producing the tobacco.

The Department recommends that H.R. 3416 be approved.

Mr. Chairman, that concludes our prepared statement. We will be glad to respond to any questions.

Mr. MATHIS. Thank you, Mr. Lanier, for your statement.

For the record, what cost, if any, does the Department anticipate that the bill H.R. 3416 might be—

Mr. LANIER. Very little, if any, Mr. Chairman.

You have the 50 and 50 now. By increasing that to 80 and 80 on the part of the lessor and lessee I don't see how there could be any increased cost to the administration of this tobacco program.

Mr. MATHIS. You really, then, do not anticipate any additional cost because of the passage of this legislation?

Mr. LANIER. That would be my guess, sir.

Mr. MATHIS. Are there any questions of Mr. Lanier or any of his associates?

Mr. Rose?

Mr. ROSE. Thank you, Mr. Chairman.

Mr. Lanier, I talked with you briefly about this before the hearing. In the latter part of February your Department announced its intention to change the regulations administratively within the Department regarding this very same matter as it relates to leasing of tobacco allotments after June 14.

It was my reading of that press release that you were considering a regulation that would actually be tighter than this 80 percent requirement.

Can you explain to us in layman's language what effects of your proposed regulation would be aside from this bill?

Mr. LANIER. All right.

Mr. Chairman and members of this committee, let's put special emphasis on a proposed change in regulation, because it has not left the Department of Agriculture yet.

Mr. ROSE. Has it been in the register yet?

Mr. LANIER. No, sir, it is in the hands of the Office of the General Counsel. Of course, matters of this nature, in competition with other matters that are very sensitive in the Department now.

So we are competing with time there. But hopefully it will get to the Federal Register very shortly.

The proposed change in the regulations would be this: If you had a 20 acre allotment—and first of all, we are going to have in this package deal certifications. If you should certify that you planted 10 acres, then we would look at the normal yield that is assigned to your farm. The underproduction on those 10 acres you could lease out.

You could not lease any of that 10 acres from the 10 to the 20 acres that you did not plant.

That proposal, along with the one that has been introduced by the distinguished chairman of the subcommittee, does not hurt a bona fide leasing arrangement.

The intent of the bill and the intent of the regulation is to still have a viable lease and transfer program, but would take out as much of the speculation in fall leases as possible.

Mr. ROSE. In other words, if you had 20 acres of tobacco and you planted 10 acres, you could lease the remaining 10, are you saying, after June 14?

Mr. LANIER. No, we start off with the original 20 acres allotment that you have. Then you certify in the county office that you planted 10. So you have a normal yield on your farm of 2,000 pounds.

But if you planted your 10 and then you slipped up and you made less than that 2,000 pounds, then you could lease that difference.

Mr. ROSE. Between what and what?

Mr. LANIER. Between the 2,000 pounds and your actual production on the 10 acres.

Mr. ROSE. What happens to the difference between the 10 and the 20 acres?

Mr. LANIER. It can be carried over to the next year.

Mr. ROSE. OK.

Mr. LANIER. You can carry over as much as 100 percent. So there you would roughly be carrying away 50 percent.

Mr. MATHIS. How does that change or differ from the policy being used now, Mr. Lanier?

Mr. LANIER. Well, now, if both parties—the lessor and the lessee farm—plants 50 percent, there is no further restriction. There is none.

Mr. MATHIS. Then it still would not be, without the adoption of this bill, would it?

Mr. LANIER. I'm sorry sir, I missed the question.

Mr. MATHIS. I think I missed the answer.

What I am trying to find out is how the proposed regulations, which you say have not yet even been published in the Register, differ from the way it is today. If a farmer plants 50 percent of his allotment, which is the minimum he can plant and still be eligible to transfer it, you are saying that if he falls short he can go out and lease from another farmer—or he can lease to another farmer—

Mr. LANIER. He could use the criteria of the 20 acres. If these regulations are approved by the Secretary and they stand after the public notice is given, then that production of the 10 acres that he didn't plant, he could not lease during the marketing year.

Mr. MATHIS. Mr. Wampler?

Mr. WAMPLER. Mr. Chairman, I have no questions. This legislation does not affect my area, of course, which is in the burley belt. But I want to welcome Mr. Lanier and his associates and say that it is a delight to see them again.

We are glad to have you gentlemen with us.

Mr. MATHIS. Mr. Sebelius?

Mr. SEBELIUS. Thank you, Mr. Chairman.

This is my maiden attendance on the Agriculture Committee's Subcommittee on Tobacco. I presume that if Common Cause was rating it, I would be the one member here that would be 100 percent without a conflict of interest, because my district grows no tobacco and I don't smoke.

But I am curious about the mechanics of the law, if I am going to serve on this subcommittee.

When you talk about leasing an acre, what kind of ball park figures would a man get if he wanted to lease an acre of his allotment to a neighbor?

Mr. LANIER. Well, in some areas it goes down to 8 or 10 cents a pound. The highest that I have heard of is 52 cents a pound.

Mr. SEBELIUS. Is that on the basis of what his performance has been as far as production on his farm?

Mr. LANIER. Well, in flue-cured tobacco, sir, each farm is allotted, originally, so many acres. Some several years ago the Congress changed that to an acreage-poundage. So really you have a poundage quota. You can lease out your quota. The rates run from 8 to 10 cents a pound to about 52 cents a pound.

So the average acre of tobacco is, say, about 2,000 pounds. My opinion is that the average lease rate in the entire belt was probably 25 cents a pound.

Mr. SEBELIUS. And what is flue-cured tobacco bringing today?

Mr. LANIER. Well, the support price for crop year 1976 was \$1.06, and the market price was almost \$1.11.

Mr. SEBELIUS. Well, I won't prolong this so that my colleagues have to listen to me getting my education. I thank you for your answers.

Mr. MATHIS. Mr. Jenrette?

Mr. JENRETTE. Thank you, Mr. Chairman.

Mr. LANIER, have you had the occasion to study H.R. 4293?

Mr. LANIER. No; sir.

Mr. JENRETTE. Well, that's an identical bill that I introduced. Nobody else is going to talk about it, so I thought I ought to at least mention it for the record.

If you support Mr. Jones' bill you would be supporting my bill also.

Let me ask you this: Could this identical thing that we are trying to do in this bill not be done by regulations as they presently stand?

Mr. LANIER. Well, I guess they do differ in that bill provides for an 80-percent planting on both the part of the lessor and the part of the lessee to be eligible for fall leasing.

I guess I would have to say that the other difference is the one that differs from congressional action and the executive branch of Government. A regulation can be put in and taken out during the same season, maybe, or the following season. I guess it has that difference.

Mr. JENRETTE. Do you support legislation as opposed to the regulatory route?

Mr. LANIER. Well, in this particular case I think that they complement each other. And I think that if we give consideration to what the folks told us as I was conducting some 10 meetings, beginning in north Florida and ending in Virginia—once we crossed the Savannah River into South Carolina for the South Carolina meetings, the North Carolina meetings, and the Virginia meetings, what the people really asked for what we are attempting to do in regulations and what the author of the bill is trying to do by act.

We do not have the authority, in the Department of Agriculture, to increase that 50 percent. But the Congress has that authority.

Mr. JENRETTE. Do you see the passage of this legislation bringing about a net increase in tobacco production?

Mr. LANIER. Not necessarily.

Mr. JENRETTE. Since we might not have you back up here for a while, let me ask you this: would you mind briefly giving the committee, from your information, what changes you plan to take regarding regulations between the 1976 season and the 1977 season? Are there any changes that we might need to be aware of?

Mr. LANIER. Nothing in addition to the one that I have just discussed.

However, I want to make it crystal clear that that doesn't mean that something might not arise tomorrow which we would have to address ourselves to. But we have nothing on the drawing board at this particular time other than the one that I just explained a moment ago.

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

Mr. JENRETTE. Yes, sir, I would be happy to.

Mr. MATHIS. Are there not some changes to be made in terms of grading the various types of—

Mr. LANIER. That is being contemplated. However, that is handled by the tobacco division of AMS. The director is Mr. York, and he is present here today.

That would not come from the Tobacco and Peanut Division of ASCS. We handle the price support and marketing quotas and he handles the grading.

Mr. MATHIS. For the information of the gentleman from South Carolina, I believe that Mr. York has agreed to brief us on the procedures that he intends to use for grading, following the consideration of this bill.

Mr. JENRETTE. Thank you. I am delighted to hear that.

If I may proceed just a minute with my friend Mr. Lanier, I have a few more questions.

I have heard about a planting allowance of 107 percent for planting?

Mr. LANIER. That's correct.

Mr. JENRETTE. Is that in your department, or is that in Mr. York's department?

Mr. LANIER. That's in my department. That part will appear in the Federal Register along with the portion that I explained earlier.

For example, you have a 10-acre allotment and x number of pounds. If this proposed regulation does find the light of day, then you could plant as much as $10\frac{7}{10}$ acres and still be eligible for price support.

If you exceeded your $10\frac{7}{10}$ acres, then you would be ineligible for price support.

Mr. JENRETTE. And what was it for the 1976 season?

Mr. LANIER. In 1976 there was no requirement.

You will recall, Mr. Jenrette, that some three seasons ago we lifted the acreage criteria as a criteria for price support. We did this in an effort to reduce, as much as possible, the cost of the tobacco program. The Department's argument was that we were selling pounds and not acres.

However, the farmers thought that maybe some people might be taking advantage of this and that some might be slipping in under the fence or jumping county lines. So they have asked us to go back to a compliance system for tobacco for the crop year of 1977.

Mr. JENRETTE. Does that include measuring, Mr. Lanier? Will you measure also?

Mr. LANIER. Yes, we will be spot checking. We will not measure all of them. I have a chart, but I'm sorry. I don't have it with me. I will be very happy to furnish you and other members of the committee a chart showing—when the farmer comes in and registers with the county office how many acres he has planted, then a certain number of farms are checked.

If there are no errors found, then they may not check any more in that county. But based on the number of errors, you keep increasing the number of farms that you check to see if the majority of the farmers are complying with it.

Mr. JENRETTE. Do you feel that 107 percent, with the mechanized equipment that we are using today, is enough tolerance for a farmer to have at least his 100-percent production?

Mr. LANIER. Well, sir, I contacted a good many people, including tobacco extension specialists in the several States and others that I happen to know—who have expertise in the field of flue-cured tobacco—and about the highest percent that I got of loss due to mech-

anization was 68 $\frac{1}{10}$ percent. It ran from about 3 percent to that. So then I asked for a 7.

However, I think that in being fair to you and to your constituents in South Carolina some of your growers have what we call "once over harvesters." They might have a problem the first year. In the second and in subsequent years, for what they lack they can increase their acreage and quotas. But the first year they might fall a little short.

Mr. ROSE. Would the gentleman yield?

Mr. JENRETTE. I would be glad to.

Mr. ROSE. Mr. Lanier, your proposal here is that if a farmer plants over 107 percent of his allotment, he does not receive any price support coverage on their whole allotment; is that correct?

Mr. LANIER. That's correct.

Mr. ROSE. Now, is that the way the law used to be?

Mr. LANIER. No; sir.

Mr. ROSE. In other words, before when you were spot checking, before you did away with the acreage requirement and went strictly to poundage, under the previous situation if you overplanted your allotment you sustained a penalty, isn't that correct?

Mr. LANIER. Yes; sir.

Mr. ROSE. All right. Now, why this time, now that we are going back to measuring again, to spot checking, did you not recommend that there be a penalty? I'm worried about the situation of contract farming in this tobacco program. Under the situation that you just described, if I wanted to go down and enter into a contract with the Reynolds Tobacco Co. to sell them all of my tobacco at \$1 a pound, I could plant 1,000 acres of it. I wouldn't get any price support, but I sure wouldn't get any penalty.

Mr. LANIER. Oh, yes indeed.

We would have to come and see you, Congressman, and get a little penalty like about 75 percent of the average price of the previous season.

Mr. ROSE. Excellent. That's all I wanted to know. You still will have the penalty.

Mr. LANIER. Yes; sir.

Jim?

Mr. DAVIS. Perhaps I should bring out one point. The penalty on the poundage approach is based on 110 percent—if it goes over 110 percent of the quota.

Under acreage-poundage and in the burly poundage there would be no penalty even though he goes over his allotment on the flue, for example. Of course, as you know, there is no allotment for burly.

But the only thing that we have is the price support. Of course, if he produces tobacco on one farm and sells it as having produced on another farm, then this is a matter of penalty—false identification, failure to account, and things like that.

Mr. ROSE. Let me see if I've got this straight, now. In replacing the acreage requirement you are not reimposing the penalty per se on the acreage, but you still have the penalty on the poundage part of it.

Mr. DAVIS. Right. If he sells 1 pound over 110 percent of the quota there is a penalty of 75 percent of the average market price.

Now, if we go to this year coming up, it's virtually the same. It would be the same as it was in 1973, 1972, and in prior years, from the

time the acreage-poundage came about. So the difference this year—the proposal—is that we go to 107 percent over the allotment before price support, and still get price support.

Before it was 100 percent. There was a tolerance for the farmer's error. He could go up to 5 percent over that. But this is considered being within.

Mr. ROSE. Thank you.

Mr. MATHIS. Mr. Jenrette still has the time.

Mr. JENRETTE. Thank you, Mr. Chairman. I have a couple more questions.

Speaking of penalty—and either one of you might answer this—I understand from the hearings that Mr. Lanier and his people conducted—certainly not in South Carolina, but in some of the other States—there was a lot of bootlegging going on. Maybe the warehousemen were selling tobacco.

Have you done anything, or is there anything we can do, to see that the farmer that overproduces does not have a legitimate outlet to sell the tobacco? This didn't happen in South Carolina. I want to make that clear.

Mr. LANIER. Mr. Jenrette, at several meetings persons would stand up in the audience and say that they knew that some tobacco was slipping under the fence. I asked for names and addresses and told them that if they would give me the name I would entertain them and it would be very unpleasant entertainment. I haven't had a phone call or a letter or a visit giving me the names or addresses.

But those people really believe—I have a different opinion—but some of them really believe that some of this tobacco is slipping under the fence. I'm sure there might be a shirttail full.

Mr. JENRETTE. If you find later that a warehouseman has violated it do we have anything in the Department that can be done to the warehouseman?

Mr. LANIER. Well, you know, the tobacco warehouseman has a contract with Flue-Cured Stabilization, and Flue-Cured Stabilization has a contract with us. Yes, I would say that something could be done.

Mr. JENRETTE. All right, let's move on to something else.

Mr. Chairman, I might be going beyond the bill, but if I might—I wonder if Mr. Lanier would be able to tell us about any plans that the new administration might have relative to possible curbing of imports of tobacco. I believe it's commonly called off-shore tobacco. Is there any move afoot to do anything on that area?

Mr. LANIER. Not to my knowledge. But let me say in defense of the new administration that we have some positions that are not yet filled in the Department. So we have not—commodity-by-commodity—made that type of analysis on it.

So no decision, to my knowledge, has been made as it relates to imports of off-shore tobacco.

Mr. JENRETTE. Is there anything that you are charged with—any responsibility that you or the Department is charged with—in helping Stabilization dispose of the enormous amount of tobacco that it presently holds in the lower grades?

Mr. LANIER. Well, Mr. Jenrette, as you well know, we have about 608 million pounds of tobacco in the hands of Flue-cured stabilization. About 70 percent of that tobacco is ground leaves—lugs, priming, and nondescript.

The amount of money that we've got in that tobacco at the present time—we cannot sell it for that. It's overpriced. That was the real reason that I conducted the series of 10 meetings to alert the people who are producing tobacco about an approaching enemy.

The proposal that Mr. York will give you a little later, in our judgment, will help this some. However, I do not see that we can resolve that problem short of legislation.

This is one of the things that I want to talk to our leaders in the Department about as soon as we get a full complement aboard.

As you know, the law now reads that, for example, price support for the crop year 1976 must average \$1.06 per pound. To lower the price support on those ground leaves at or near their market value, we would have to add that to up stalk or export grades. We would have to add enough money to those that it would kill the export market.

So somehow, some way, if this program is going to be saved, in my judgment, and I am speaking as an individual and not for the Department, this must be resolved or it is going to blow the tobacco program out of the water. Not only will it blow Flue-cured out of the water, but it will blow all tobacco programs out of the water.

Mr. JENRETTE. I certainly agree with your personal view on that. I wonder, for the record, is it your Department that determines the formula—the amount that the average farmer will receive each year for his Flue-cured tobacco?

Mr. LANIER. Yes; sir.

Mr. JENRETTE. Is it your Division?

Mr. LANIER. Yes; sir.

Mr. JENRETTE. Mr. Lanier, you have four or five elements—and I forget what they are now—in determining the formula. Is that provided by law or are those elements that you determine?

Mr. LANIER. No, the law gives us a formula. It was computed out at \$1.06. Then there is another section of the law that gives the Secretary of Agriculture the right under differentials, which is applicable to tobacco, peanuts, soybeans, corn, and all other commodities.

With that, we do the best we can in working with the expertise that I have on my staff and working with Flue-cured people and people in the industry. So we try to come to the best possible decision that we can on that.

Mr. JENRETTE. But the law determines what elements, exactly, that you can use in that formula—the domestic usage and the—what are the elements that you use in your formula?

Mr. LANIER. It is just broad as you want it to be, Congressman.

Mr. JENRETTE. When are the experts in your division going to take into account imports as one of the formulas that you use so that the skyrocketing of the price supports and the position that our farmers find themselves in now may be minimized somewhat?

You know better than I do the amount of imports of Flue-cured tobacco that has come in in the last 3 years. It is greatly hampering the sale of some of the lower stalk tobacco that our farmers produce.

If you had used that other formula it would have helped us to a great degree, in my opinion. Would you respond to that, please?

Mr. LANIER. First of all, I couldn't prove to you and this committee that a pound of Flue-cured tobacco has been imported. I think there has been some, but up until March 1 of this year, the Commerce De-

partment did not require them to delineate between the different types of tobacco. But beginning March 1 we will know in addition to the volume how much of it is flue, how much is burley, or any other types of tobacco.

But to get back to the other part of your question, I am finding a little bit of difficulty relating this import thing to the formula that is set up in the law that required us to support Flue-cured tobacco at \$1.06 last year. We would have had to tie it back to \$1.06 whether there were zero pounds of tobacco imported or 40 million pounds, for example.

Mr. JENRETTE. Importing the off-shore tobacco would have certainly limited the domestic use—the amount available for domestic use. That should be in your formula. Maybe we are on a different—

Mr. LANIER. Not for computing price support, no sir.

Mr. JENRETTE. I had a major tobacco company—

Mr. LANIER. Now, if you want to get to quotas, maybe. But not price support.

Mr. ROSE. Would the gentleman yield?

Mr. JENRETTE. I would be happy to yield.

Mr. ROSE. The thing that you just said—about as of March 1 there will be more information about the imports, my information was that previous to the March 1 change Flue-cured and burley were only required to be reported as Flue-cured or burley. It was not delineated as to whether it was Flue-cured or burley. Is that correct?

Mr. LANIER. We knew how many pounds, but we didn't know how many pounds of it was burley and how much was flue.

Mr. ROSE. What were the classifications? Stems was a classification, and what else—trash, or scrap?

Mr. LANIER. Scrap.

Mr. ROSE. How many classifications were there and how many new classification are there? The reason I ask is because I talked to some of the special trade representatives in my office yesterday. They thought one way that we could probably solve this import problem to some extent is to require a greater reporting of what was coming in.

My question to you is how far have we changed that as of March 1, and in your opinion has it gone far enough? Should we maybe even require that the customs people receive information as to the grades of what is coming in as Flue-cured and burley?

Mr. LANIER. Mr. Rose, I am not sure that I can answer your question to the extent that you would like, but I can get that for you.

Mr. ROSE. Would you? And make it available to the Tobacco Subcommittee.

Mr. LANIER. I would be happy to. We in the Department of Agriculture have been trying to get this to come into being for some little bit.

[The information submitted by Mr. Lanier follows:]

Prior to recent changes in the tariff schedule classifications, cigarette leaf tobacco, scrap tobacco and tobacco stems were classified as follows:

Cigarette leaf:

Not stemmed:

Leaf, oriental or Turkish type.

Flue-cured and burley.

Other.

Stemmed.

Scrap tobacco.

Tobacco stems.

As recently changed in the tariff schedule classifications, cigarette leaf tobacco and scrap tobacco are classified as follows:

Cigarette Leaf:

Not stemmed:

Leaf, oriental or Turkish type.

Flue-cured.

Burley.

Other.

Stemmed.

Scrap tobacco:

Cigar leaf.

Other.

The classifications as changed do not identify (1) the kinds of cigarette tobacco in stemmed cigarette leaf, (2) the kinds of tobacco in tobacco scrap other than (i) the scrap tobacco of cigar leaf and (ii) all other scrap, or (3) the kinds of tobacco stems. Thus, the change will accommodate distinction between flue-cured and burley imports only when the imports are unstemmed leaf.

Mr. ROSE. We will help you. We will get on your case with the customs people and whoever, because we think that if we know what is coming in and know more information about what is coming in we can figure out better what the real culprit is.

Mr. LANIER. I would be very happy to furnish to you all that I can. The way it has been up until now, we were boxing in the dark. We didn't know what to strike at, because there was not a separation.

Mr. ROSE. Thank you, sir.

Mr. JENRETTE. Had you ever asked Congress or anyone to help you with the separation? It seems strange to me that as much trouble as we have had in the last 4 years with imports, that somebody had to have made some——

Mr. LANIER. Well, to what extent Congress was familiar with this I am not sure, but I know that——

Mr. JENRETTE. Well, obviously we weren't.

Mr. LANIER. The communication between Agriculture and Commerce, though, there has been some communication there for the last several years to make this delineation.

Mr. JENRETTE. I am almost through, Mr. Chairman. I have one or two more questions, if I might.

Would you support any increase in the import duties on tobacco coming into this country, as a member of the Department of Agriculture?

Mr. LANIER. I would not make a statement on that or attempt to answer that until Mr. Bergland and others have had a chance to review this. To my knowledge, well, from our division and the communication with his office, we have not had any. So I think I would be a little off base and living rather dangerously at this time to take a position prior to the Secretary taking a position.

Mr. JENRETTE. And that answer would apply also to import quotas that the President put, under the 1935 act?

Mr. LANIER. Yes, sir. That would apply on everything except this bill that I am testifying on right now.

Mr. JENRETTE. Two bills.

My final question, Mr. Lanier, that has come to me from some queries on behalf of me and staff to some major tobacco companies. One of the

major companies admitted that they were growing flue-cured tobacco in 16 foreign countries themselves, and bringing it in to the United States at a net price of somewhere in the area of 60 cents per pound. They were using it for the lower and the filler type in cigarettes.

If, in fact, we determine, or if it is determined by someone, that all of the major companies are, in fact, using foreign soil or off-shore and cheap labor to compete with our farmers, would you at that time be in a position to recommend to Mr. Bergland or any superiors that you might have, that either import quotas and/or increased duties be implemented?

There is no way that I see, as perishable as a crop of tobacco is, that our farmers can store it or keep it. It has to go to the companies where it can be stored for a long time.

If they can bring it in cheaper, I can't blame them, as a stockholder if I were one, for doing so. But I think that in some area of negotiations we must be in a position to protect our tobacco farmers.

So if one company admits that they are growing in 16 foreign countries and importing it, I don't think that will be the only one. That's the only one that I have gotten to admit it so far. I plan to actively pursue it.

Nothing can be done. It is not in violation of any law that I know of. But I think that we on this committee and you in your position must do something or be prepared to move to protect our farmers if this, in fact, is the case.

Mr. LANIER. Mr. Jenrette, I think that and any other thing that—well, it's like going to your doctor. If he is not a good diagnostician, he is not going to be apt to cure you much.

So I think that that and other things that we might need to look at—we might need to go from Genesis to Revelations here and see.

It might just be that we have encouraged, in more than one way, the off-shore production. For example, our competitor may not be paying 30, 35, 40, and 45 cents a pound for the right to grow tobacco. So he has that advantage to start off with, doesn't he?

Mr. JENRETTE. Right.

Mr. LANIER. So we might need to look at the entire thing.

Then, one other thing that I guess has bothered me for several years is that—and I am a tobacco farmer, or my folks back home are tobacco farmers—we need to differentiate or delineate between price support and market price.

I think that cotton has a record of several years ago that should be a lesson to us in any commodity as it relates to a Government program. That is when we announced to the world our selling price—and we had a so-called high support price on cotton. It was written in indelible ink that anybody could grow it for a quarter of a cent less than our announced price. They got into business.

They sold their cotton and finally we got up to 16,800,000 bales of cotton in the warehouses in this country. There was no cotton market any more. They sent you a catalog about this big, and you ordered it from the commodity office in New Orleans, La.

So I am saying that in looking at the problem that you have surfaced, we might also look at our support price and see whether it is working to the disadvantage of those people who are actually engaged in the production of tobacco.

Mr. JENRETTE. I said I was through, but that brought up another question.

From what we have seen, the leasing, as leases increase—and I guess one of the counties that I represent has probably the highest leasing of any in the country—as we increase the support price, the landowner who doesn't produce it is really getting the advantage of the increased support price as opposed to the producer.

Mr. LANIER. Absolutely; the fellow who is growing the tobacco is not getting the advantage of the increased price support. It's the people who are leasing out.

Mr. Mathis has a constituent in his district that was on our Peanut Advisory Committee. His name is Willie Cutts, Jr. Willie Cutts, Jr. told the Secretary of Agriculture when the Secretary announced a year or two ago how much the price support was going up on peanuts. He said:

Now Mr. Secretary, you ain't helped me nary a bit, because that man down there in Sumter County and Worth County that I lease these peanuts for, he goes up that same amount.

So the people who are actually in the production are not getting the advantage of the escalation in price support.

Mr. JENRETTE. Finally, and with a great deal of caution in the question, and I'm sure a great deal of caution in the answer that is forthcoming, are there studies or ideas at all about the possibility of requiring an allotment to be planted or—let me ask it this way. If an allotment is not planted over a certain number of years by the person holding the allotment, that he or she eventually, over a long period of time with some compensation, might lose that allotment? In other words, could a producer at some time over a number of years actually gain the right without the lease payment every year of producing that tobacco?

Mr. LANIER. During the series of 10 meetings, there was a gentleman from Colquitt County, Ga., who testified before my group in Valdosta, Ga. He suggested that over a period of 10 years that you lose the allotment—if you didn't plant it, you lose it in its entirety.

Mr. JENRETTE. That would be 10 percent—

Mr. LANIER. And it would be reallocated to those who did grow. But there has been no action taken on that one.

Mr. JENRETTE. Thank you, Mr. Chairman. I took much more time than I anticipated, and for that I am sorry.

To further clarify it, you do support Mr. Jones' bill and you do support my bill, is that right?

Mr. LANIER. Yes, sir.

Mr. JENRETTE. Thank you.

Mr. MATHIS. Mr. Wampler?

Mr. WAMPLER. Mr. Chairman, I would like to pursue a question raised by the gentleman from South Carolina, Mr. Jenrette.

Mr. Lanier, do you have any knowledge of any tobacco that was grown in Rhodesia being imported into this country?

Mr. LANIER. No, sir. If I did I would have told on them.

Of course, there are sanctions there that we could not receive tobacco grown in Rhodesia into the United States.

Mr. WAMPLER. That's because of the unilateral action of our country, our President having done this?

Mr. LANIER. Yes, sir.

Mr. WAMPLER. It is a fact, however, isn't it, that tobacco grown in Rhodesia moves rather freely in world trade?

Mr. LANIER. Well, I can't answer that, but we know it is finding a home someplace.

Mr. WAMPLER. It may be that the producer in Rhodesia is paying a rather heavy brokerage to get it into world trade, but it does move freely, doesn't it?

Mr. LANIER. It's finding a home, yes, sir.

Mr. WAMPLER. I was in Rhodesia in 1973 and, quite frankly, I was surprised at the quality of tobacco produced in Rhodesia. To me it looked like top quality tobacco, and at that time it was rather apparent that other nations were being used as the principal brokerage—for example, Portugal at that time, I think, was the principal nation that was moving tobacco grown in Rhodesia.

Now this, of course, relates to a question that was before the House yesterday. The House of Representatives, in its judgment or lack of it, repealed the so-called Byrd amendment that addresses itself principally to the importation of chrome from Rhodesia.

But the point I am trying to make is that we are faced, I think, with the situation where tobacco is being produced in more and more countries. Because of cheap labor and other factors, it is creating quite a threat to our export markets.

I was just curious as to whether or not any of that tobacco had found its way into this country.

Mr. LANIER. Not to my knowledge, but the quality of that tobacco—of course, we say—and it is an accurate statement—that nobody yet has been able to duplicate the quality of the tobacco grown in the United States.

I think that everybody recognizes—especially in Rhodesia—that the quality gap has been narrowing considerably. This makes it more apparent—which is the point that I tried to raise earlier—that we ought to sometime examine the total program, and especially the price support, because when somebody is crowding us on quality we might be better off to look at the other facets of it to see that our house is in order at all times.

Mr. WAMPLER. I quite agree with you. It has been my understanding that it has been the high quality as well as the selectivity of American tobacco that has made it have such an appeal to foreign buyers.

But as I said earlier, I think the quality of tobacco in Rhodesia is improving. It is going to be a threat—assuming that there is a nation of Rhodesia left. I don't know what the internal situation is.

Mr. LANIER. Absolutely.

Mr. WAMPLER. I thank you, gentlemen.

Mr. MATHIS. Mr. Lanier, let me ask you one final question here.

What percentage of farms have a poundage quota of 2,000 pounds or less? It would be very few, would it not?

Mr. LANIER. Yes; sir.

We are talking about roughly an acre of tobacco. Mr. Chairman, I will get that for you.

Mr. MATHIS. The reason I ask is I recall at a hearing in Winston-Salem some time ago, some of my colleagues were there, and we were told that the average allotment size in the old belt—or in some certain

counties in the old belt—was something like a half acre with a thousand pound quota.

Mr. LANIER. That sounds like burley, not flue.

Mr. WAMPLER. That probably would be the case with burley.

Mr. LANIER. That would be burley, not flue.

Mr. JENNETTE. They grow burley like we do tomatoes. A half acre here and a half acre there.

Mr. MATHIS. I thank you, Mr. Lanier. I was just trying to refresh my memory and see if we were exempting certain people by this poundage in the bill where it says "excess of 2,000 pounds." Apparently we are not.

Are there any further questions of Mr. Lanier?

Mr. Whitley, did you have any questions?

Mr. WHITLEY. If I may, Mr. Chairman, just a couple. I appreciate your consideration. I hope by tomorrow we can make some of this official.

Mr. Lanier, you mentioned measuring tobacco when we were talking about spot-checking. Can you give us some indication of what percentage of farms you would anticipate you would actually measure?

Mr. LANIER. Jim, give them that formula.

Mr. DAVIS. Well, I don't have the formula that Mr. Lanier mentioned. I don't have that with me, but the system that we would have on the compliance check—of course, everyone would certify—the grower would certify.

The system that we have was developed in such a way that it would be 90 percent accurate. We could have a 90 percent chance of finding out what farms went over their allotment.

We would use the same system that we currently have for the other commodities. It has worked out really well.

Mr. WHITLEY. Let me pursue this penalty business just a minute.

Back in the days of acreage allotments, before we went to poundage, when we measured every farm, if it were found early on that somebody had overplanted you just cut down what you had overplanted and you went on and there wasn't any penalty.

Would we get into that kind of thing with what we are talking about here? Or are we saying if you are three rows over 107 percent you would lose all of your price support?

How much tolerance is there in this measurement program?

Mr. DAVIS. Well, currently what we propose on the 107 percent is that the measurement tolerance would be a very small one-tenth acre, or 2 percent, not to exceed nine-tenths.

That's what we call the measurement error. There would be no provision if a producer certifies, and there would be no provision if we go out and spot-check it. There would be no provision that he would plow it down or adjust his acreage to regain price support.

Mr. WHITLEY. But you are going to give him 2 or 3 percent tolerance of error?

Mr. DAVIS. Well, it would be what we consider a measurement error. That's where several of us measure the same piece of land and we come up with a slightly different figure.

So this sort of thing is strictly an error measurement.

Mr. WHITLEY. All right. Let me ask you this—during this series of 10 meetings that Mr. Lanier mentioned—and I attended some of

them—he tried to make the point, and others made an effort to stress the fact, that Stabilization is badly overstocked with lower leaf tobacco and that we need to do something to discourage lower leaf tobacco. If possible, we need to do something to encourage farmers to leave some of those bad lugs in the field.

At those meetings, it appeared to me that we were beginning to talk at cross purposes. On the one hand we were saying—the farmers were all standing up and saying—we ought to measure. We ought to hold everybody to just exactly what his acreage is.

On the other hand, we were saying that we ought to concentrate on quality and throw out the trash and leave the bad lugs in the field.

What Mr. York was talking about doing in tightening up on grading is encourageing throwing out the sorry stuff and all that kind of thing.

Can we accomplish the objectives of Mr. York, that the marketing service has in mind, within the tolerance of 107 percent?

Mr. DAVIS. Bill, maybe you can answer that.

Mr. LANIER. Mr. Fred Voit, who is the chairman of the tobacco and commodity commission in Georgia, wrote one of the best articles I have ever read on farmers leaving some of those ground leaves in the field. There is nothing wrong with his article, the system is what is wrong.

With the price support that we've got on those leaves we force him to harvest them. He doesn't have a choice, really, as a practical matter, because he has gone to all the expense of growing them.

When we have got a price support of 80, 85, and 90 cents a pound on that tobacco, the farmer just cannot leave those lower leaves on there.

Mr. WHITLEY. Of course, when it is still in the field, he has not incurred the expense of harvesting, curing, or marketing. He has only incurred the expense of planting, which is probably less than 50 percent of the total cost. Isn't that right?

Mr. LANIER. Well, the biggest single cost he has is the right to grow the high leaves. That is the biggest single cost of production.

But, see, he has got his fertilizer, he has treated his ground, he's got his fertilizer, he's got his sucker control, he has topped it, he has sprayed it with insecticide, and he has gotten right up to the harvest time.

He has got enough in that then that my personal opinion is, Congressman, we force him.

There are some farmers who would like to leave it in the field. But I really think that we are forcing him to harvest that tobacco.

Mr. WHITLEY. If you continue to support some of the stuff that has been sold to Stabilization in the last 2 years at 85 cents, I agree with you.

Mr. LANIER. Yes; sir.

Mr. WHITLEY. If you are going to pay them 85 cents for that stuff that doesn't look like it's fit to throw away—but now, Mr. York is going to cure some of that, I think he is getting ready to tell us.

If he does, then where are we going to be?

Mr. LANIER. Well, Mr. York is a very able fellow and will speak for himself. But as a practical matter, I think that there will only be about

15 or 16 million pounds under his proposal that would not be eligible for price support.

But under our price support statute, with the formula that is there, any amount that you lower those lower leaves you are going to have to put it back on the export.

Mr. WHITLEY. I understand that, and I understand that the type of proposition that we are talking about that ran into so much farmer resistance, of discounting the lower leaves without adding it back, I understand all that.

We have been throwing around this morning a figure of \$1.06. Actually, for this crop year it is \$1.138, right under \$1.14 a pound.

Mr. LANIER. Yes; sir.

Mr. WHITLEY. That figure of \$1.06 was last year's figure.

Mr. LANIER. Exactly.

Mr. WHITLEY. Let me just make it clear on these two questions that we are talking about. There is very little tolerance in this 107 percent of a man's acreage. You don't want to answer my question about how many fields you are going to measure, but you are asking us to take your word for it that you can be 90 percent sure of compliance.

Are those the answers to the questions?

Mr. DAVIS. Well, actually it depends on the number of farms in the county. That's on account of the formula that we use. In most cases we measure up to 11 farms or 17 farms, depending on how they are coming on this.

If we don't find any exceptions to that, then we will jump a few. But if we find exceptions we keep going. So it's a possibility that we could end up checking 100 percent. We might actually measure 100 percent.

Mr. WHITLEY. It's sort of a strange system. I suppose your experience has led you to believe that it works, but it is kind of a strange system to suppose that because my neighbor has exceeded his that I have probably exceeded mine, or because my neighbor hasn't that I probably haven't.

Is that the kind of system that you have?

Mr. DAVIS. Well, it's worked out on statistical accuracy and we have relied on that pretty faithfully. It has done a pretty good job, we feel.

Mr. WHITLEY. Thank you, Mr. Chairman.

Mr. MATHIS. Thank you, Mr. Lanier.

The next witness this morning is Mr. Hart Hudson from Route 1, South Hill, Va. He is here to testify on behalf of one or the other of the bills that we have before us.

Mr. Hudson, we would be happy to hear from you at this time.

Mr. WAMPLER. Mr. Chairman?

Mr. MATHIS. Yes, Mr. Wampler?

Mr. WAMPLER. Mr. Hudson is not a constituent of mine. He lives in the Fifth Congressional District, which is so ably represented by our colleague, the Honorable Dan Daniel.

But Mr. Hudson is extremely knowledgeable on the subject of tobacco, and we are delighted to have him here this morning. I want to extend a very hearty welcome to him.

Mr. MATHIS. Thank you, Mr. Wampler.

Mr. Hudson, you may proceed.

STATEMENT OF R. HART HUDSON, TOBACCO GROWER, SOUTH
HILL, VA.

Mr. HUDSON. Thank you, Mr. Wampler.

Mr. Chairman and other members of the Subcommittee on Tobacco, would you permit me by way of explanation to tell you how our group came into being?

With all due respect to our farm organization and other organizations and what have you that feed data into the Department of Agriculture and what have you, quite often we find that as we are in the upper echelons of feeding this data into the Department of Agriculture we can't see the trees for the forest.

We recognize some difficulty in the tobacco program that affected us directly as growers. We sought out assistance from liaison organizations to the Department that could possibly assist us.

We did not get favorable response to that, so as a group of farmers we got together and we swung out through North Carolina to some degree organizing farmers, warehousemen, ASC committee members from the county of Vance, Warren, Nash County, Pitt County, and the county which consists of Kinston, N.C.; Farmville, N.C.; Rocky Mount; and Henderson.

We found 100 percent support in the suggestions that we are going to present to you at this time.

I would like to say that we appreciate the opportunity to appear before your committee today. We have previously appeared before Congressman Jones, and Mr. Whitley there has heard our proposals.

We find that we highly concur with the proposed changes that the U.S.D.A. released on February 28.

Now I will proceed with my statement. I want you to know that we are representing Flue-cured tobacco growers from Virginia and North Carolina.

We feel that the Flue-cured tobacco program as it is presently supported by the Flue-Cured Tobacco Stabilization Corporation is very essential and desperately needed in order for the continued production of quality tobacco. Elimination of the program would be disastrous economically.

However, we recognize some fallacies and/or some discrepancies in the implementation of the program that could serve to destroy the program. We therefore offer these suggestions to help correct the problems. We further recognize that it is an agricultural program designed for growers and not for "speculators."

We direct our suggestions to the elimination of practices that would discourage speculators and put the program back into the hands of the growers of Flue-cured tobacco.

Number one, that acres of tobacco planted be measured on a "spot-check" basis.

Number two, that 80 percent of acreage-poundage quota be required to be planted.

Number three, that fall leasing of tobacco be eliminated in order that it be held over and sold at prices beyond the efforts of a grower.

Number four, fall delivery to Stabilization Corporation be eliminated to overcome the over-production problem.

We have made a very careful and comprehensive survey of farmers (both landowners and growers), businessmen, and ASCS representatives and farm organizations and find that they highly approve of the recommendations. We highly recommend the release by USDA proposed changes in the Flue-cured tobacco program.

This is, in essence, what we would like to direct to you this morning. We would welcome, at this time, any questions in regard to our statement.

Mr. MATHIS. Thank you very much, Mr. Hudson.

Are there any questions of the witness?

[No response.]

Mr. MATHIS. If not, Mr. Hudson, we certainly thank you for appearing here today and sharing your ideas and opinions and those of the growers that you represent, with the committee. Thank you very much.

Mr. HUDSON. Thank you, sir.

Mr. WAMPLER. Mr. Chairman?

Mr. MATHIS. The gentleman from Virginia.

Mr. WAMPLER. Are there other witnesses to be heard this morning?

Mr. MATHIS. Not to the knowledge of the Chair. The Chair is in possession of a letter from the American Farm Bureau Federation addressed to the Honorable Walter B. Jones, which I would like to submit to be made a part of the record at this point.

[The letter submitted by the American Farm Bureau follows:]

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., March 14, 1977.

HON. WALTER B. JONES,

*Chairman, Subcommittee on Tobacco, Committee on Agriculture,
U.S. House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: The American Farm Bureau Federation supports H.R. 3416, the bill to provide that leasing of flue-cured tobacco marketing quotas after June 15 apply to farms with at least 80 percent of the allotment planted for such year.

The voting delegates of our last annual meeting adopted the following policy relative to tobacco:

"Pending the development of a program that will better serve the interests of producers, we support a tobacco program which provides that growers shall keep supply in line with demand in return for price supports."

The AFBF Tobacco Advisory Committee comprised of grower leaders from all major producing states has been and continues to be concerned about making necessary changes in the tobacco program in order to preserve its existence. This Committee has made a number of suggestions as to how this might be done.

One of the recommendations approved by the AFBF Board of Directors from this Committee, specifically supports H.R. 3416:

"We recommend a requirement that, for flue-cured tobacco, not less than 80 percent instead of 50 percent of the allotment be planted when an allotment is leased after the market season begins (June 15)."

We will be communicating the remainder of these approved recommendations by our advisory committee to you in the near future and again as occasions arise. Meanwhile, we urge prompt passage of H.R. 3416 since tobacco farmers will begin their 1977 crop in the next few weeks.

Sincerely,

JOHN C. DATT,
Director, Washington Office.

Mr. MATHIS. I know of no further witnesses that have asked to testify on this proposed legislation.

Mr. WAMPLER. Mr. Chairman, in view of that I move that the subcommittee report H.R. 3416 to the full committee with the recommendation that it be passed.

Mr. MATHIS. The motion by Mr. Wampler is that the subcommittee report the bill, H.R. 3416, to the full committee with the recommendation that it be passed.

As many as are in favor of the motion, signifying by saying aye.

[Chorus of ayes.]

Those opposed, no.

[No response.]

Mr. MATHIS. Unanimously, the bill H.R. 3416 is reported to the full committee.

It was the understanding of the chair that Mr. York would, at this time, share with us the thoughts and the ideas that the grading service would have concerned with Flue-cured tobacco.

We would like to ask that he come forward at this time to do that. I am sure that there will be some questions.

STATEMENT OF J. W. YORK, DIRECTOR, TOBACCO DIVISION, AMS, U.S. DEPARTMENT OF AGRICULTURE

Mr. YORK. Mr. Chairman and members of this important body, I am honored and happy to be here this morning to explain the proposal that was published in the Federal Register a week ago yesterday on the proposed changes in the Flue-cured standards for the 1977 marketing season.

If I may, I would like to address myself to a comment made earlier by Congressman Jenrette concerning his questions on the imports of tobacco.

Some months ago the Brightbelt Warehouse Association submitted a resolution to me requesting that all imports be graded or certified.

In checking with the Office of General Counsel, under the present Tobacco Inspection Act, we do not have authority to certify grade imports.

Getting back to our proposal on the Flue-cured standards, in the outset I would like to make clear that we don't feel—or I don't feel—that this is a complete cure for all the problems that we have in the tobacco program. Hopefully, if this is implemented and adopted it will soften or cure some of these problems.

In order for me to explain this to you I will have to move over to this chart and show it to you step by step. Please feel free to interrupt and ask questions at any time.

Can everyone read this chart all right?

This column of figures through here is the actual distribution of the 1976 crop in each grade.

I might add here at the beginning that we have placed emphasis mainly on down stalk tobacco.

In 1976—we have combined here the L and F figures only. We are not proposing to combine them in our grading.

We had 1,731,000 pounds of tobacco graded in P-2 last year. In our proposal we are projecting—and all these figures here to the right are purely projections—that 10 percent of the P-2L will go into P-3.

We are slicing off the bottom of the top grade and we are moving it down to the next grade.

In P-3, out of 19 million last year we are projecting that 15 percent will go to P-4.

Now, in the P-4 we are projecting that out of 64 million, 25 percent would go to P-5.

I think the area where our problem really is in the P-5. We are projecting that 30 percent of this will go to an N-1.

In N-1 last year there were 23 million pounds graded. We are projecting 40 percent will go to a unsupported grade, N-2. In our projection that is 9 million pounds.

We are talking about a small figure here—1.2 percent of the total crop. I guess what we are doing for the producer is that we are asking him to sacrifice 1.2 percent and protect 98.8 percent.

We don't know what this crop is going to be this year. If it is a good crop of tobacco, we all know that if you have a good crop the bottom of the stalk is going to be poor quality. We are going to have more nondescript tobacco.

If it's a dry weather crop, in the fall this down stalk tobacco will probably be better and cleaner.

This figure here, the N-2, 34 million pounds, includes the X side also and the nondescript grades, the N-1 GL, what we shave off from the bottom of that would go in here and give us a total of 34 million pounds going into the N-2. Last year we had 17 million pounds.

Mr. WHITLEY. Those N grades mean no support, right?

Mr. YORK. The N-2 is no support.

Mr. WHITLEY. The N-2 is no support.

Mr. YORK. For the N-1 support last year was 80 cents.

Mr. MATHIS. What will the support be on the N-1 grade this year? Have you got that formula worked out yet, Mr. York?

Mr. YORK. No sir, this comes under Mr. Lanier's shop. Mr. Hieronymus may be able to give you some input on this.

Mr. Hieronymus, would you like to comment on this at this time?

Mr. HIERONYMUS. The individual grade loan rates have not been developed yet for the 1977 crop. Of course, the level of support is up from \$1.06 to \$1.14. But we have not gotten to the point of developing individual rates by grade for the 1977 crop as yet.

Mr. MATHIS. If you lower that support level on the N-1 grades, then you have got to raise it somewhere else within the—

Mr. HIERONYMUS. That is correct.

Mr. YORK. I might add here, Mr. Chairman, that in shaving off the bottom of each one of these grades there is one thing we know—that it's going to improve the quality of those grades.

We don't know how this is going to affect the flue-cured stabilization receipts. All we can say is that it is going to be a better quality.

Hopefully, by shaving off the bottom here, the P-5 will be a better and cleaner pile of tobacco. Hopefully it will sell.

There is a market for this tobacco. Of course, I am going to get into other areas a little further down the road here and talk about yield, which is a big factor. I think this is our whole problem, more so, than the low quality down stalk tobacco. I think the problem is in yield.

But we can say, under this proposal, that the tobacco that goes under loan this year will be a better quality of tobacco. Hopefully it will sell.

The other measures we have should cut down the overall cost of this tobacco. Are there any questions about the mechanics of what we are doing here? This is all I wanted to show you here—the mechanics.

These figures are strictly a projection, and these are last year's actual figures of the crop. What we have done is lowered the tolerance 10 percent.

On the N-1L the tolerance now is 60 percent. What that means is that up to 60 percent of that crop—that pile of tobacco—can be dead and blow away. It is not a useful product. All we are proposing is to take off 10 percent of that and lower it into N-2.

If there are no questions on the mechanics of this, then I will get into some areas which I think are the most important ones.

Mr. JENRETTE. What is that going to do? Is that going to insure that what stabilization has now it's going to keep for a number of years?

Mr. YORK. Sir, I couldn't comment on that. I don't know, Mr. Hieronymus?

Mr. HIERONYMUS. I don't know what the price would be on P-5 this year.

Mr. YORK. I think they would probably go up a little over last year, but the only thing we can say is that it is going to be a cleaner and a better product. We'll talk about the yield factor. I think the overall cost of this tobacco, after it has been processed, will be less than what it will be under the present standards.

If there are no more questions, I would like to get into some definitions. I would like to give you what our inspectors call their bible. You can go right along with me on it.

If you will turn to page 1 you will see the definition for "clean." I will read the old definition of clean:

Tobacco is described as clean when it contains only normal amounts of sand or soil particles. Leaves grown on the lower position of the stalk normally contain more sand or dirt than those from higher stalk positions.

Under our proposal, we would change the definition of clean to read as:

Tobacco is described as clean unless it contains a noticeable amount of foreign matter.

As I mentioned earlier here—and to me this is the most important area, because we do get into the economics of the price support program—the problem is not what is put on that lot of tobacco when you go along and support it, but what it costs when the manufacturer gets through with it.

Mr. MATHIS. Mr. York, it is left to the discretion of the fellow who is out there grading that tobacco to determine what a noticeable amount of foreign matter might be. Will he be instructed as to what actually constitutes a noticeable amount?

Mr. YORK. Mr. Chairman, we have always had a problem here with applying what is a normal amount of sand. We all know that primings are going to have a certain amount of sand and dirt on them.

The problem here in supervising is the old terminology of what is a normal amount. It can vary between our inspectors and between our

supervisors. I personally feel that the word "noticeable" gives us a tool to get uniformly across the board with our inspectors.

I guess if a farmer notices sand and dirt on his primings, then the inspector is going to notice this. If the farmer doesn't notice it, we are not going to notice it.

But the problem was in coming up with some terminology that we could supervise. When we grade that lot of tobacco, if it has a noticeable amount of sand in it, it will have a Nog-F. The F indicates that if the producer will take that lot of tobacco and clean it up, then we can grade it and he will have price support.

We started this last year. We tried to get this message to the producer and inform him that if he had cleaned up his tobacco that it would grade and receive price support.

We intend to stress this even more this year. We are not penalizing a farmer by grading it Nog-F if he will only take the time to clean it up. If he doesn't clean it up, then he is going to pay somebody to clean it up.

This tobacco last year, on the auction markets, brought anywhere from 35 to 45 cents per pound. That's tobacco that we could grade had he cleaned it up and removed the sand and foreign matter.

We have added four new grades to our standards with this same proposal. Last year we added some oxidized grades to our standards to mainly cover downstalk tobacco, primings and lugs. When I say oxidized, this is tobacco that is housed burned or black tobacco in it.

Prior to last year, if it exceeded 1 percent, then we put a No-G on this tobacco.

In order to eliminate a lot of speculation here at the expense of the producer, we did add in oxidized grades last year which will carry up to 10 percent black tobacco with a reduced price support on this tobacco. This did eliminate some speculation.

This was a helpful move to the producers. We have added in a leaf grade to cover this, because with some of the curing operations now—in the bulk curing—we did find some oxidized black tobacco in the leaf grades last year. If it had as much as 1 percent or more, it was a No-G, no support. This year up to 10 percent will carry reduced price support.

Moving on over to page 12—under our proposal we have proposed to change the tolerances on the leaf grades also, but at a smaller percent. We are only proposing a 5 percent reduction here in the tolerance.

If you look at B-4F, which is a big grade, under our present tolerance the uniformity was 70 percent, the injury tolerance was 20 percent, and the waste tolerance was 5 percent.

I think our biggest problem here is in uniformity on this type of tobacco. What I mean by that is color. We don't necessarily have a problem in our waste in this type of tobacco.

We have proposed to eliminate the waste factor in these leaf grades. I never could picture a straight leaf grade of tobacco having waste in it. When I was a buyer for the company, I couldn't buy straight grade leaf with waste in it. The customer and the foreign buyer wanted solid tobacco.

I don't think that it has really shown up in the warehouses anyway. Of course, the injury covers the hail beaten tobacco or injuries caused

by mechanical harvesting. There is a lot of breakage here in the stems. We think that the 20-percent injury in a B-4F is sufficient to cover this.

We are not discriminating against mechanical harvesting. We realize that this is an area where probably more needs to be done. But we do support anything that will reduce the production cost for the farmer.

Mr. MATHIS. Mr. York, if you take out that clause relating to waste, doesn't that in fact say that you might be supporting tobacco with more waste in it on these grades B-4F, B-5F, and B-6F? Or does it? Am I reading it wrong?

Mr. YORK. No; because if we take it out here and this waste does show up in that B-4F—5 percent—of course, that 5 percent is a part of that 20-percent injury. It's not the whole pile. It's not 5 percent of the pile. We are talking about maybe 1 percent or less of this total of tobacco that could be waste. It's a real small thing. I don't think that in the past we have even applied this.

Now, if you look at it as a percent of the total pile, then you are talking about a lot of tobacco.

Mr. MATHIS. So what you are actually talking about is not a percent of the total pile, but a percentage of the injury.

Mr. YORK. Injury. Right, sir.

Mr. MATHIS. I see.

Mr. YORK. One of the reasons that I felt we needed to move on up the stalk here, because what we are doing with the downstalk tobacco is cleaning it up, is hopefully to protect our foreign market.

We hear rumors that some of our foreign customers came into this country last year and went home with money in their pockets because they could not buy the product that they wanted without this waste being in these straight grades.

Mr. WHITLEY. J. W., which one of these grades is the principal export grade, or group of grades?

Mr. YORK. The B-4F is the largest grade, sir. That is our largest grade. As you move up into the third, second, and first quality you are getting into a small amount of tobacco in each one.

I think this is a good feature for our dealers when they are selling tobacco to foreigners. We are showing the foreign buyer here that the Department has taken steps to clean this tobacco up. Gentlemen, I think I am correct in saying that we have lost 9 percent of our business in the last 2 years.

We are in business to sell tobacco, not store it.

Mr. WHITLEY. So we're just sort of sliding down all the time in our exports.

Mr. YORK. Right.

If there is anything we can do to clean this up and produce a better product, then I think we should take the responsibility and do it.

Mr. WHITLEY. You are saying that the export buyer will come nearer bidding on this pile of tobacco if he is a little more sure that it is what the grade says it is?

Mr. YORK. If it's a little cleaner and has less foreign matter in it, because most of them, when they put out an order for *x* pounds of

tobacco, then the dealer who purchases the tobacco for them has to pick out this tolerance—this waste tobacco.

Under our present regulation our standards on B-4F could carry up to 20 percent red tobacco, variegated tobacco. This just turns that foreign buyer off. He just turns around and walks out of the warehouse when he sees it on the floor.

The present system has allowed this. Up to a few years ago it wasn't a problem because we didn't have the innovations that we have now. These innovations have encouraged this. I think the producers are learning that they can use more and more of this tolerance.

What the dealer does when he purchases tobacco for a customer is to pick this tobacco out. Then he puts the cost of that tobacco up to the foreign buyer. We are worried about price support going up to \$1.30 or \$1.40 on the B-4F. That's what the customer is going to wind up paying for. Why not pay the farmer for it if he will clean it up?

Gentlemen, that's all I have here on the proposal as far as the mechanics of it. As I said at the outset, we don't feel that this is a total cure, but it is a step in the right direction.

Mr. MATHIS. Are there any questions of the committee members for Mr. York?

Mr. Rose?

Mr. ROSE. Mr. York, I've gotten an awful lot of comment from back home about this. Last year the law required you to have an average price of \$1.06. Is that right?

Mr. YORK. Right, sir.

Mr. ROSE. The law this year will require you to have an average price of about what? Do you know?

Mr. YORK. I think it's \$1.13.8, Mr. Rose.

Mr. ROSE. If you make any adjustment this year in downward motion of the P and N grades, if you all reduce price supports downward on P and N grades you have to increase them somewhere else upward to make the average come out the same. Is that not correct?

Now, last year the upward leaf tobacco, the upstalk tobacco, was bought on the warehouse floor in many instances for way above price supports. Some people have told me as much as 10 to 13 cents a pound above price support.

I have also heard that the Department of Agriculture knew that in the 1976 Flue-cured selling season the companies were going to buy that upstalk tobacco, because they said they wanted it. By hindsight, and maybe by foresight, why couldn't you, last year, have decreased the P and N grade price support and increased the upstalk grades. You would have been in a heck of a lot better shape than you are now.

In other words, you could have increased the upstalk grades last year 5 to 10 cents a pound, decreased the low-stalk grades, we would have a heck of a lot less of the P and N grades in Stabilization now, and you wouldn't have picked up any of the upstalk grades. Isn't that correct?

Mr. YORK. Mr. Rose, I would rather not comment on this, because this is in Mr. Lanier and Mr. Hieronymus' shop. I would like to leave that open to his comment.

Mr. JENRETTE. Do you all ever get together and talk? That's about the third time you have mentioned that it's been in somebody else's division. Bill Lanier mentioned that about three time, that it was in somebody else's division.

We are worried about the tobacco farmers. Do you all ever sit down and talk about what is going on and how you can coordinate your programs?

Mr. ROSE. If I wanted to really cause some problems to the tobacco program, as we have now, and as we've gone around the country and told the farmers that they are going to have to take it in their necks, you know, because they are the ones that always have to solve these problems—the little producers.

But it looks to me like this—if somebody was really going to wreck this program last year, the thing to have done would have been to have kept those P and N grade support prices up so that they would all go in Stabilization and not tilt upwards the leaf tobacco grades, which you knew the companies were going to buy anyway.

So here we sit with all these P and N grades in Stabilization that we could have avoided having bought if we had just done that upward tilt on those leaf grades and decreased them on the downstalk grades. The only difference would be that today we would have less P and N grades in Stabilization.

Now, you say Mr. Hieronymus can discuss that? I would like to hear what he has to say on this.

I know that Mr. Frick didn't think much of the tobacco program, and I know that Mr. Butz thought even less. Now maybe if that was the program, I understand it. But I want you all to be aware that we are aware of what took place last year.

I have explained it to the Secretary of Agriculture personally and we are going to meet with him at 5 o'clock this afternoon. I am going to make sure that he understands that last year the companies said they wanted the leaf tobacco. We knew they were going to buy it. We intentionally didn't increase the price support on what they were going to buy. We left it jacked up down on the P and N grades, and who gets hold of the P and N grades? Stabilization.

Mr. HIERONYMUS. Well, sir, when we started to set the grade loan rates for Flue-cured tobacco last year, of course, we were looking at prior years in which the large quantity of downstalk tobacco had come under a loan. We knew the demand for the downstalk tobacco was less. So we recognized that it would be necessary that considerably less of the increase be applied to the downstalk grades than to the upstalk grades.

Mr. ROSE. But you could have increased the downstalk grades by zero and increased the upstalk grades completely, and you still wouldn't have gotten any of those upstalk grades in Stabilization, would you?

Mr. HIERONYMUS. As a matter of fact, sir, we got about half of the receipts which we received last year from upstalk grades. We started applying the increase of approximately 13 cents to be applied. We started with 4 cents, I believe it was, on the less valuable downstalk grades. That ranged up to, I believe, 17 cents on the higher quality upgrades. It was 17 or 18 cents.

When we went in the Federal Register with that proposed schedule, the response that we got from the export buyers was that "We are not going to be able to maintain our purchases of the upstalk tobacco at these prices. These prices are too high. We cannot maintain our upstalk purchases."

Mr. MATHIS. What were those prices, if I might interrupt at that point, on the upstalk that you are talking about? Can you give me a ball park figure? Was it \$1.25 or so?

Mr. HIERONYMUS. Well, running up \$1.20 cents a pound, or \$1.22—up in that range in some of the better upstalk export grades.

So the indications that we were getting were not that they were going to buy the tobacco at whatever price was put on it, but the indications that we were getting were that if we put too much on it they couldn't buy it.

Mr. ROSE. You said that a lot of the tobacco came from the upstalk grades in the Stabilization.

Mr. HIERONYMUS. In the 1976 crop, approximately half of the total receipts were from upstalk tobacco, yes, sir.

Mr. ROSE. So then my argument doesn't totally hold water, that you could have increased the upstalk tobacco price supports more last year and avoided some of this tobacco going into Stabilization.

Mr. HIERONYMUS. We could have increased it more, but the indications are, based on what we did receive, that if we had we would have gotten perhaps a larger proportion of the marketings under loan of the upstalk tobacco than the downstalk.

Mr. ROSE. I thank you for that answer. I am glad to have your explanation.

Mr. MATHIS. We have constantly been told, those of us on this subcommittee, and others who have tobacco producing districts, that the problem with Stabilization today was lower stalk tobacco going into it.

Mr. HIERONYMUS. I think it is.

Mr. MATHIS. Now what you are telling me is that we also have a problem because we've got 50 percent of the total receipts of Stabilization that are upper stalk tobacco.

Mr. HIERONYMUS. Not of the total receipts; no sir. Of the 1975 crop, which was the first of the recent crops in which unduly large quantities were received under loan, approximately 80 percent of the crop was downstalk tobacco.

Mr. MATHIS. That's total receipts of Stabilization for 1975?

Mr. HIERONYMUS. Right.

Mr. MATHIS. All right, sir.

Mr. HIERONYMUS. And then practically none of those were sold.

Then, with the 1976 crop adding on another 50 percent of the receipts, it has got a totally unduly large percentage of the receipts as the downstalk tobacco. And that is where the big problem is.

Mr. MATHIS. I think I am missing something here. But now, for 1976, for the crop that we made last year, what percentage of the tobacco that went into Stabilization in 1976 was upper stalk tobacco—what you would classify as upper stalk tobacco?

Mr. HIERONYMUS. Approximately 50 percent.

Mr. MATHIS. Well then, the problem we have is not just with down stalk tobacco, it is with upper stalk tobacco as well; isn't that what you are now saying?

Mr. HIERONYMUS. I think that my personal opinion is that our basic problem is that our level of support is too high. When our level of support is that high however we spread the money, we are going to get a large quantity under loan.

Yes, I think that we will experience problems in our upstalk tobacco also at the levels of support that are coming up for the 1977 crop.

Mr. MATHIS. That's my next question, then: For 1977, even if we are dropping off some 15 or 17 million pounds, then that's going to force the cost of tobacco up even higher for the upstalk tobacco. So it is possible that for the 1977 crop you may see more than 50 percent of the total receipts for Stabilization be upstalk tobacco.

Mr. HIERONYMUS. I don't think that this would have the effect of forcing the prices on the upstalk—the rates on the upstalk tobacco—higher, by what you are doing here. As I view what is being done here—in the first examples, which are the major changes that he is making, dealing with the X's, P's and N's, he is dealing with those combined groups in which a percentage of the tobacco in each of the groups would be rolled down to the next group.

I don't think that that has changed the value of the X, P, and N group in relation to the value of the other tobacco one iota. I think all it has done is to redistribute where that value in the X, P, and N group is.

What I am saying is if the X, P, and N group tobacco were worth a dollar a pound in relation to the other, after what has been done here it would still be worth a dollar a pound, and it would be reflected in the rates for each grade being different from what they would have been to reflect the changes that were made.

For example, the tobacco that came down in the NIL was tobacco that came out of high-priced grades. It was better tobacco. So, the adjustments that would be done here would result in the NIL being a better grade of tobacco than it would have been had the adjustment not been made. Therefore, it should have a higher support rate.

Mr. MATHIS. But there would be more tobacco in the NIL category this next year, would there not, Mr. York?

Mr. YORK. Not necessarily, because we don't know what it will be. Look back at this figure here. Last year it was 49 million. Under our proposal, the projection for this year would be 50 million. The only thing that we can say is that this 50 million pounds is going to be almost one grade better qualitywise.

Last year it was 90 cents for this P5. I don't know what the price will be on it this year. Even if it stays at 90 cents, all we can say is that it will be one quality better. P5 will look like old P4. It will be equal to a P4 in quality. If the price doesn't increase, the quality has increased.

Mr. MATHIS. So all you are doing there is really dropping some 17 million pounds out of graded tobacco.

Mr. YORK. Under this projection it would be 9 million, sir. This is purely projection based on last year's figures. Only 9 million pounds of that would go into nonsupported grades.

These are the actual figures of the N1 last year. This is the actual figures of the N2 last year. Add that 9 million to this, plus the N2 coming out of the extra that was in N1L. It would come out of the bottom of that and go into N2 and you would come up with 34 million pounds total.

Mr. JENRETTE. That's 40 percent of what, now?

Mr. YORK. We are projecting that 40 percent of it would come out, based on the figures here, which would be 9 million. This is what we actually had last year in the N2—17 million pounds.

Mr. MATHIS. There is no price support now on the N2 grades, is that correct?

Mr. YORK. No, sir.

Mr. MATHIS. But there is on the N1?

Mr. YORK. Yes, sir. Last year it was 80 cents or so.

So, as I mentioned earlier, the only thing that I can say about what we are doing here in our proposal is to clean that grade up and make it a better quality grade, and hopefully it will sell.

Mr. MATHIS. But the box that you find yourself in—particularly those in Mr. Lanier's shop down here—is that if you try to drop the price support on the N1 grade down to 25 cents, or to zero as has been suggested, then there has got to be a corresponding increase on the top grades where we already have put 50 percent of the Stabilization's total receipts last year.

So what you really need is the kind of bill that was proposed earlier this year that would allow you a drop in the parity price where you could distribute this without jacking the price up on the top grade.

Mr. YORK. Yes, sir.

Mr. HIERONYMUS. Yes, sir.

Mr. MATHIS. If we could get our fellow from North Carolina to agree with that, I will get you one in about 10 minutes.

Mr. YORK. I will mention again here there is a problem because we've got the overall price—the process price—up to a point where there is no market for it. I can't give you the exact figures, but I think it's around \$1.78 a pound that Stabilization has in these priming grades—is that correct?

Mr. HIERONYMUS. Yes.

Mr. MATHIS. Are we moving any tobacco at all out of Stabilization today?

Mr. HIERONYMUS. Yes, sir; a limited amount of tobacco has been purchased recently. Last year there was some movement of a small quantity of the upstalks of the 1975 crop of tobacco.

This year there have been limited sales. The 11,000 hogsheads of the oldest crop on hand, the 1959 crop, I believe, is in the process of being sold. Maybe the sale is not final and firm, but I believe it is in the process of being sold.

Mr. MATHIS. Are there any other questions?

Mr. Jenrette? Mr. Whitley? Are there any other questions?

Mr. JENRETTE. No.

Mr. MATHIS. Thank you very much, gentlemen, for your contributions. I think some of us may be more confused now than we were when we started, but that is not unusual around here.

The Tobacco Subcommittee, then, will stand adjourned.

[Whereupon, at 12:01 p.m. the subcommittee was adjourned.]

