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GOVERNMENT

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON

FOREIGN AGRICULTURAL POLICY

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

S. 2385

A BILL TO AUTHORIZE THE COMMODITY CREDIT CORPORATION TO
FINANCE EXPORT CREDIT SALES OF AGRICULTURAL COMMODITIES AND
TO AUTHORIZE NON-MARKET-ECONOMY COUNTRIES TO PARTICIPATE IN
CERTAIN PROGRAMS OF THE COMMODITY CREDIT CORPORATION,

S. 2405

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UNITED STATES,

S. 2504

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S. 2968

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S. 3011

A BILL TO AUTHORIZE THE COMMODITY CREDIT CORPORATION TO EXTEND
INTERMEDIATE TERM AGRICULTURAL CREDITS IN SUPPORT OF THE EX-
PORT OF AGRICULTURAL COMMODITIES AND THE DEVELOPMENT OF LONG-
TERM AGRICULTURAL EXPORT MARKETS ABROAD

APRIL 27 AND 28, 1978

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EXPORT PROMOTION

THURSDAY, APRIL 27, 1978

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met pursuant to notice at 9 a.m., in room 324, Russell Senate Office Building, Hon. Richard Stone (chairman of the subcommittee), presiding.

Present: Senators Stone, Zorinsky, Bellmon, Dole, and Lugar.
Also present: Senator Clark.

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE [presiding]. I think we have a couple of colleagues who have other commitments, and I am certain the other witnesses have. In the absence of the chairman, we can commence the hearings.

The farm prices of agricultural commodities that are involved in export sales are largely determined by world markets. As long as other nations, who compete with us for these markets, offer deferred or special credit terms when we cannot, they will continue to sell more grain and the United States will sell commodities after their supply is totally committed.

This position of being a residual supplier because of not being able to compete for these sales, therefore, is reflected in lower prices at the farm. Farmers should not be denied the right to compete in these markets and the higher prices that could result. That, essentially, is the general thrust of all the bills we consider today, although they have somewhat different approaches.

We have perhaps four bills, plus general interest in the promotion of exports. I have introduced S. 2504, which extends credit to those who would sell exports on a deferred payment basis to importers. The Canadians sell wheat this way to the People's Republic of China.

Senator Lugar has an intermediate credit bill that will supplement the existing CCC credit program; and Senator Humphrey's and Senator Clark's bills, which are somewhat similar, make credits available for periods of 1 to 10 years, and also makes credits available to nonmarket economy countries.

At this point we will place copies of S. 2385; S. 2405; S. 2504; and S. 2968 in the record.

95TH CONGRESS
1ST SESSION

S. 2385

IN THE SENATE OF THE UNITED STATES

DECEMBER 15, 1977

Mr. ROBERT C. BYRD (for Mr. HUMPHREY) (for himself, Mr. LEAHY, Mr. CLARK, Mr. MCGOVERN, Mr. PEARSON, Mr. MELCHER, Mr. YOUNG, Mr. CURTIS, Mr. BELLMON, Mr. DOMENICI, Mr. MORGAN, Mr. CHURCH, Mr. CULVER, Mr. EASTLAND, Mr. BURDICK, Mr. HOLLINGS, and Mr. MATSUNAGA) introduced the following bill; which was read twice and referred to the Committees on Agriculture, Nutrition, and Forestry and Finance jointly by unanimous consent

A BILL

To authorize the Commodity Credit Corporation to finance export credit sales of agricultural commodities and to authorize non-market-economy countries to participate in certain programs of the Commodity Credit Corporation.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Agricultural Trade Ex-
4 pansion Act of 1977".

5 SEC. 2. Section 4 of the Food for Peace Act of 1966
6 (80 Stat. 1538; 7 U.S.C. 1707a) is amended to read as
7 follows:

8 "SEC. 4. (a) Commercial sales of agricultural commodi-
9 ties out of private stocks on credit terms of not to exceed

1 three years may be financed by the Commodity Credit Cor-
2 poration under its export credit sales program.

3 “(b) Export sales of agricultural commodities out of
4 Commodity Credit Corporation and private stocks on credit
5 terms in excess of three years, but not more than ten years,
6 may be financed by the Commodity Credit Corporation. The
7 provisions of Public Law 664, Eighty-third Congress, as
8 amended (68 Stat. 832, 46 U.S.C. 1241 (b)), shall not
9 apply to sales financed pursuant to this subsection.

10 “(c) There are hereby authorized to be appropriated
11 such sums as may be necessary to reimburse the Commodity
12 Credit Corporation annually for its actual costs incurred or
13 to be incurred under programs undertaken under this sec-
14 tion.”.

15 SEC. 3. Notwithstanding any other provision of law
16 denying non-market-economy countries eligibility to par-
17 ticipate in programs of the Government of the United States,
18 such countries shall be eligible to participate in any program
19 carried out by the Commodity Credit Corporation (other
20 than under the Agricultural Trade Development and Assist-
21 ance Act of 1954) under which credit or credit guarantees or
22 investment guarantees are extended, directly or indirectly.

95TH CONGRESS
2D SESSION

S. 2405

IN THE SENATE OF THE UNITED STATES

JANUARY 23, 1978

Mr. LUGAR introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To authorize an intermediate term Commodity Credit Corporation credit program for the purpose of financing the sale and export of agricultural commodities produced in the United States.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Intermediate Term Agri-
4 cultural Export Credit Act of 1978".

5 SEC. 2. In order to develop, expand, and maintain for-
6 eign markets for agricultural commodities produced in the
7 United States, the Secretary of Agriculture (hereinafter re-
8 ferred to as the "Secretary") is authorized, through the Com-
9 modity Credit Corporation, to finance the sale and exporta-

1 tion of agricultural commodities, whether from private stocks
2 or from stocks owned by such Corporation, under the provi-
3 sions of this Act.

4 SEC. 3. The terms of credit for commodities sold under
5 this Act shall be as favorable to the United States as the econ-
6 omy of each recipient country will permit except that—

7 (1) payments shall be in dollars with interest at a
8 rate which will be, as nearly as practicable, equivalent
9 to the average cost of funds borrowed by the Commodity
10 Credit Corporation from the United States Treasury,
11 plus one-half of 1 per centum;

12 (2) the repayment period shall be not less than
13 five years or more than ten years from the date of sale;
14 and

15 (3) the Secretary may, if he deems such action
16 appropriate to protect the interest of the United States,
17 require an initial payment from the purchaser at the time
18 of sale or shipment of the commodity.

19 SEC. 4. (a) In carrying out the provisions of this Act,
20 the Secretary shall take reasonable precautions to safeguard
21 usual marketings of the United States and to avoid displacing
22 any sale of United States agricultural commodities which
23 the Secretary finds and determines would otherwise be made
24 for cash dollars.

25 (b) The Secretary shall obtain commitments from pur-

1 chasers that will prevent resale or transshipment to other
2 countries, or use for other domestic purposes, of agricultural
3 commodities purchased under this Act.

4 SEC. 5. (a) No sale may be made under this Act
5 in the case of any foreign country unless the Secretary deter-
6 mines that such sale will—

7 (1) develop, expand, or maintain such country as
8 a long-term foreign market for the commercial sale of
9 agricultural commodities;

10 (2) increase the sale and export of agricultural
11 commodities produced in the United States, including
12 the sale and export of breeding cattle and swine, on a
13 long-term basis;

14 (3) improve the marketing, storage, handling, or
15 distribution in such country of agricultural commodities;
16 or

17 (4) otherwise improve the capability of such coun-
18 try to purchase and utilize, on a long-term basis, agri-
19 cultural commodities produced in the United States.

20 (b) Agreements entered into by the Secretary under
21 this Act for the sale of agricultural commodities to foreign
22 countries shall be subject to such other terms and conditions
23 as the Secretary may deem necessary or appropriate and
24 shall be subject only to the approval of the National Ad-
25 visory Council on International Monetary Financial Policies.

1 SEC. 6. The Commodity Credit Corporation shall finance
2 ocean freight charges incurred pursuant to agreements for
3 sales of agricultural commodities entered into under this Act
4 only to the extent that such charges are higher (than would
5 otherwise be the case) by reason of a requirement that the
6 commodities be transported in United States-flag vessels.
7 Such agreements shall require the balance of such charges
8 for transportation in United States vessels to be paid in dol-
9 lars by the countries with which such agreements are entered
10 into.

11 SEC. 7. The authority provided under this Act shall
12 be in addition to and not in place of any authority granted
13 the Secretary or the Commodity Credit Corporation under
14 any other Act.

95TH CONGRESS
2D SESSION

S. 2504

IN THE SENATE OF THE UNITED STATES

FEBRUARY 6 (legislative day, JANUARY 30), 1978

Mr. DOLE introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To amend the Commodity Credit Corporation Act to direct the Secretary of Agriculture to establish a program for expanding exports of farm commodities by making available Commodity Credit Corporation financing to exporters who extend deferred payment terms to foreign buyers.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Commodity Credit Corporation Charter Act (15
4 U.S.C. 714 et seq) is amended by adding at the end thereof
5 the following new section:

6 “AGRICULTURAL EXPORT STIMULATION

7 “SEC. 20. (a) To increase the United States share of
8 agricultural commodities in world trade, and to develop,

1 maintain, and expand foreign markets for such commodities
2 and products thereof the Secretary of Agriculture, notwith-
3 standing any other provision of law, shall provide Commod-
4 ity Credit Corporation financing to exporters of such com-
5 modities who wish to extend deferred payment terms to
6 foreign buyers in order to meet foreign competition and to
7 make additional export sales.

8 “(b) Exporters who are willing to sell United States
9 agricultural commodities to foreign buyers on deferred pay-
10 ment terms not to exceed three years may apply to the
11 Commodity Credit Corporation for financing of such com-
12 modities. Upon Commodity Credit Corporation approval of
13 the export sales plan and upon proof of export in accordance
14 with the approved plan, the Commodity Credit Corporation
15 shall provide the necessary financing.

16 “(c) Repayment to Commodity Credit Corporation shall
17 be made in dollars by the exporter in accordance with the
18 terms and at interest rates approved by Commodity Credit
19 Corporation in the exporter's plan. Interest rates on such
20 financing shall be no higher than those charged for similar
21 terms under Commodity Credit Corporation country lines of
22 credit.

23 “(d) The Secretary may, if he deems such action appro-
24 priate to protect the interest of the United States, require a
25 performance bond from the exporter at the time of the sale.

1 “(e) Financing agreements with exporters entered into
2 by the Commodity Credit Corporation under this act shall
3 be subject to such other terms and conditions as the Secretary
4 may deem necessary or appropriate and shall be subject only
5 to review by the National Advisory Council on International
6 Monetary and Financial Policies.

7 “(f) The authority provided under this section shall be
8 in addition to and not in place of any authority granted the
9 Secretary or the Commodity Credit Corporation under this
10 or any other Act.

11 “(g) This section may be cited as the ‘Export Stimula-
12 tion Act of 1978’.”.

95TH CONGRESS
2D SESSION

S. 2968

IN THE SENATE OF THE UNITED STATES

APRIL 20 (legislative day, FEBRUARY 6), 1978

Mr. CLARK (for himself, Mr. MORGAN, and Mr. CULVER) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry.

A BILL

To strengthen the economy of the United States through increased sales abroad of American farm products.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Agricultural Export
4 Expansion Act of 1978".

5 DECLARATION OF POLICY

6 SEC. 2. It is hereby declared to be the policy of Con-
7 gress in order to assist in raising farm income, to create a
8 more favorable balance of trade, and to promote the gen-
9 eral economic welfare, that the United States Government,
10 in concert with private enterprise, engage in a systematic
11 effort to expand international markets for American farm

1 products. To achieve this purpose, there is herein author-
2 ized explicit machinery for the development and imple-
3 mentation of such agricultural policies and programs.

4 TITLE I—ESTABLISHMENT OF UNITED STATES
5 AGRICULTURAL TRADE OFFICES

6 SEC. 101. The Congress finds and declares that United
7 States Government assistance for foreign market develop-
8 ment for agricultural commodities is declining in real terms
9 and in relation to total agricultural exports, that other major
10 agricultural exporting nations are winning new markets
11 through aggressive market development programs larger in
12 scope than those of the United States, and that the economic
13 strength of American agriculture depends on developing,
14 maintaining, and expanding international markets for United
15 States agricultural commodities. It is the policy of the Con-
16 gress that existing foreign market development programs
17 should be carefully and periodically reviewed for their cost
18 effectiveness and that no new demands should be made on
19 the United States Treasury unless it can be shown that the
20 benefits from such increased spending will be reasonable in
21 relation to the costs to the American taxpayer.

22 SEC. 102. To carry out the purposes of this title, the
23 Agricultural Act of 1954 is amended by adding the follow-
24 ing new title:

1 "TITLE VIII—UNITED STATES AGRICULTURAL
2 TRADE OFFICES

3 "SEC. 801. (a) For the purpose of developing, main-
4 taining, and expanding international markets for United
5 States agricultural commodities, the Secretary of Agricul-
6 ture is authorized and directed to establish abroad not fewer
7 than six nor more than twenty-five United States Agricul-
8 tural Trade Offices.

9 " (b) Each Office shall be directed and administered by
10 a United States Agricultural Trade Officer who shall be a
11 person who by reason of training, experience, and attain-
12 ments is exceptionally qualified to carry out the purposes of
13 this title.

14 " (c) Each Agricultural Trade Officer may be appointed
15 without regard to the provisions of title 5, United States
16 Code, governing appointments in the competitive service,
17 and may be paid without regard to the provisions of chap-
18 ter 51 and subchapter III of chapter 53 of such title relat-
19 ing to classification and General Schedule pay rates, except
20 that each Agricultural Trade Officer may not be paid basic
21 pay at a rate in excess of the maximum annual rate of basic
22 pay then payable for GS-17 of the General Schedule under
23 section 5332 of such title.

24 " (d) Each Trade Officer shall perform such functions,

1 powers, and duties relating to foreign market development
2 as may be delegated from time to time by the Secretary of
3 Agriculture and the Administrator of the Foreign Agri-
4 cultural Service and shall report directly to the Agricultural
5 Counselor or other senior representative of the Secretary of
6 Agriculture in the country or countries of concern or to such
7 other person as the Administrator may designate.

8 “(e) The Secretary of Agriculture is authorized to ap-
9 point such other personnel as he determines to be necessary,
10 and may employ local nationals for the professional and
11 clerical help necessary to carry out the duties of the Office.

12 “(f) Each Agricultural Trade Officer shall be respon-
13 sible for the exercise of the powers and the discharge of the
14 duties of the Office, and shall have the authority to direct
15 and supervise all personnel and activities thereof subject to
16 approval of the senior representative of the Secretary of
17 Agriculture in the country or countries of concern and guid-
18 ance from the Administrator of the Foreign Agricultural
19 Service.

20 “(g) No employee of the Office while serving in such
21 position may engage in any business, vocation, or other
22 employment or have other interests which are inconsistent
23 with his official responsibilities.

24 “(h) Upon the request of the Secretary of Agriculture,
25 the Secretary of State shall regularly and officially attach

1 such Officers and personnel to the diplomatic mission of the
2 United States in the country in which such Officers or per-
3 sonnel are to be assigned by the Secretary of Agriculture, and
4 shall obtain for such Officers and personnel diplomatic privi-
5 leges and immunities equivalent to those enjoyed by Foreign
6 Service personnel of comparable rank and salary.

7 "SEC. 802. Subject to approval and guidance from the
8 Administrator, Foreign Agricultural Service and the senior
9 representative of the Secretary of Agriculture in the country
10 or countries of concern, the functions of each United States
11 Agricultural Trade Office shall be to—

12 " (a) in general, increase the effectiveness of agri-
13 cultural export promotion efforts through consolidation of
14 activities, providing services and facilities for foreign
15 buyers and United States Trade Representatives, and
16 coordination of market development activities spon-
17 sored by the Department of Agriculture;

18 " (b) establish goals by country or region and by
19 commodity for developing, expanding, and maintaining
20 markets for United States agricultural commodities;

21 " (c) initiate programs to achieve the export mar-
22 keting goals approved by the Department of Agricul-
23 ture;

24 " (d) maintain facilities for use by nonresident co-
25 operators, private trade groups, and other individuals

1 engaged in the import and export of United States ag-
2 ricultural commodities where the use of such facilities
3 would aid in the conducting of market development
4 activities;

5 “(e) develop and maintain a current listing of trade,
6 government, and other contacts for each commodity area
7 and make available such listing to persons with a bona
8 fide interest in exporting or importing United States
9 agricultural commodities;

10 “(f) originate and provide assistance for exhibits,
11 sales teams, and other functions for the promotion of
12 United States agricultural commodities;

13 “(g) under the direction of the General Sales
14 Manager, provide practical assistance for the use of
15 Public Law 480, the export credit sales program, the
16 export incentives program, and any other related pro-
17 grams of the United States Government where use of
18 such programs will serve as a market development tool
19 for United States agriculture;

20 “(h) supervise project agreements with United
21 States cooperators, coordinate the activities of the Office
22 with those of the cooperators, and submit annual recom-
23 mendations to the Administrator on the efficacy of co-
24 operator programs, including statements as to whether

1 project agreements should be extended, amended, can-
2 celed, or allowed to expire;

3 “(i) publicize the services offered by the Office
4 through advertisements in trade journals or by other
5 appropriate means; and

6 “(j) perform such other functions as the Secretary
7 determines necessary and proper for carrying out the
8 purposes of this title.

9 “SEC. 803. (a) In addition to the Offices authorized in
10 section 801 of this Act, the Secretary may establish one
11 such Office in the United States if he determines that doing
12 so would better effectuate the purposes of this title.

13 “(b) Subject to exceptions made by the Secretary
14 consistent with the purposes of this title, any domestic Office
15 shall operate under the same provisions of law applicable
16 to a foreign Office.

17 “SEC. 804. Nothing in this title shall be construed to
18 diminish the authority of the Agricultural Counselors es-
19 tablished under title VI of this Act.

20 “SEC. 805. In establishing the United States Agricul-
21 tural Trade Offices the Secretary is authorized to—

22 “(a) rent or lease, for periods of less than ten years,
23 such offices, building, grounds, and living quarters as he

1 may deem necessary, and make payments therefor in
2 advance; and

3 “(b) maintain, improve, and repair properties
4 rented or leased pursuant to authority contained in sub-
5 section (a) of this section and furnish fuel, water, and
6 utilities.

7 “SEC. 806. Offices shall be centrally located in the city
8 of assignment to facilitate foreign trade contacts and foreign
9 trade reliance on the Offices for assistance in marketing
10 activities, but shall not be colocated with a United States
11 Embassy.

12 “SEC. 807. Upon request made by the Secretary, each
13 Federal agency is authorized and directed to make its
14 services, personnel, and facilities available to the greatest
15 extent within its capability to the Office in the performance
16 of its functions.

17 “SEC. 808. Agricultural Trade Officers and Agricultural
18 Counselors may, under regulations prescribed by the Secre-
19 tary, be entitled to a representation allowance in an amount
20 determined by (1) the extent to which an Officer or Coun-
21 selor can effectively utilize such funds to further the purposes
22 of this title and (2) a level commensurate with representa-
23 tional and promotional efforts by other major agricultural
24 exporting countries competing in markets assigned to the
25 Officer or Counselor.

1 “SEC. 809. The term ‘Agricultural Counselor’ as used
2 in this title means the principal Department of Agriculture
3 official appointed and attached to a United States diplomatic
4 mission as provided in title VI of this Act.”.

5 TITLE II—INTERMEDIATE COMMERCIAL

6 CREDIT

7 SEC. 201. Section 4 of the Food for Peace Act of 1966
8 (89 Stat. 1538; 7 U.S.C. 1707a) is amended to read as
9 follows:

10 “SEC. 4. (a) Commercial sales of agricultural commodi-
11 ties out of private stocks on credit terms of not to exceed
12 three years may be financed by the Commodity Credit
13 Corporation under its export credit sales program.

14 “(b) Commodity facilities and export sales of agricul-
15 tural commodities for reserve use and long-range purposes
16 out of Commodity Credit Corporation and private stocks on
17 credit terms in excess of three years, but not more than ten
18 years, may be financed by the Commodity Credit Corpora-
19 tion. The provisions of Public Law 664, Eighty-third Con-
20 gress, as amended (68 Stat. 832, 46 U.S.C. 1241 (b)),
21 shall not apply to sales financed pursuant to this subsection.

22 “(c) There are hereby authorized to be appropriated
23 such sums as may be necessary to reimburse the Commodity
24 Credit Corporation annually for its actual costs incurred
25 under programs undertaken under this section.”.

TITLE III—REORGANIZATION

1 SEC. 301. The Congress finds and declares that agricul-
2 tural stabilization and conservation have historically been a
3 central mission of the Department of Agriculture, and the
4 Congress further finds and declares that international affairs
5 have become of increasing importance in the formulation
6 and implementation of United States agricultural policies and
7 to the general well-being of American agriculture, especially
8 with regards to farm prices and exports. Accordingly, it is
9 the policy of the Congress to emphasize the importance of
10 commodity programs and international affairs and to upgrade
11 these functions in the administrative structure of the
12 executive branch.

13 SEC. 302. (a) There is hereby established in the
14 Department of Agriculture the position of Under Secretary
15 of Agriculture for International Affairs and Commodity
16 Programs, to be appointed by the President, by and with
17 the advice and consent of the Senate. The Under Secretary
18 of Agriculture for International Affairs and Commodity
19 Programs is authorized to exercise the functions and perform
20 the duties related to foreign agriculture and agricultural
21 stabilization and conservation (described in 7 CFR 2.21
22 (1977)) and shall perform such other duties as may be
23 required by law or prescribed by the Secretary of
24 Agriculture.

1 “(b) Section 5314 of title 5 of the United States Code
2 is amended by adding at the end thereof a new paragraph
3 (66) as follows:

4 “(66) Under Secretary of Agriculture for Inter-
5 national Affairs and Commodity Programs.”.

6 **TITLE IV—AGRICULTURAL COUNSELORS**

7 SEC. 401. The Congress recognizes that the officials of
8 the United States Department of Agriculture attached to
9 the diplomatic missions of the United States play an im-
10 portant role in developing, maintaining, and expanding mar-
11 kets for United States agricultural commodities and that
12 their positions and responsibilities should be upgraded to a
13 level commensurate with the magnitude and importance of
14 the objectives they are assigned to accomplish.

15 SEC. 402. Title VI of the Agricultural Act of 1954 is
16 amended by—

17 (a) amending the title to read “AGRICUL-
18 TURAL COUNSELORS”;

19 (b) changing the word “Attaché” in section 602
20 (b) to “Counselor”, adding the language “to be ac-
21 corded the same rank and privileges of other counselors
22 in the Embassy”; and

23 (c) adding a new section as follows:

24 “SEC. 609. (a) To effectuate the review of the world-
25 wide supply, demand, and price of agricultural commodities

1 and to heighten understanding of problems involved in sell-
2 ing United States agricultural products abroad, each Agri-
3 cultural Counselor is directed to submit an annual report to
4 the Secretary of Agriculture, who shall transmit such report
5 to the chairman of the Agriculture Committee of the House
6 and the Agriculture, Nutrition, and Forestry Committee of
7 the Senate, detailing the agricultural situation in the country
8 or area to which the Counselor is assigned, and including the
9 following information:

10 “(1) a summary of the supply, demand, and price
11 of each major agricultural commodity in the country in
12 order to understand long-term and short-term trends in
13 the supply, demand, and price;

14 “(2) present and projected imports and exports of
15 agricultural commodities;

16 “(3) unusual patterns, changes, or distortions such
17 as those caused by the governmental intervention, in
18 connection with the trade and consumption of agricul-
19 tural commodities in the country;

20 “(4) trade barriers in the country affecting United
21 States imports;

22 “(5) a summary of other social, political, and eco-
23 nomic factors affecting agricultural trade; and

24 “(6) other matters that the Secretary considers ap-
25 propriate in carrying out this section.

1 “(b) The information in this report shall be periodically
2 compiled on a country-by-country basis, or an area basis
3 where appropriate, organized in a format suitable for a gen-
4 eral audience with an interest in foreign agriculture, and
5 made available at a reasonable price to the public.

6 “(c) Upon request made by the Secretary of Agricul-
7 ture, each Federal agency is authorized and directed to make
8 its services, personnel, and facilities available to the greatest
9 extent within its capability to the Counselor in the perform-
10 ance of the Counselor’s functions.”

11 TITLE V—GENERAL PROVISIONS

12 SEC. 501. (a) The Secretary of Agriculture shall imple-
13 ment the Agricultural Export Trade Act of 1978 as expen-
14 ditiously as possible consistent with the efficient and effective
15 administration of the programs established under this Act
16 and their integration with related foreign agricultural pro-
17 grams.

18 (b) The Secretary is authorized to issue such regulations
19 as may be necessary to carry out the provisions of this Act.

20 SEC. 502. (a) The Secretary shall provide the funds
21 authorized or required under the provisions of this Act
22 through the Commodity Credit Corporation and other means
23 available to him.

24 (b) Appropriations made available to carry out foreign
25 agriculture related functions within the Department of Agri-

1 culture shall be available to carry out the provisions of the
2 Agricultural Export Trade Act of 1978.

3 SEC. 503. No person shall on the ground of sex, age,
4 race, color, religion, handicap, or national origin be ex-
5 cluded from participation in, be denied the benefits of, or be
6 subjected to discrimination under any program or activity
7 funded in whole or in part with funds made available under
8 this Act.

9 SEC. 504. The Secretary shall transmit to the Congress
10 each year a report which shall include a comprehensive state-
11 ment of the activities and accomplishments of the Depart-
12 ment of Agriculture in developing, maintaining, and
13 expanding foreign markets for United States agricultural
14 commodities.

Senator DOLE. The first witness we will hear from this morning is our colleague from North Carolina, Senator Morgan.

Bob?

**STATEMENT OF HON. ROBERT MORGAN, A U.S. SENATOR FROM
NORTH CAROLINA**

Senator MORGAN. Thank you, Mr. Chairman. I do appreciate the opportunity of being here because, as you know, I do represent a State that produces many export crops.

North Carolina is in the top 10 of several farm commodities. And if some people, particularly Mr. Califano, in the executive branch of the Government should have his way, we might have to produce other farm commodities than we anticipate.

So I do appreciate the chance of coming and making some remarks on some of the bills which are before your subcommittee.

You know, Mr. Chairman, in recent months, Congress has devoted a great amount of time and energy toward improving the domestic farm program. To me, it seems inconsistent to improve our domestic agricultural policies without examining our export policies. After all, the economic welfare of the Nation's farmers has been increasingly tied to our success in export markets.

America made significant strides in our food and fiber exports in recent years. In this decade alone, our agricultural exports have tripled to where we now earn over \$24 billion annually.

Our food exports are an extremely important segment in our balance-of-payments picture. Without strong food and fiber exports, I think this country of ours would have a totally disastrous balance-of-payments deficit.

Agricultural exports are important to my State, as I mentioned. Tobacco is exported to many countries. We sell tobacco to over 100 countries in virtually every corner of the globe. And in many of those countries, Mr. Chairman, tobacco was the first American farm product, to be exported.

North Carolina exports a good number of other commodities as well. We export, in large volumes, soybeans, and corn as well. Our farms are becoming increasingly tied to export markets.

I think it is my obligation to do my best, while in the Congress, to improve this Nation's agricultural import policies, export policies, as much as I do represent North Carolina, as well as the Nation.

Before I begin comments on the work being done here today, I would like to say that food trade cannot be viewed in isolation of other events.

Our Nation is currently involved in negotiations for multilateral trade agreements and for a new international wheat agreement. We must improve our trade policies here in the Congress. If we do so, I believe we can increase our chances for success in these vital negotiations.

There are two elements in our food and fiber export policy. One is the food for peace and expansion of agricultural markets programs which has been on the books since 1954. Title I of Public Law 480 has been used to develop many of today's overseas markets. The mem-

bers of this subcommittee know that title I involves sales of concession rates of interest, with terms ranging from 20 to 40 years.

The second element is the Commodity Credit Corporation. The CCC can issue credit to cover agricultural commodities that are deemed in surplus. Commodity Credit Corporation credits are issued for terms ranging up to 3 years. Commodity Credit Corporation has been a welcome complement to the Public Law 480 program in our Nation's market development efforts.

I think a charge before this subcommittee and before the Agriculture Committee is to work to try to expand our export markets. This subcommittee's efforts are vital to the well-being of the Nation. We must examine every opportunity that we have to expand these markets. And I do not think we can become too complacent in our recent successes.

In my comments before the subcommittee, I want to discuss various agricultural trade issues and the bills pending before the subcommittee, and actions that I believe should be taken by this Congress with regard to the Commodity Credit Corporation financing for non-market economies.

Certainly, the most controversial legislation pending before this committee is Senator Humphrey's S. 2385, the agricultural trade expansion, introduced shortly before his death.

The bill enjoys the support of 29 cosponsors, including myself, and a majority of the committee.

The section of this bill that has stirred most controversy is that particular portion which authorizes nonmarket economy countries the opportunity to participate in programs of the Commodity Credit Corporation.

Modifying the terms of the Trade Reform Act of 1974, would enhance our farm trade opportunities. Doing so would improve farm income, which has been very depressed, and would help reverse our serious balance of payments. Modifying that part of the Trade Reform Act, and only that part, which relates to the Commodity Credit Corporation, would not change the thrust of the law. Restrictions would still remain on Export-Import Bank credits.

In examining this issue, I think we have to keep in mind the fact that the CCC is a creature of the U.S. Government and that credit decisions will likely remain very political in nature. The CCC credit line is decided by the Office of Management and Budget which, in reality, is the office of the President. It is clear to me that the President is not about to extend credit to countries which have poor relations with us, or that we are not satisfied in dealing with. In fact, we have used CCC in the past to improve our relations with other nations.

I think we also have to keep in mind that Commodity Credit Corporation has been very well managed and that it has been very conservative in its financial management of credit. Commodity Credit does not automatically grant credit to every country that applies. It uses some rather strict tests to determine a country's eligibility. And further, I think it ought to be noted that it actually has returned a profit, funds that accrued to the Treasury.

I realize that this section has generated some deep emotions. Restrictions that were included in the Trade Reform Act were included because of this Nation's commitment to human rights. And let me state unequivocally that human rights have to be a concern of this Nation. And I am pleased that the President has made it a prime plank in his program. We were founded a nation of free men and women, and we fought for liberty time and time again during our two centuries of existence. Human rights ought to be at the top of our list of priorities.

History has demonstrated that America must be diligent in the cause of human rights. America must address this issue, because too often no other nation has. While human rights, including the right to emigrate, are of most concern to us, I think we do have to examine if the restrictions established in the name of human rights are effective.

The restrictions we are discussing link our willingness to extend commodity credit to the emigration policies of the various nonmarket economy countries. These restrictions were brought about to address the question of the right of the Jewish people to emigrate from various Warsaw Pact countries; in particular, the Soviet Union.

Of course, there are many arguments that can be made against providing this credit to nonmarket economies. One argument has been that we should not give the Warsaw Pact nations something for nothing.

On this point, it is clear to me that the Soviets are particularly interested in CCC credit. In fact, extension of commodity credit would be most beneficial, I think, to us. In this country, our gain would be increased trade, primarily through increased consumption.

Senator DOLE. I think the big problem there is emigration. If we could—relax their emigration policies, I think—

Senator MORGAN. I think you are right, Mr. Chairman. But I think there are a good many in the Senate who question whether these restrictions are working.

Senator DOLE. It has not worked so far—it has been counter-productive.

Senator MORGAN. That is my view.

I sat in Moscow in a room with Senators Javits, Ribicoff, and Humphrey, and others, and we talked to a number of Russian Jews who wanted to emigrate to this country. We discussed this very issue, as to whether or not these restrictions have been counter-productive. There was disagreement, but I think the record, of course, shows that they may have been counterproductive. But maybe it may very well be that by opening up farm trade, we might have an opportunity to see whether or not the Russians would be willing to open the doors, again, certainly more than what they have.

I think this is the most troublesome part of trade policy. I think we have to remember, too, Mr. Chairman, that we are dealing with some countries other than the Soviet Union. We are dealing with East Germany, Czechoslovakia, and Hungary, all three of which are very attractive markets for the United States, particularly for our feed grains and oilseeds, such as soybeans. And it is a disappoint-

ment to me and to our farmers that we do not aggressively seek out these promising markets.

Now, we have dealt with Poland and Yugoslavia and Romania, and we used CCC credit. We have made some substantial market inroads into these nations.

Senator DOLE. China is another big market. It has great potential. In fact, for the first time in a number of years, it has purchased U.S. wheat, which is significant. I am certain it is significant, not just for wheat-producing areas, but for areas like North Carolina. They have been very reluctant to buy anything from this country. There is great market potential there.

Senator MORGAN. Well, China is a promising market, Mr. Chairman. And I think it is time that we stop being a residual supplier for these nonmarket countries.

Senator DOLE. As a last resort.

Senator MORGAN. A last resort. And I think to the detriment—not only detriment to our farmers, but also a detriment to the consumers in America, because we have not been able to anticipate the various demands that might exist.

And I say again, learning to trade effectively with these countries will improve our relations or at least put us in a better position. I believe the time has come that we should consider trying to expand our farm exports. And I think this is the reasonable way in which to do it, and I think we can do it without any detriment.

Mr. Chairman, I have some other comments with regard to particular bills, but I suppose for the sake of time that I should make my entire statement part of the record.

Senator DOLE. The entire statement will be made a part of the record, and we appreciate very much your testimony.*

With reference to the recent China purchase, I am reminded that they only bought from us after buying from the Canadians and Australians on deferred payments arrangements. So as you indicated, we are the residual market.

Are there any questions of Senator Morgan?

Senator MORGAN. I might add one other thought, Mr. Chairman, and that is that these countries have not been credit risks in the past. There is some question in the minds of my people back home as to whether or not we want to extend credit to them. I note that the last credit extended to the Soviets, back in 1972 or so, was paid off long in advance before it.

Now, credit arrangements with Yugoslavia, Poland, and Romania—have been very satisfactory.

I know that these restrictions are not an easy subject. But certainly no one could accuse my friend, Hubert Humphrey, of being weak on human rights. And yet, this is a bill that was very dear to him, and one that I was pleased to join with him in support of prior to his death, and pleased to try to make a few remarks in support of it, since he is not here.

Let me just read one further part of my statement.

*See p. 118 for the prepared statement of Senator Morgan.

In January of 1975, a report was prepared for the House Committee on International Relations which listed four conditions for an exporting country to have food power based on market controls, with respect to a particular commodity and to a particular country.

The following conditions are, first, importing countries must require sizable quantities of the product. Second, the required commodities must constitute a significant percentage of the country's total consumption. Third, no readily available alternative sources can exist or be quickly developed. And, fourth, no satisfactory substitutable commodity can be available or quickly developed elsewhere.

While a special study has not been done, to see if these poor conditions have existed at any time in the countries, I believe that answer is probably known.

We will file the remainder of the statement.

Senator DOLE. Are there any questions of Senator Morgan?

Thank you.

[Whereupon, Senator Stone assumed the chair.]

Senator STONE. I want to thank Senator Dole for starting the hearing. I was detained in another meeting with some of our Foreign Relations Committee members.

I am going to put my statement in the record in order to expedite the hearing.*

Let me call on Senator Clark for his statement.

Senator DOLE. I have a brief statement that I will submit for the record.**

Senator STONE. Senator Clark?

STATEMENT OF HON. DICK CLARK, A U.S. SENATOR FROM IOWA

Senator CLARK. Thank you, Mr. Chairman and members of the committee.

I do represent a State that depends very heavily upon foreign exports. I guess about 1 out of every 3 acres—perhaps a bit more than that in our State—is exported. We usually are first or second in total corn production, and have been very, very high in the ranking of the States in terms of soybean production.

I appreciate the chance to appear here and talk about what is perhaps the most important single area in terms of trying to increase farm prices, the ability to increase our exports. And as you know, I have introduced legislation—as other members of this committee and others not on this committee have done—the particular bill that I introduced was S. 2968.

As I say, I think you have four or five bills before you. All of them have great similarities. I think—I would certainly hope—that the committee would get the ideas here today, and move relatively quickly in terms of passing legislation.

Now, the two main components of our agricultural policy, our foreign trade policy, of our agricultural policy—it seems that our foreign trade policy has always been kind of a stepchild, that we had

*See p. 117 for the prepared statement of Senator Stone.

**See p. 117 for the prepared statement of Senator Dole.

very slow exports. We did very little in the area, but that is changed. And today the success of our domestic agricultural policy obviously depends on the success of our foreign trade policy.

I do not think that fact is adequately appreciated, yet, either in the Government or outside. And I do not think that it is adequately understood across the country generally.

Let me say that I visited on Tuesday with President Carter about a number of areas of agricultural policy and talked particularly about the importance of the legislation before this subcommittee and the hearings we are holding today. And he asked me, following these hearings, to call him back and discuss the testimony.

I pressed very hard for him to support the kind of legislation that is before this committee, and I intend to continue to press for his support. He certainly sounded most sympathetic to this kind of legislation, and I think it is important that this committee gets the administration's support for this kind of legislation.

I must say I am disappointed in some of the vibrations I get, at any rate, in terms of the State Department's position, OMB's position, on this. I did not get that kind of impression from the President, I must say, in terms of the necessity to increase foreign exports and the attractiveness of this kind of legislation.

So I hope when the State Department witnesses which I see are on today's agenda appear, that they will make some very specific comments about what their objections are.

It seems to me that if we have got a trade balance—what was the figure yesterday? A negative \$2.8 billion in balance, which is one of our better months—that we ought to find some way to increase our exports, rather than finding ways to say: "No, we do not like anything that the House has proposed, and we do not like anything that the Senate has proposed."

Let us see some proposals from somebody. If all of these proposals that have been introduced in the House and the Senate are not the right direction, it seems to me that it would be incumbent upon the administration to come forward with some of their own.

I might just say that I have taken some notes on their opposition to various of these areas and I would like to comment on those briefly.

Apparently, the feeling is that the intermediate credit program would not increase sales substantially. That is the position of OMB, the State Department, or someone in the administration that is making the decisions. I do not quite understand that way of thinking.

If our credit programs, which offer from 1 to 3 years credit, are successful in increasing exports—and they certainly do—and if our credit from 20 to 40 years, under concessional sales, is successful—and it certainly is—I do not understand how the State Department can argue that credit from 3 to 10 years would not be successful. If we do this—some are saying, obviously, our foreign competitors will lower their credit.

Well, the fact is, they already have in some cases. It just is not the case that all countries in the world do not extend any credit in a period from 3 to 10 years. I think if we are to simply not to take any

action on the grounds that somebody might counter it, I do not understand how we would ever extend any credit or ever do anything. The fact is, we need this program to counter efforts our competitors use now. So I hope that the witnesses will address themselves to that.

Further, as I understand the opposition, they are opposed to increasing the attaché rank to counselor. They say that is insignificant and would not make any difference. Well, the attachés tell us a different story. They say that they are the low man on the totem pole, always; they are not able to get important things done. And I must say that if an additional title does not mean anything, I do not know why it exists for other than agricultural people. We think it could make some difference. Opposition apparently exists to every aspect of this legislation.

With regard to the proposal for trade offices, they say that we need not mandate this, because apparently authority already exists for trade offices. Well, the fact is we have got one; we are not getting any more. If the Congress mandates this and does appropriate the money for them, we have got a chance of getting these kinds of trade offices and, obviously, they can be available.

My own judgment is that these initiatives and this legislation are important, and I do not mean just my bill—I have got no pride of authorship. There are four bills before us, and several in the House. All of them do roughly the same things.

It seems to me that we ought to push forward with these kinds of initiatives.

Now, I have a longer statement going into the reasons why, in my judgment, intermediate credit, increasing the rank of attaché to counselor, opening trade offices, and so forth, would be available and important.

But I think, if I may, Mr. Chairman, I will just ask that that be made a part of the record*

Senator STONE. Since I agree with your reasons, I will put it in the record.

Senator CLARK. I will just open it to any question.

Senator STONE. You do address the sticky one, Dick, the credit in the so-called nonmarket countries. I would be interested to hear the Conference on Soviet Jewry, because that is the one that gets involved in the Jackson-Vanik amendment.

Senator CLARK. I do not, in this bill, but not because I do not support it. I am a cosponsor of the Humphrey bill. But, rather because I thought it might raise too many questions. I really felt that, given our situation, and so forth, we ought to try to get something through quickly that has a good chance of passage. But it is not out of lack of support for the Humphrey bill.

Senator STONE. Some effort to address that indirectly by extending credit to the exporter, which is done in some countries, rather than extending credit to the country, to avoid this quagmire. I guess that is the most sensitive one, the most difficult one. I understand that next year might be an early production if we get involved in that.

Senator STONE. Senator Lugar?

*See p. 233 for the prepared statement of Senator Clark.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM
INDIANA

Senator LUGAR. I would like to read a short statement and make some additional comments.

Mr. Chairman, I know that you share my general concern about the economic plight of the American farmer today. The U.S. Department of Agriculture has estimated that U.S. farm income was \$19.3 billion in 1977, the lowest level since 1964, when adjusted for inflation. Though short-term measures may be implemented to ease this situation, a vigorous export policy is essential to a long-run solution. An expanded agricultural export credit program is one tool to help us establish such a policy.

There currently exists a short term Commodity Credit Corporation (CCC) credit program which involves loan terms of from 6 months to 3 years, and a long term concessional Public Law 480 credit program which generally involves loan terms of from 15 to 40 years.

The bill I have introduced, S. 2405, provides for an intermediate CCC credit program to allow loan terms of from 5 to 10 years, in order to develop and to expand our foreign market for agricultural commodities, including breeding livestock. This is not a giveaway program. Taxpayers should favor this approach, for if farm prices rise with increased exports, the Federal Government will spend less on agricultural price support programs.

Interest on CCC loans made under the act must be paid at a rate which would be at least one-half of a percent above the average cost of funds which the CCC borrows from the U.S. Treasury. If, under existing laws, a portion of such commodities must be transported by U.S.-flag vessels, the CCC will pay any difference in freight charges in order to maintain a competitive position. This one-half percent has been added to defray, in part or total, any ocean freight differential.

The Secretary of Agriculture must take reasonable precautions not to preempt cash export sales. In addition, no sale may be made involving intermediate CCC credit unless it is determined that such a sale would involve a permanent expansion of our foreign markets for agricultural commodities.

The emphasis of this bill is on long term market development and trade expansion. There is no reason to have an intermediate credit program if it is not tied to these objectives. For more immediate transactions, the short term CCC credit program is generally sufficient if such credit is not to be extended to the so-called nonmarket countries; commodities are purchased, processed, and marketed, and the loan is repaid, all within 3 years.

A simple extension of this program to longer loan terms would be unwise for obvious reasons. Such a move could be viewed as an attempt to expand market share rather than the size of the total market, and could touch off trade wars. In addition, simple extension would make the entire current short term CCC program, which is not concessional, subject to cargo preference legislation.

There are, however, several instances in which intermediate credit is very valuable if tied explicitly to trade and market development activities.

For example, there are several countries which would like to buy grain on a medium-term basis, using the funds generated by the transaction for building facilities to improve the marketing, storage, or distribution of food or other commodities which would, in turn, increase our markets for future shipments.

If CCC intermediate credit is granted, the contract will stipulate that the funds generated in the interim must be used for such facilities specifically described in the contract before the loan is repaid to the CCC.

Another area in which intermediate credit is appropriate is that of breeding livestock. While grain can be processed and marketed rapidly, considerable time is needed to establish a herd from imported breeding livestock. Intermediate credit would allow a herd to be established before the loan would become due.

Secretary Bergland, at my request, has asked all of our agricultural attachés to assess the impact of S. 2405 in the countries in which they work. He responded to my request on April 11, 1978, and I would like to share the results with this subcommittee.

Of the 66 countries who responded, 22 indicated keen interest in my bill. Most of these were developing nations who need short-term capital for projects such as covered bulk unloading facilities and port development, additional elevator and cold storage capacity, soybean crushing, feed, flour, and rice, mills, and improved dairy and beef cattle herds. At this time, Mr. Chairman, I would like to submit for the hearing record the summary results of Secretary Bergland's response to my inquiry.

[The following was received for the record:]

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D. C., January 23, 1978.

HON. RICHARD G. LUGAR,
U.S. Senate, Washington, D. C.

DEAR SENATOR LUGAR: This is in further response to your letter of December 22 concerning a review of the market potential for an intermediate CCC Credit program.

We find the prospect of an intermediate term credit program intriguing and are pursuing an evaluation of the benefits it might bring to our export position. At an agricultural attaché conference in Lisbon held in mid-December, a proposal for intermediate credit was discussed and favorably received. The attaches, who represented countries in Eastern and Western Europe, Africa and the Middle East, gave general agreement that additional thought should be given to the proposal.

I am enclosing a copy of a cable sent to all our attaches and agricultural officers on January 6 requesting specific consideration of the points you raised in your letter. I will advise you of the results as soon as they are available.

We greatly appreciate your interest in this matter and completely agree with you on the importance of export markets to American farmers.

Sincerely,

BOB BERGLAND, *Secretary.*

Enclosure.

[Telegram]

To: All Agriculture Attaches and Officers.

From: Director, Export Programs Division, CEP, OGSM.

Subject: Potential for program to finance market development projects.

1. Senator Lugar has requested that attachés estimate potential market opportunities in host country for proposed USDA program under which U.S. farm

commodities would be sold on commercial terms for repayment up to 10 years later. Proceeds would be used by the destination country for construction of grain handling facilities and other specific projects which would increase the ability of the country to purchase U.S. farm products.

2. Attachés should recognize that such financing would not be available until appropriate legislation was enacted and implemented by a specific program.

3. Reply appreciated ASAP, attention Ken Stephens, CEP, OGSM.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D. C., April 11, 1978.

HON. RICHARD G. LUGAR,
U.S. Senate, Washington, D. C.

DEAR SENATOR LUGAR: We now have responses to the cable sent to all our attaches and agricultural officers concerning the potential to finance market development projects through an intermediate credit agricultural commodity export program.

Reports from attaches covering 22 countries showed definite interest in this type of financing. The projects cited covered bulk unloading facilities and port development, additional elevator and cold storage capacity, soybean crushing, feed, flour and rice mills and improved dairy and beef cattle herds.

The reports indicating little or no interest are from countries which already are cash markets where these facilities are adequate or are from those countries now in the aid or concessional category where this type of financing would not be applicable at present. A summary chart of attache comments is enclosed.

We appreciate your interest and legislative support in connection with the development of an effective intermediate credit agricultural commodity export program.

Sincerely,

BOB BERGLAND, *Secretary.*

Enclosure.

Countries with negative possibilities	Applicable attache comments	Countries showing favorable interest	Applicable attache comments
Thailand.....	Interested in program for cattle however.....	Greece.....	Construction additional port facilities needed 6 ports; \$20,000,000.
Sierra Leone and Guinea.....	No, are concessional markets.....	Syria.....	Possible interest, interest rate important. Need for bulk feed storage and delivery system to handle bulk grains from ports to elevators in consuming centers.
Switzerland.....	Not needed.....	Colombia.....	Tentative interest, would like more detail.
Lebanon.....	Little interest.....	Brazil.....	Would help United States get larger share of market, also needed for cattle imports.
West Germany.....	Not needed.....	Egypt.....	Livestock Management Institute, port facilities at Ikingi.
Japan.....	do.....	Malaysia.....	Questions raised as to terms; use to meet UMR's; could funds be used to pay off aid and grain already made for grain-handling facilities. Interest in edible oil refining and flour mill.
Belgium and Luxembourg.....	do.....		Potential demands if private trade. Could use financing and interest rate attractive for soybean crushing, feed mill, expand flour mills.
Austria, Czechoslovakia, and Hungary.....	No real applicability.....		(Considerable potential; would assure larger U.S. market, up to 550,000 MT of wheat grain-handling facilities, flour mill expansion livestock quarantine facilities.
Argentina.....	A competitive supplier.....	Peru.....	Would like to have program satisfy UMR's.
Australia.....	Might be counterproductive.....	Portugal.....	
Venezuela.....	Government trying to reduce reliance on imports; pumping funds into its domestic agriculture.....		
Bangladesh.....	No, a concessional market.....	Sri Lanka.....	Storage and transportation facilities needed, good possibility to enhance market potential for U.S. wheat.
Denmark, Norway, and Hong Kong.....	Not needed.....	Spain.....	Interest limited to cattle and cotton; grain-handling facilities adequate.
Guatemala and Honduras.....	Doubtful, couldn't this be done under Public Law 480?.....	Morocco.....	\$400,000 bulk vegetable oil facility in Tangier a hot prospect also some feed mill expansion needed (\$1,000,000) to \$2,000,000. Needed for dairy cattle. Also Tunisia.
Indonesia.....	No major opportunity but refrigeration facilities for meats inadequate.....	Korea.....	Would be very attractive bridge between CCC Credit and Public Law 480 grain storage, and handling facilities and feed and flour mills needed. Need for bulk grain storage/handling facilities, feed and flour mills (\$50,000,000).
Nigeria.....	Largely a cash market.....	Iran.....	Although Iran a cash market need exists for bulk port unloading facilities, grain storage, cold storage, rice mill, soy crushing plant and distribution facilities. Iran becoming more interested in credit.
Ecuador.....	Not needed.....	Ireland.....	Need for 1,000,000 lb soy crushing facility also distribution facility for soy meal and corn gluten feed.
India.....	Not unless terms so attractive they could not be ignored.....	Poland.....	Need port elevator storage, feed mill and soy crushing facilities, also port grain handling facilities—\$50,000,000—\$60,000,000.
Mexico.....	Not likely.....	Philippines.....	Need for cattle; very limited for other commodities. There is a need for free port and grain handling and distribution facilities.
Canada.....	Not needed.....	Kenya.....	Definite interest—need for port grain facilities and cold storage.
Italy.....	Not needed. Lira depreciation a factor.....	Chile.....	Potential exists, would be helpful for vegetable oil, soybean and breeding cattle. Because of failure to act on last \$10,000,000 wheat CCC Credit request, how could new program be put into effect in Chile. Expand flour mills, soybean and vegoil processing facilities and port facilities.
Peru.....	Not needed now.....		Rice mills needed.
El Salvador.....	Not needed.....	Senegal and Ivory Coast.....	Bulk unloading facilities, corn and soybean processing plants.
V Costa Rica.....	Little potential.....	Guyana.....	
Nicaragua.....	Not needed.....		Probable rice mills expansion.
Dominican Republic.....	Not apparent interest.....		
Sweden.....	Minimal.....	South Africa.....	
Taiwan.....	Not unless rates lower than Euro-dollar rate.....		
New Zealand.....	Not needed.....		
U.S.S.R.....	Doubtful, anyway Jackson-Vanik prevents it.....		

Senator LUGAR. S. 2405 does not establish the eligibility for non-market economy countries to participate in this CCC credit program. The reason is simple—bills have already been introduced which would extend CCC credit to nonmarket economies.

These proposals, which I support, must nevertheless stand on their merits, and should not jeopardize increased agricultural exports which could be provided with intermediate credit to the so-called market economy countries.

Mr. Chairman, I want to thank you for holding these important hearings. I am hopeful we might be able to markup legislation in the near future which would increase the volume of our agricultural exports.

As part of what I have requested of the committee, and Mr. Chairman, you have granted, I have a letter from Secretary Bergland on January 23, 1978, in which he is saying, among other things:

We find the prospect of an intermediate term credit program intriguing and are pursuing an evaluation of the benefits it might bring to our export position.

He then sent cables to all the attachés on April 11, 1978, reports from the 22 countries, and he says:

The projects cited covered bulk unloading facilities and port development, additional elevator and cold-storage capacity, soybean crushing * * *

and so forth, which he believes would be very helpful in this respect.

Mr. Chairman, I think that there are simply four basic differences that we will be examining, and my bill is not necessarily incompatible or competitive with others. But clearly, in terms of the credit idea, my bill is a 5- to 10-year credit program tied to market development, a separate program.

It does not pick up the 3 years and take it to 10. Since a separate 5- to 10-year intermediate credit program would be established, countries participating in the current short-term credit program would not be able to roll-over their short-term loans into the intermediate program for no economic reason. We have simply a separate idea, in which some things have to occur in terms of repayment which would increase the level of our agricultural exports for years to come—not just for 1 or 2 years.

There must be some attempt in the infrastructure of these countries receiving this credit to do some things that make possible a long-term export ability for us. The emphasis of S. 2405 is on increasing the size of the export market, rather than increasing our percentage of the current market.

Second, I do not provide for credit to nonmarket countries, as I have pointed out. Other bills do. But they might very well travel on their own. I think this is important because this might mean we will have a bill which does not confront the Jackson-Vanik stipulations, and, therefore, might have a better chance of passing and being signed by the President.

My bill does not state that 5- to 10-year CCC credit is subject to Public Law 664, the Cargo Preference Act. However, if it is eventually determined that the provisions of Public Law 664 apply to intermediate CCC credit, we have a varying interest rate provision which would help cover the ocean freight differential. Expert testimony will

come in as to how much one-half percent will cover. Some will say you need more than one-half percent. But in any event, an attempt has been made here to be flexible enough to accommodate a Public Law 664 ruling.

Finally, in terms of rationale for the credit, the bill would extend 5- to 10-year credit only if the buyers agree to use the money in the interim for market-expansion activities. That is a terribly important incentive and back-up, and assurance to American taxpayers, why we are doing this—on behalf of increased agricultural exports and strong long term market relationships.

Senator STONE. Thank you, Senator.

I have just one comment—not a question.

I am intrigued by your thrust in trying to do for market customers what we have been trying to do for the Public Law 480 recipients, which is to assist in their infrastructure, in storage, and in port facilities, that would enable them to become practical users of our agricultural exports. What we are trying to do here, with your bill—among other things—is to have market customers, cash customers, and credit customers work toward the same support facilities that would expand their ability to buy from us in our agricultural exports.

Is that not right?

Senator LUGAR. That is correct—and to build up herds—which takes some time—that would consume more of our grain.

Senator STONE. I really appreciate your testimony and the trouble that you took to get the USDA and foreign reaction to it before simply introducing it.

Senator LUGAR. Thank you.

Senator STONE. Senator Bellmon?

Senator BELLMON. No questions.

Senator STONE. Senator Dole?

Senator DOLE. No.

Senator STONE. We have Senator Stevenson here, and since he is under restrictions of time in other hearings let me call on Senator Stevenson right now.

STATEMENT OF HON. ADLAI E. STEVENSON, A U.S. SENATOR FROM ILLINOIS

Senator STEVENSON. I would like to thank all the distinguished members of this committee for the opportunity to be here today, and also commend you for your attention to agricultural exports.

I have the privilege of Chairing the Senate Subcommittee on International Finance, which is a subcommittee of the Banking Committee. Senator Lugar is familiar with it.

The subcommittee has general jurisdiction over exports, and we have been conducting a lengthy series of hearings on U.S. export policy, with hopes of developing such a policy as an alternative to current suggestions for more export subsidies on the one hand or protectionism on the other.

In February, the trade deficit, as you know, reached a staggering \$4.5 billion. Last year, it was \$31 billion. The dollar has been declin-

ing erratically, with increasingly adverse consequences, including inflation, economic stagnation, unemployment, and declining levels of trade and investment in the world. Suffice it to say that the importance of this subject—to which this and my own subcommittee are addressing themselves—can scarcely be exaggerated. And agricultural exports are the most important component of our entire export picture.

So I would like to take advantage of this opportunity, Mr. Chairman, to share with you some ideas that our own hearings have generated, with the hope that we can, in the future, work together to increase opportunities for U.S. exports abroad.

Some of the impediments to U.S. agricultural exports, such as import barriers within Europe and Japan, cannot be breached by legislation. So I would urge this subcommittee to join with my own subcommittee and such others who may be interested, to impress upon Ambassador Strauss the importance of reducing foreign barriers to U.S. agricultural exports, and especially meat exports.

Much of the present controversy surrounding meat exports might be diminished if instead of exporting grains to feed hogs and cattle abroad—which result in greater meat imports back into the U.S.—we exported more meat. This would require more funds for agricultural research and development, improved means of processing, packaging, transporting and storing meat, as well as agreement on international standards for meat quality.

So first, I think we ought to impress on Ambassador Strauss the importance of reducing barriers to exports of U.S. agricultural commodities. Second, we ought to pay more attention to the technical problems that stand in the way of meat exports.

We export soybeans and corn to Poland, for example. They run it through their hogs and we buy back the hams. Now, if they can do that, we ought to be able to run corn through our own hogs and sell them the hams.

I have held some hearings on the subject, and yet have found no satisfactory answer to the failure of the United States, an efficient livestock producer, to export anything except offal. We do not export red meat in any significant quantity. Livestock byproducts, yes. We ought to be able to enlarge markets in a hungry world, especially in the many countries that are striving to increase the protein content of diets.

I think part of the problem is one of technology, of making the production, transportation, and shipment of red meat more efficient. It can be by far the most efficient means of exporting agricultural commodities, that is, exporting more meat is, in many ways, more efficient than exporting more grains.

Senator STONE. Part of the problem is import barriers, the receiving end.

Senator STEVENSON. That is right. That is the first step, through negotiation, of reducing the barriers. Then whatever technological improvements are necessary to make the production and shipment of meat more efficient, and we are very efficient producers as it is.

Then, next, Mr. Chairman, I suggest a few means by which we could begin to reduce some of our own barriers to U.S. farm exports.

Some barriers are created abroad. Some we have created for ourselves. The principal roadblocks are the absence of intermediate credit terms under the CCC export credit sales program, and the special requirement for participation in CCC programs imposed on nonmarket economy countries under the Trade Act.

I intend, Mr. Chairman, to introduce a bill to permit the Commodity Credit Corporation to extend commercial export credit for up to 10 years. Presently, as you well know, the CCC is limited to 3-year maturities.

Our principal competitors are not similarly handicapped. This limitation not only serves to put our exports at an unnecessary competitive disadvantage, but also prevents U.S. sales of farm exports to countries facing severe bunchings of international debt in the next several years, I think that the latter point should be emphasized, Mr. Chairman. It is not just a question of competitive equality, although we are in an unequal competitive position now.

Lest there be any doubt on that score, I would like to submit for your record a statement from the Department of Agriculture, which outlines the credit practices of certain of our major competitors.*

Senator STONE. It will be received for the record.

Senator STEVENSON. But the point to be underscored is that some countries simply cannot acquire substantial amounts of U.S. agricultural exports without longer term credits. And that is because they are faced with bunchings of debt in the near future.

Poland, which I visited not very long ago, is a principal example. If we could provide longer credit terms, we might make it possible for certain countries to buy, on credit, more of our commodities. Many countries do not have that ability now under 3-year terms.

Senator STONE. Excuse me.

There is some evidence that that would really happen. I think the State Department has a different view.

Senator STEVENSON. Well, the State Department has a different view, as I understand it Senator Stone, on the competitive equality issue. That position is contradicted by the Department of Agriculture in the document which I have offered for your record. I do not believe there is any disagreement about the need of certain countries, including Poland, for longer term credits. And I have discussed that subject with the State Department, including the officials of the U.S. Embassy in Warsaw.

The Poles face a short-term financial crunch and to get beyond it have to have longer term credit.

Now, this proposal is not intended to offer concessionary terms or unsound loans, and in fact, it requires that there be reasonable assurance of repayments. It is the same repayment language that exists in the Eximbank legislation. It simply fills a market gap in credit terms.

Senator STONE. You would not just be replacing the short term with a long term and no increase in sales. I guess that is the point I was making. I think the State Department may suggest that what you are doing just transfers the 3 years to a longer period, but no increase in exports.

*See p. 126.

Senator STEVENSON. No; this would not be intended to substitute for the short term. And in the case of some countries, including Poland, it would be incremental. It would be an increase. It would permit the financing of exports that otherwise simply could not be made to these countries.

Senator STONE. Senator Stevenson, I might just mention that Senator Lugar's bill addresses that issue, by offering a different increased credit term program, as opposed to just raising the 3 years to 10 years.

When did you start your—

Senator LUGAR. Five to 10. So this credit program would not simply be an extension of the current short term CCC credit program.

Senator STONE. We are considering all of these different versions, but we certainly are on your track of getting more medial credits.

Senator STEVENSON. I am not familiar with all the proposals. I am delighted that others have made similar proposals, Mr. Chairman.

There is one feature of Senator Lugar's proposal which I do have a question about.

Senator Lugar, you do not contemplate concessionary long-term credits. Therefore, I take it you do not contemplate, as well, any justification for a requirement that agricultural commodities, exported with the benefit of intermediate term credits, be required to be transported in American ships, nor do I think it wise to require the taxpayers to subsidize the shipping of such commodities in American ships.

Senator STONE. Does your bill have a specific exclusion exemption from the cargo bill?

Senator STEVENSON. Yes, sir.

Senator STONE. It does?

Senator STEVENSON. Yes.

Senator LUGAR. I would just reply that I share your concern. I simply left flexibility in the event that there are rulings mandating that the provisions of Public Law 664 apply to intermediate credit. It is simply not clear to me whether a prohibition of Public Law 664's provisions will fly, and that is why I offered some way of paying for it in the event it did not go through— $\frac{1}{2}$ percent increase in the credit rates to help cover the ocean freight differential.

Senator STEVENSON. Well, I would make it clear that these shipments do not have to be transported in American ships. Should that prove to be a political impracticality, then it might be desirable to—

Senator LUGAR. We have no difference in outlook.

Senator STEVENSON. Right.

Now, Mr. Chairman, let me, if I may, impose upon you further to say a few words about export opportunities in nonmarket countries.

First, I would like to submit for your record several recent analyses of this market potential, including one by the USDA foreign agricultural service, which was prepared for the Subcommittee on International Finance.*

Senator STONE. It will be accepted in the record.

Senator STEVENSON. Suffice it to say that these potential markets, including the Peoples Republic of China, are very large. However,

*See p. 128.

there are many impediments, and some of them are political and not within the reach of this subcommittee.

But in many of these countries, especially the Soviet Union and Eastern Europe, there are chronic grain deficits and also ambitious plans to expand livestock and poultry production. So the potential is strong for soybeans, feed grains, and wheat sales.

But the availability of credit to finance their purchases of U.S. agricultural commodities has become increasingly important, due to their continuing hard currency balance-of-payment deficits.

I fear if we do not participate in these markets, we may never be able to do so—as other nations—Canada, Argentina, Australia, and developing nations, take our place.

Now, I believe strongly that however great the economic opportunities, they must be subordinated to matters of higher national interest. And so I have never supported measures to open up all nonmarket countries, for that matter, all countries, to CCC, Eximbank, or any other credits, without qualification. We have developed a formula, which I intend to propose for Eximbank credits in the Banking Committee, which I would like to share with you for possible consideration.

Senator STONE. I would appreciate that.

Senator STEVENSON. Commodity Credit Corporation credits—

Senator STONE. I would appreciate it, because one of the questions I was going to ask you is your view of what the export-import role should be in agricultural export financing.

Senator STEVENSON. Well, let us start with that, which is a subject addressed in the hearings to which I referred earlier.

The Eximbank does not now participate in the support of the export of agricultural commodities, with the exception of very limited exports of cotton to Japan. I and many other members of the Banking Committee have tried to get the Eximbank out of the business of supporting agricultural commodities, on the theory that this is better suited to the CCC. It has the expertise. It is the job of CCC, and if Eximbank is to get into the support of agricultural commodities, one might as well argue that the CCC ought to get into the export of manufactures. We have two agencies. One ought to do one job and the other ought to do the other job, in my opinion, with some opportunities for overlap.

And, Mr. Chairman, I have to condition all of this on my own hope that the CCC will be authorized to go out over a longer period of time. Otherwise, we will have a gap between the Eximbank long-term and CCC short-term rates.

The overlap, Mr. Chairman, as I see it, should be for storage facilities, port facilities. And there, CCC and the Eximbank could both support the construction of such facilities. The bill that I will be introducing does authorize the CCC to go out for an intermediate period to help develop storage and port facilities abroad for purposes of price stabilization, as well as increasing exports. And that, as I say, is something that it seems to me that we could work on cooperatively and both support.

Now, the proposal that I plan to suggest for the Eximbank would supersede the provisions of the Trade Act of 1974 with respect to

Eximbank credits for exports to nonmarket countries, other than the Soviet Union. It would not supersede provisions concerning most-favored-nation treatment, or CCC credit for any country. Commodity Credit Corporation is your responsibility here, and MFN is one that involves the Finance Committee, and we will never have a coherent policy until all of these committees get together to work out a formula with respect to MFN as well as Eximbank and CCC.

The conduct of the Soviet Union in Africa at the moment is not one to warrant trade concessions, and certainly not a suggestion that its policy on emigration is acceptable. We should not, however, let the Soviets obstruct better trade relations with other countries that pose no threat to U.S. interests. By doing so, we merely force their continued dependence on the Soviet Union and punish ourselves both economically and politically.

Under this formula, a new procedure would be established for determining the eligibility of countries to receive exports supported by Eximbank. The President would submit to the Congress a list of those countries which he has determined to be eligible to receive Eximbank-supported exports. The President would have to make a national interest determination with respect to each country on the list, taking into consideration each country's relationship to the United States, whether the country is friendly or hostile to the United States, its internal stability and creditworthiness, and its policies and actions with respect to the peaceful settlement of internal and international disputes, human rights—including specifically the right to emigrate—and such other factors as he chooses.

During the 60 days following submission of the list of eligible countries, the Congress would have the opportunity to review it and disapprove it. The President could take countries off the list at any time.

Senator STONE. Under your proposal, would a line item have to go to the Congress country by country?

Senator STEVENSON. No. There would not be any line item, Mr. Chairman. Congress could disapprove of the entire list.

Senator STONE. But not one member of the list?

Senator STEVENSON. I do not really think the Congress ought to be getting into that business. If the list is disapproved, the President would send up another list, and the same procedure would follow, and all countries theretofore eligible would remain eligible so that we do not cut ourselves off from the world.

Mr. Chairman, the present formula implies that the dominant interest, if not the exclusive interest, of the United States is the emigration policy of nonmarket countries. If emigration is important, it is important in all countries. And, Mr. Chairman, the hostility of market countries is of importance too. It implies, in the case of the Soviet Union, that assurances of sufficient emigration are paramount and that its conduct in East Africa or the Middle East or SALT, is a matter of some indifference to the United States.

It should not be difficult to improve upon that formula. But for reasons largely of timing, I do not recommend, as I have indicated, changing the present provisions of the Trade Act with respect to the

Soviet Union—but I do think that the time has come to advance our economic and our political interests, with other countries. Also, Mr. Chairman, I think it is time to recognize that it is possible for our self-interest, our morality and our principles to coincide.

I thank you for your patience and urge you to act expeditiously on this very important subject.

Senator STONE. Senator Stevenson, we really appreciate your testimony here, and your legislative proposals which are indeed very constructive. There is no doubt in the mind of either the chairman or any member of this subcommittee that we intend to act as expeditiously as possible to expand agricultural trade along the lines of at least almost all of what you have been saying.

In other words, what you have been testifying to seems to have common elements of what our other Senators, with bills, and staff have been advancing. So I think we are on the same wavelength here.

Senator LUGAR?

Senator LUGAR. I would just share your words of appreciation, Mr. Chairman. It was very helpful.

Thank you for coming.

Senator STONE. Senator Bellmon?

Senator BELLMON. I would like to raise a few points.

First, let me say that I have thought that the contribution that Senator Stevenson has made in coming—

We certainly want to expand exports in any way we can; and particularly I am distressed about the trade barriers with Japan. And I certainly am in favor of using these kinds of imports. But my question is: What is the rationale for using a 10-year loan to pay for grain imports? Grain will quickly be consumed. Is there need for such long-term credit on grain?

Senator STEVENSON. Yes, sir.

I think there are two reasons for the need. The first is to simply make it possible for us to compete on equal terms with the Canadians and Australians and others who do finance export sales with intermediate term credits up to 10 years. And the second and related reason is that some countries cannot buy, except under longer term credits, and it is not because they are bad credits. It is because, in the case of Poland and other countries, they face, within this 3-year period, a bunching—for lack of a better word—of credit maturities, and they cannot contract additional debts to mature during that period of time.

If you could extend the maturities beyond these bunches of maturities, then you would make it possible for them to buy from the United States. Otherwise, it is impossible for Poland, for example, to buy substantially more from the United States, and there are similar problems in other countries.

Many countries are facing current deficits and growing debt—largely because of the oil crisis. And consequently it is difficult, as in the case of Poland, for them to incur additional short term maturities.

I do not think this is an exaggeration of their inability to acquire more maturities within that very short term of 3 years.

Senator BELLMON. Frankly, I like the approach that Senator Stevenson has to nonmarket economies. I coauthored this bill, where

we would make available CCC credits to the nonmarket economies, which would obviously include Russia, where we probably would have difficulty. I was primarily interested in making the credits available to China.

Your bill would do that, if the President put China on the list?

Senator STEVENSON. Yes.

Senator BELLMON. I think it is an important flexibility and a better approach.

Senator STONE. Any other questions?

[No response.]

Senator STONE. Senator Stevenson, we really thank you for coming over here and I assure you of our subcommittee's intent to cooperate with your chairmanship and your efforts in your Subcommittee on Financial Institutions, to help straighten out some of the impediments we have imposed on ourselves and our credit situation.

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

Senator STONE. Now, before calling our first witness, I want to announce that there will be a 10-minute limitation because of our constraints of time—a 10-minute limitation for the witness' presentations, and 10 minutes of limitation on the questioning by our subcommittee members.

May I announce that we will call first on Stephen Bosworth from the Department of State; next will be Tom Hughes, Administrator of Agriculture Services, and next is Doyle Conner, Commissioner, Florida Department of Agriculture, representing the Southern U.S. Trade Associations. Those are the first three witnesses that we will call on.

First is Mr. Stephen Bosworth, Deputy Assistant Secretary for International Resources and Food Policy, Bureau of Economic and Business Affairs, U.S. Department of State.

STATEMENT OF STEPHEN BOSWORTH, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL RESOURCES AND FOOD POLICY, BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. BOSWORTH. Mr. Chairman, I appreciate the opportunity to appear before this committee and to offer the Department of State's views on the role and importance of agriculture in our international trade.

In 1977, total U.S. exports amounted to \$118 billion. Agriculture commodities were about \$24 billion, or 20 percent.

The biggest category in our agricultural export is, of course, grains which totaled \$8.7 billion in 1977. Next came oilseeds and their products—\$6.6 billion, animal and animal products—\$2.7 billion, cotton—\$1.5 billion, and tobacco—\$1.1 billion.

The outlook for farm export during the current year is for a healthy increase in volume, particularly in wheat and soybeans, though lower average prices will probably mean no increase in overall dollar earnings.

Markets for our agricultural exports are diverse. Developing countries purchase around two-thirds of U.S. wheat and rice exports.

Developed countries account for about 70 percent of our feed grain and 50 percent of our soybean exports.

Centrally planned economies, such as the Soviet Union and various Eastern European countries can be important buyers of both wheat and feedgrains, with weather conditions being the main variable influencing the volume of our sales in that market.

Since 1963, the annual increase in purchases of U.S. farm products by countries in all three of these groups has been greater than the increase in their overall agricultural imports. The United States is holding its market share for major export commodities and for some, like wheat and coarse grains, our current share of the world market is far above historical levels.

The point of these numbers, Mr. Chairman, is that U.S. agricultural exports are alive and well and constitute one of the major strengths of our economy.

Our exports are competitive because we have natural resources in land, water, and climate not matched elsewhere and because we have superior labor and management skills. Efficient production, supported by adequate storage and transport facilities, is the assurance that our agricultural trade position will remain strong and that we will be in a position to benefit from the market opportunities resulting from population growth and rising economic standards around the globe.

Our long-term position of strength gives us the ability to ride out the difficulties of temporarily depressed markets and to be in the market when prices are favorable. The recently announced sales to China are an example of being able to respond to unexpected demand.

We appear to be coming out of the weak 1976-77 market for wheat that came about when the production response generated by 1973-75 scarcity and high prices exceeded world demand.

We are still coping with those problems and with the large stocks that remain. The administration programs of reasonable support, moderate set-asides, and expanded reserve stocking offer, I think, a reasonable way to resolve these temporary problems.

Mr. Chairman, we believe the Government has two important roles to play in the promotion of agricultural exports. One role is to facilitate the efforts of our producers and traders such as providing services to assure the standards and quality of U.S. products, information, and analysis on world markets, and adequate trade credits to meet competitive needs. My Department of Agriculture colleague can give you more details about the trade promotion activities of the Foreign Agriculture Services and the credit programs available under the Commodity Credit Corporation.

The second role of the Government with respect to agricultural exports is to defend our producers against discriminatory and unfair treatment resulting from the action of other governments. This role involves a myriad of activities ranging from correcting a customs valuation, to major government-to-government confrontations over such issues as market access or competitive practices.

In this latter category, two main areas are currently of particular importance and I would like to say a few words about two particular interests.

MULTILATERAL TRADE NEGOTIATIONS

The negotiations on agricultural products in the MTN have two parts. First, major exporters and importers are involved in multilateral discussions on three groups of commodities: grains, dairy products, and meat. In each of these sections, various proposals for international arrangements are under discussion. It is too early to say whether the discussions will lead to new international arrangements, or whether the United States will participate in any arrangements that might emerge from the talks.

Second, bilateral talks are underway on tariff and nontariff measures affecting specific agricultural goods. In November, each major MTN participant made requests for trade concessions of every other MTN participant. In January, the developed countries responded to the requests they received with offers of concessions. U.S. requests were extensive, covering primarily grains, citrus, tobacco, poultry, high-quality beef, nuts, fruits, and vegetables. We believe our offers of concessions were generous, and we are negotiating to establish a balance of concessions at the highest possible level.

In addition to the talks specifically on agriculture, efforts in the MTN to improve general trading rules will affect agricultural trade. For example, we hope to conclude a new agreement on subsidies and countervailing duties that will improve international discipline over the use of export subsidies on agricultural products.

I would also like to say a few words about our efforts on the International Wheat Agreement.

Our efforts in February and March in UNCTAD to conclude a new international wheat agreement were not successful. Talks toward this end are continuing and we are hopeful that it will be possible to begin negotiations on a new international wheat agreement later this year.

Success in this area will provide a greater degree of price stability in this commodity and also enhance world food security.

Mr. Chairman, I now would like to address myself briefly to two specific issues which have been raised in recent agricultural bills; namely, (1) Intermediate CCC credit, and, (2) extension of CCC credit to nonmarket economies.

(1) Intermediate CCC: With regard to the CCC intermediate credit facility, we do not support extending the maturities of credits offered by the Commodity Credit Corporation (CCC) beyond the present 3-year maximum.

We understand that the principal motivation for this proposal is the belief that our major export competitors; namely, Canada, Australia, and Argentina, offer more favorable credit terms than the United States.

We find no evidence that this is in fact the case. While the agricultural export systems of these three countries differ from ours, they essentially rely upon commercial bank credits with Government guarantees. More important, none of the three countries normally offers credit terms for agricultural commodities of more than 3 years and generally speaking they provide less favorable terms. There have been one or two exceptions to this in recent years but the underlying

reason for these exceptions were—appears to have been more political than commercial.

Consequently, if the United States were to offer, through CCC, terms of beyond 3 years and up to 10 years, which has been suggested, we would be breaking new ground. Our competitors would almost certainly respond by changing their own credit programs to protect their market shares.

Thus, any temporary trades gain we might have achieved would be lost. Moreover, our balance-of-payments position would be weakened since the new extended credit program would replace sales that would have otherwise taken place on a cash basis or on 3-year credit terms. In sum, we would be triggering a credit competition among exporters in which there would be no winners.

The second point, Mr. Chairman, as regards extension of CCC credits to nonmarket economies, as you know, Poland, Romania, Hungary, and Yugoslavia can now benefit from CCC. Extending this to other nonmarket economies would require modifying sections 402 and 409 of the Trade Act, the so-called Jackson-Vanik amendments. We would oppose such a change at this time. The matter, however, is under continuing review.

I will be pleased to answer any specific questions you might have.

Senator STONE. Thank you, Mr. Bosworth.

Senator Bellmon?

Senator BELLMON. Thank you, Mr. Chairman.

I appreciate being first in line.

Let me ask you—

Senator STONE. I thought you would.

Senator Bellmon [continuing]. A couple of questions. I will try to be very brief.

You probably heard my question to Senator Stevenson about the long-term credit for the consumables. How would the State Department feel about longer term credits for helping countries for storage, port facilities?

Mr. BOSWORTH. Well, by and large, Senator, we would consider that the existing programs of the Export-Import Bank are adequate to meet the needs for such infrastructure.

Senator BELLMON. Those are only 3-year loans.

Mr. BOSWORTH. Well, the Export-Import Bank, in cooperation with private banking interests, has facilities beyond 3 years.

Senator BELLMON. You mentioned in your statement that the agricultural export systems of these—Canada, Australia, and Argentina, differ.

Could you tell us what loan terms are available, say, to China, when it buys wheat in Canada?

Mr. BOSWORTH. Frankly, we have no information in advance and very little information after the fact, as to the credit terms that prevail with regard to credits extended to China. The indications are that by and large, China buys its grains on normal commercial terms.

Senator BELLMON. I had lunch with Mr. Sano—he says the reasons they are not buying is because they had, to use his term, deferred payments when they buy from Canada.

Mr. BOSWORTH. Well, as you know, China just bought some grains from a U.S. firm on commercial terms. We have no indications that there are—

Senator BELLMON. Can you not find out specifically what these deferred terms are?

Mr. BOSWORTH. We can ask. We have asked. There is a certain reluctance, on the part of the Chinese Government to provide a good deal of information regarding its commercial transactions.

Senator BELLMON. Could you not ask the Canadians what their terms are?

Mr. BOSWORTH. We have discussed this with the Canadians, and we have no indication that they are extending credits beyond 3 years.

Senator BELLMON. You know much more than you put in the statement about contract terms that these other countries are offering.

Could you give us in writing, if you do not have it immediately available, what credit terms the Canadians are offering to their customers, and the Argentinians?

Mr. BOSWORTH. I would be pleased to do that.

[The following information was subsequently submitted by Mr. Bosworth:]

DEPARTMENT OF STATE,
Washington, D.C., May 19, 1978.

DEAR MR. CHAIRMAN: During my appearance on April 27 before the Foreign Agricultural Subcommittee, I was asked to provide further information on two principal subjects. The first related to the credit policies of our major agricultural competitors; and, the second, our trade relations with the Peoples Republic of China.

CREDIT PRACTICES OF OTHER EXPORTERS

On April 27, the Department of Agriculture submitted to the Subcommittee some background data (attached) on credit practices of other major grain exporting nations. This data is summarized and updated below.¹ I have also cited the three known instances, all of which involved Canadian wheat sales, in which credits for grain exports longer than 3 years were extended.

Precise data regarding the credit practices of Argentina, Australia and Canada, our major competitors, are difficult to obtain. Both buyers and sellers generally attempt to keep such information confidential. The following general observations, however, can be made. The grain marketing boards of these three countries can be very flexible regarding price, credit and other terms. Their relative smallness to the world export market, their central control over marketing, and their being able to react to conditions in the American market gives them some advantage over our commercial firms. This is not an unmixed blessing. Grain boards sometime lack the competitive drive which motivates our commercial firms. To a certain extent these government marketing entities enjoy both the advantages and disadvantages of monopoly traders.

ARGENTINA

The National Grain Board until recently was the only legal market for grains in Argentina and it negotiated all export sales. Argentina has recently switched to a mix of public and private sectors for grain exports. There is no indication that Argentina extends credits of over three years duration.

AUSTRALIA

The Australian Wheat Board, which is producer controlled, buys and sells all wheat. In its government-to-government agreements, which constitute the bulk of its export sales, the Wheat Board makes extensive use of credit. Nor-

¹ See p. 50 for attachment.

mally these arrangements are for 11 months. It has on at least one occasion given a discount in price for a large volume sale. It rarely extends credit in its sales to non-government entities.

CANADA

The Canadian Wheat Board controls wheat marketing in Canada, including transportation and exports if a government-to-government transaction is involved. The Board sells to private and governmental buyers under standard commercial procedures. It does, however, in its government-to-government arrangements sometime offer credit terms of up to three years. There are three instances of which we are aware when Canada extended credit terms beyond three years. These were for:

- (1) Peru—A 1969 sale of 200,000 tons of wheat on five year credit terms.
- (2) Brazil—A 1970 sale of 1.6 million tons of wheat to be delivered over 10 years with credit terms of ten years.
- (3) Algeria—A 1972 sale of 690,000 tons of wheat on 10 year credit terms.

Canadian officials with whom we have discussed the above sales at the time and recently pointed out that traditional Canadian practice is not to extend credit for longer than three years. In the above instances, the unusually long credit terms offered by the Canadians were, in part, a response to what the Canadians considered our excessive use of Public Law 480 sales in the above countries.

[The following information is in response to a request by Senator Stone. See p. 56:]

U.S./PRC TRADES PRESENT CONDITIONS AND OUTLOOK

The present Chinese leadership is dedicated to modernizing China as rapidly as possible. Peking has modified its previous emphasis on "self-reliance," and now plans to import the most advanced foreign technology available to speed up its development process. In line with their pragmatic emphasis on modernization, the Chinese have stated their purchasing decisions are based on three criteria: price, quality, and availability for delivery.

We expect US sales to China to expand in response to Peking's increased concern with modernization. US exports to the PRC were \$171 million in 1977. We expect that they will increase by at least \$75 million in 1978. Our imports from the PRC in 1977 were \$203 million.

Two factors inhibit an even faster increase in US trade with China. One is the Chinese policy of favoring traditional suppliers over the US when price, quality, and availability are relatively equal. For example, the Chinese prefer to buy their grain from Canada and Australia. They only turn to us—as they recently did for one million tons of wheat—when traditional suppliers cannot meet their needs.

The second factor that affects the expansion of US trade with the PRC relates to institutional barriers on both sides. The Chinese oppose joint ventures and shared production as means to develop their petroleum resources, will not use direct foreign government or commercial bank credits, offer no general patent, copyright, or industrial property protection to foreign exports, and virtually prohibit foreign firms from setting up branch offices inside the PRC. The Chinese have also indicated they will not sign government-to-government agreements in the absence of normalization, which prevents us from concluding trade, airline, shipping, and other commercially-relevant agreements with them.

On our side, U.S. laws and regulations affect our trade with the PRC in certain respects. Since we have not reached a settlement with the Chinese on the related questions of Chinese assets frozen in the U.S. and American claims against China, U.S. claimants have the right to attach any PRC property that comes into this country. China thus cannot conduct normal banking or commercial shipping relations with us, nor can it send Chinese trade exhibitions here (they reciprocate by denying us the same privileges in China). We are not able to sell defense-related technology to the PRC without an export license and the approval of our allies. Finally, the terms of the Jackson/Vanik amendment to the Trade Act prevent us from extending U.S. Government credits or Most Favored Nation tariff treatment (MFN) to Communist countries, including the PRC, that restrict emigration.

In sum, we expect Sino/U.S. trade to expand significantly in the months and years ahead. Nevertheless, the Chinese preference for traditional suppliers and institutional barriers on both sides will affect that expansion. This trade, however, is not specifically limited to the size of China's exports to the U.S., as the April 26 Washington Post article seems to have implied. In the past, the Chinese have run large trade deficits with specific countries, the U.S. among them, when it has served their purposes to do so.

I hope the above information is useful.

Sincerely,

STEPHEN W. BOSWORTH,

Deputy Assistant Secretary for International Resources and Food Policy.

ATTACHMENT

Competing suppliers of agricultural commodities, notably grains and soybeans, do not make public the terms of their credit arrangements as does the U.S. Consequently we cannot be as specific as we would like to be in this area. What information we have is usually after the fact, second-hand and sometimes incomplete. It can be summarized as follows:

Canada—Wheat exports from our strongest competitor are controlled by the Canadian Wheat Board (CWB) which has monopolistic powers over Canada's wheat marketing, including transportation and exports. It finances its' operations with bank credit which is guaranteed by the government. It does not own physical facilities. Privately owned entities such as elevators, terminals and grain companies function as agents of the CWB.

The CWB sells through agents to private buyers in foreign countries, under standard commercial practices. It also sells to such buyers on special credit terms, and negotiates directly with grain importing agencies of foreign governments. CWB offers imports credit terms of up to 3 years. Longer term credits are at times extended on government-to-government arrangements.

No information as to interest rates has been received respecting credit sales to the People's Republic of China. Reportedly, down-payments of 10 percent to 25 percent were made. Information as to the volume of such sales is incomplete. A 1977 sale to Poland was for 5 percent down, for 3-years at $\frac{1}{2}$ percent over the London Bank offering rate. There is reason to believe that many sales to Eastern Europe are on still more favorable terms.

Canada has sold to Peru on 5-year terms with interest as low as 5 percent. Last year, one sale on 3-year terms with 5 percent down was reportedly at $7\frac{1}{2}$ percent interest when the CCC rate for a similar transaction would have been 9 percent.

A sale to Brazil was clearly concessional, with interest at 5 percent, a 5 percent down payment, a 2-year grace period and repayment over 10 years. A sale to Brazil in 1977 was for 3-years at $7\frac{1}{4}$ percent, below the corresponding CCC Credit rate. Syria bought Canadian wheat on 3-year terms at $6\frac{1}{4}$ percent (however CWB was not involved).

Canada does not have an official concessional program; however, the Export Development Act of 1969 provides the framework through which an effective concessional program has been maintained. Interest-free loans can be made available for up to 50 years with grace-periods for up to 10 years. Up to 20 percent of the value under bilateral agreements can be granted for projects in recipient countries, on a totally untied basis.

Australia—The Australian Wheat Board which is controlled by producers, buys and sells all wheat marketed. It receives credit advances from the Reserve Bank of Australia. It sells directly to foreign governments and to commercial grain traders.

Sales to government comprise a large portion of total exports, at times more than 50 percent. These involve substantial use of credit, reportedly up to 10 years although the usual period seems to be 12 months. Interest rates of $6\frac{1}{2}$ percent have been reported but information in this area is incomplete. In at least one instance the AWB provided a "volume discount".

Sales to private traders is a residual amount after sales to governments are made; also, provisions for the GOA food-aid program. The AWB rarely provides credit to commercial importers, although private grain traders at times do so.

Argentina—The National Grain Board is the only legal market for wheat and feed grains. Among other functions it negotiates bi-lateral agreements with importing countries. These are essentially statements of intent. The eventual price is fixed with reference to actual market values.

EUROPEAN ECONOMIC COMMUNITY

Subsidies, rather than credit terms, comprise the main tool used to stimulate exports and relieve over supply situations. EC prices are normally higher than world prices and some subsidy would be needed to bridge this gap. However, there have been subsidies more than sufficient to bridge this gap, leading to concern about unfair trade practices. Also, the size of the subsidy can vary by country of destination, to encourage penetration of particular markets.

In addition to EC export subsidies, the individual member countries are free to use long-term credits and low interest rates to make the offered price still more attractive. Two-year credits at 3 and 3½ percent interest have been reported. The combination of subsidized prices and convenient credit terms makes the EC a formidable competitor.

Brazil—A system of tax forgiveness and tax credits is a major tool for implementing Brazil's export policy. Adjustment of various tax items within the system can have pronounced affect in distorting export prices of processed goods, increasing or lowering them with respect to domestic prices and world market, according to government aims.

Until recently, soybean oil exports were accorded a substantial price advantage, but no longer. Also soybean meal prices were set so as to favor meal exports over bean exports. This too has been corrected.

As long as the system itself remains intact, however, the GOB has the means of implementing specific policies that can give Brazilian products a distinct competitive advantage in foreign markets. Reacting to specific commodity situations, future export policy may differ from that of today.

Preferential financing is another export-incentive. Loans are made for production destined for export at two fifths the normal rate of interest.

There are also subsidies. For example, all cotton exports are currently subsidized by 20 percent, payable in raw cotton from government stocks.

Brazil has been known to offer soybean oil on 3 year terms and interest similar to the CCC Export Credit Program.

Japan has a rice-export program patterned after P.L. 480 Title I. At different times, the Philippines obtained rice from Thailand on 12-year terms with a 3-year grace period and 7½ percent interest, and from Taiwan on 10-year terms with the same interest and grace period. The PRC reportedly sold rice to Sri Lanka on 20 year terms, interest free.

EXPORT SUBSIDY PRACTICES OF COMPETING EXPORT NATIONS

Details of subsidy practices—and amounts—are not readily available and change without notice. What becomes apparent to U.S. sellers is that a lower price is frequently offered by the competition and the sale is lost.

A number of exporting countries have government entities which set prices, make sales, and provide financing. Under these arrangements no formal subsidy plan is needed. Australia and Canada employ commodity boards which have broad authority. Best known of these are the wheat boards which have relatively strict control over most aspects of wheat trading, both domestic and export. The European Economic Community (EEC) vests broad authority in a commission to grant the substantial subsidies necessary to move high-priced Community wheat (and flour) into the world market.

The Wheat Boards of both Canada and Australia have moved very sizeable quantities of wheat under long-term supply agreements with importing countries, e.g. the People's Republic of China and the Soviet Union. Details of these agreements never become public, but it is known that they include prices and financing favorable to the buyer. The Wheat Boards have full authority to set prices on all other sales as well. By observing U.S. markets they are able to determine prices private U.S. exporters will have to quote to avoid losing money. The Boards then may choose to offer at slightly lower levels.

The Canadian Wheat Board (CWB), in some cases, utilizes the private grain trade as export agents to negotiate sales with foreign buyers. When it suits the Board to do so, agents are allowed to buy grain and hold it for later resale. The CWB also offers a deferred pricing system whereby the Board absorbs the cost of carrying grain for forward shipment and thus gives the private trader a price advantage in reselling the wheat. Export agents may purchase Canadian wheat for nearby or distant future delivery periods. The price may be set either at the time of purchase from the CWB or some later date, even after actual loading of the wheat. The price paid by the private trader who enters into such an agreement is the Board price on the date he elects to fix it. CWB export agents may or may not extend the deferred pricing privileges to the foreign buyer.

Canadian grain also moves at subsidized rail rates to export points from scattered elevators. Railcars are allocated to move grain at unusually low Government rates established in 1925. The Government also subsidizes feeder lines which tie into the main rail lines for shipping grain to the ports.

The Australian Wheat Board (AWB) has generally followed a policy of destination pricing in order to maintain full competitiveness in selected overseas markets. This enables the AWB to meet specific competition in any part of the world. The AWB charters its own bulk carriers, permitting lower freight costs. They pass this benefit on to buyers.

The secrecy surrounding the AWB's chartering activities makes it impossible to know if a subsidy is involved. However, this is academic since the Board has full authority to set the price on individual sales as well as under long-term supply agreements.

The EEC has used huge export subsidies to relieve surplus situations and prevent depressed prices in the Community's soft wheat market. Average EEC subsidies in 1971-72, a buyer's market year, equalled about 90 percent of the value of the wheat exported by the Community. In the current buyer's market subsidies have not averaged that high, but they have been sufficiently high to move the surplus.

In addition to the EEC export subsidy, the individual member countries use long-term credit and low interest rates to make the actual grain price even more attractive. Financing is supplied by private banks—particularly French banks—operating under a Government subsidy scheme. How effective the use of this credit is depends on the situation in the money markets, the country involved, the extent of competition, and repayment terms. Terms vary from transaction to transaction and are not publicized.

Brazil used an indirect export subsidy for soybean products that enabled them to move their entire export availability in the past. Brazil provided funds to exporters at preferential interest rates in proportion to their exports of soybean products. Exporters were able to loan these funds on the domestic market at substantially higher interest rates and utilize the differential as necessary to reduce prices to foreign buyers. In addition, exporters received a government subsidy on domestic sales of soy products which helped them make a profit on their overall operations. While there have been changes recently in the Brazilian subsidy schemes, the potential remains for a repeat of indirectly subsidized export sales.

Senator BELLMON. Also, is this matter of credit one of the subjects that is being discussed at MTN? You say we could touch off a kind of unhealthy competition here.

Mr. BOSWORTH. No, not in the MTN, Senator. There is an export credit group in the OECD in which the major exporting countries consult on the terms of officially supported export credits for industrial exports. An international arrangement negotiated within the OECD framework sets forth agreed terms and procedures. The subject of export credits for agricultural commodities is explicitly excluded from the arrangement.

The agricultural sector is one which resists uniform ground rules because of the diversity of the support and marketing systems en-

played by different countries. There have been discussions about agricultural credits in the negotiations preceding the International Wheat Agreement of 1968 and 1971 and most specifically in the Food and Agriculture Organization (FAO) of the United Nations.

These discussions centered on trying to establish guidelines as to what constituted concessional versus commercial sales. In 1972 the FAO, in discussing the surplus disposal (i.e., food aid) of agricultural commodities, indicated that sales with maturities of up to 3 years could be considered either commercial or quasi-commercial in nature. The implication of this was that agricultural credits with maturities beyond 3 years were concessional and not commercial. The 3-year benchmark was considered too long by some countries but was adopted by the FAO to accommodate the United States CCC programs.

Senator BELLMON. For some reason—

Mr. BOSWORTH. Primarily because it has not been a significant problem. Competition in terms of credit terms have not been a significant factor in export competition.

Senator BELLMON. Apparently it is with the Chinese.

Mr. BOSWORTH. Well, I will see what further information can be obtained regarding Chinese sales. Our indications are, Senator, that by and large the Chinese make their purchasing decisions on as much political as they do on economic grounds.

Senator BELLMON. That is not the information we get directly from their trade negotiators. That first thing that they mentioned, to use their phrase, deferred payments.

Mr. BOSWORTH. We have no information that the deferred payments that they refer to means credit terms of beyond 3 years. But I would be happy to get back to you with additional information on this.

Senator BELLMON. Also, in your statement, you take exception to expanding CCC credits to nonmarket economies.

You heard Senator Stevenson's approach, which is that we would not make the blanket extension to all nonmarket economies, but all those the President might suggest.

Would this seem to solve some of our problems?

Mr. BOSWORTH. Well, as you know, several nonmarket economies, already are eligible for CCC credits. The Soviet Union is not eligible under CCC, but is a major customer for U.S. grains. This year it will buy substantially more than the minimum of 6 million tons called for under the U.S./U.S.S.R. grains agreement.

There are some indications that East Germany and Czechoslovakia might increase their agricultural purchases from the United States if CCC credits were available. As far as I am aware, we have not examined specifically Senator Stevenson's proposal. We will have to do so and comment on it, since it is somewhat different from the other proposals on CCC credit on which we have taken the position reflected in my statement.

Senator BELLMON. Under the present law, China is not eligible even for 3 years credit.

Mr. BOSWORTH. That is right.

Senator BELLMON. This would make it possible for them to become eligible?

Mr. BOSWORTH. Yes.

Senator BELLMON. That is all.

Senator STONE. Senator Lugar?

Senator LUGAR. I simply find unacceptable the thought that the only reason we are involved in this exercise, as you have said in your statement is to "offer more favorable credit terms."

Very clearly, the reason that at least most of us are involved is that we believe that we are going to have a more aggressive export policy that makes it possible to market more commodities through expanded markets. The suggestion in my bill is clearly not simply to extend credit, but the primary focus is on long-run market development.

The question that the grain sold will be consumed is correct. But with repayment comes the building up of infrastructures, warehouses, herds, and various other ways our products will be more fully used in the future—I just simply think that this has to be understood and come through the administration's general policy.

I do not criticize you personally, but very clearly, it seems to me the President and his rhetoric is reflecting a desire to bring about a greater amount of exports.

This testimony clearly does not. It suggests that we would offend our friends in Canada and Australia, start a trade war or whatever.

Now, to be very truthful about it, I have visited with the Foreign Trade Minister in China. He did express to us that the Chinese trade on the best terms they can get: cash and low prices. Beyond that, deferred payments, if that happens to be offered by some countries. After that, they might buy our grain, but very clearly the political considerations were not a part of it, despite all the rhetoric to the contrary.

And this attitude was impressed in a face-to-face meeting with about four other Senators, in January. And it just seems to me it is very difficult to accept; and I would simply hope that, from the State Department's position, we can work together with the Agriculture Department, the President, and with others who would suggest that in our national interest we better become more competitive.

As a matter of fact, my staff pointed out that Canada gave Brazil 8-year terms for the sale of wheat in recent years. They have been quite aggressive in this respect. We have been playing catchup ball. This is hardly the situation of aggravating the Canadians or Australians.

The facts are that our agricultural exports are suffering through our lack of good intelligence, in this respect, and I think our naivete of what our competition is doing.

So I would hope that we would take a posture, at least as the Government and the administration, that was somewhat different than the one you have taken today, which is, as I gather, that you do not support extending maturity credit beyond the 3-year maximum. It really does not offer us much to go on.

It would suggest that all these hearings are almost a gesture in futility, for the sake of the record, and I want it to be so recorded that I do not accept that.

Senator STONE. The record will accept it and we will record your statements.

Mr. BOSWORTH. I would like to briefly say first I do not want to give you the impression that the administration, in general, or the State Department in particular is in any way complacent about our agricultural exports. We are not.

As I indicated, agricultural exports constitute one of the major strengths of the U.S. balance of trade and provide encouragement in an otherwise not so encouraging balance-of-payments projections.

But the fact is that agricultural exports have been doing well, and this reflects not only the efficiency of the American agricultural sector, but a number of other factors pertaining to our economic position.

Senator LUGAR. That is a very debatable proposition.

Relatively, one can make a case—but goodness knows, the whole point of this committee's work—how in the world are we going to move to substantially higher ground?

Mr. BOSWORTH. I agree with the need to expand our exports Senator. There is a pressing need to investigate all ways in which U.S. agricultural export performance might be strengthened. But our agricultural exports have in recent years been growing, not only in volume terms, but also as a share of total U.S. exports. In fact the U.S. share of the total world agricultural trade has been expanding satisfactorily and strongly over the past decade.

Our performance has really been quite good. This does not mean we should be complacent. We are not. We clearly should improve this performance if at all possible.

In my statement I was trying to indicate that our own interests are not served by engaging in a credit competition with other major exporters. None of us have an interest in selling our agricultural supplies abroad any more cheaply than is necessary to compete for markets.

If we extend credit terms for agricultural commodities beyond 3 years and by this expand our share of the world market, it is inevitable that the other major exporters will retaliate by doing the same thing.

The case you cited involving Brazil is one of those cases I alluded to in my testimony, the extension of credits beyond 3 years in this case was not primarily done for commercial reasons. I would be happy to provide additional information on that and the other sales in which credits beyond 3 years were extended.

But the case of China is somewhat different. Perhaps the major constraint on our position in the Chinese market is not that CCC credits do not go out beyond 3 years, but that China is not eligible for CCC credits.

So the Chinese market is not in itself a justification for a medium-term CCC credit program.

Senator STONE. Thank you very much, Senator Lugar.

Just following that briefly, Mr. Bosworth, there is an extraordinarily revealing article in the morning's Washington Post, dateline, Hong Kong. I ask your comment.

Chinese administrators have indicated in the past that the lack of full diplomatic relations with Washington will continue to hinder

trade. The high tariff charges in Chinese goods coming back into the United States and the limited U.S. market for such goods are even greater barriers. So you have here not only the often-repeated formulation, but also have two specific complaints by Chinese traders: one, higher tariff charges on goods coming into the United States and, two, limited markets for their goods, which would help them pay in their balance-of-payments problems.

What you can say about that—or do you think that we need further study of that, and recommendations by the administration?

Mr. BOSWORTH. I am not myself an expert on U.S.-Chinese bilateral relations or bilateral trade, but will be pleased to obtain for you more analyses from our side of the current Chinese trade situation.

Mr. Chairman, the statement you read coming from the Chinese Government sounds like an almost classic defense of liberalized world trading systems; namely, we cannot buy from you if we cannot sell to you.

Senator STONE. No. 1. And No. 2, tariff barriers?

Mr. BOSWORTH. Right.

Senator STONE. Would you do a little study on that? And when you supply Senator Bellmon and Senator Lugar with their answers, would you give the chairman and our subcommittee something along the lines of these two points?

Mr. BOSWORTH. I would be very happy to, Mr. Chairman.*

Senator BELLMON. You mentioned this matter of credit that was not a subject of MTN. I wonder why. It seems to me it would be a very necessary part of any discussions coming—trying to put trading on an equal—

Mr. BOSWORTH. I think, Senator, if we were to find that competition in the area of export credit terms was becoming a significant factor, we would undoubtedly want to discuss it in MTN, as we are now doing for such things as export subsidies. This has not been a significant distorting factor in world trade and for that reason it has not been brought up directly in the MTN context.

Senator BELLMON. On the first page of your statement, you say that you call attention to the fact that the level of exports may be up, but that lower average prices will probably increase in overall dollar earnings.

That is very distressing to a producer who has already been subsidizing these exports to the tune of billions of dollars.

Is the administration not concerned that we cannot go on much longer providing this level of commodities at these low prices?

Mr. BOSWORTH. Well, we certainly have no interest in selling our commodities less expensively abroad than we absolutely have to. There have been some encouraging developments in the last several weeks in international commodity markets such as a rather significant strengthening in grain prices. Perhaps my statement is too pessimistic in that regard. Maybe there will be some increase in dollar earnings if that strengthening continues.

Senator BELLMON. In my State, wheat elevators are down 25 cents this week. Prices are getting worse up there.

*See p. 49 for the response submitted by Mr. Bosworth.

Mr. BOSWORTH. But during the period of February and March and the first part of April, Senator, there was, I think, a rather general strengthening in prices, albeit from very depressed levels.

Senator BELLMON. I was in Japan in December, and maybe the same story this morning showed that the cost of meat in Japan, say sirloin, is \$16 a pound, compared to maybe \$1.50 here. The fish catch is down. They obviously need more meat imports. They can never be self-sufficient.

What is MTN going to do to help open that market to our importers? What have you done?

Mr. BOSWORTH. Well, we have done two things, Senator; first, in our recent bilateral discussions with the Japanese—which were led by Ambassador Strauss—we did get a commitment from Japan to allow a significant increase in meat imports.

Senator STONE. We got an increase that was not significant?

Senator BELLMON. Not significant?

Mr. BOSWORTH. Second—the question of meat trade is one of the principal agricultural sectors under negotiation in the MTN. I think it is now too early to see what the outcome of these negotiations will be.

Senator BELLMON. Dollar trade surplus?

Mr. BOSWORTH. That is right.

Senator BELLMON. I cannot understand. Whatever it was, we got a few thousand tons.

Senator STONE. A few hotel tons. No access to the general grocery-store market.

Senator BELLMON. We farmers think you have let us down badly in the State Department.

Senator STONE. As a matter of fact, our chairman has a statement that what the State Department needs is an "American desk." But I want you to have the last word, Mr. Bosworth, because you are our guest.

Mr. BOSWORTH. I have no really last words, Mr. Chairman, other than to say that in my view—and I think in the view of my colleagues in the State Department, the State Department is the American desk.

Senator STONE. That is a good last word; and we thank you for coming here, Mr. Bosworth. We appreciate it.

Mr. BOSWORTH. Thank you.

Senator STONE. Mr. Hughes?

STATEMENT OF THOMAS R. HUGHES, ADMINISTRATOR FOR THE FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY KELLY HARRISON, GENERAL SALES MANAGER AND ASSISTANT ADMINISTRATOR FOR MARKET DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. HUGHES. Senators, I would like to introduce Mr. Kelly Harrison, General Sales Manager and also the Assistant Administrator for Market Development.

I have a statement and I just wanted to paraphrase from it, because a good deal of it is information that the committee is very familiar with and it would just be repetitious. I just want to make a couple of points from it.*

One, the statement on the Soviet Union. I think you would be interested in knowing—and you have really already received some of this information that the Soviet Union has now purchased 13.3 million tons of corn and wheat—9.8 million corn and 3.5 million wheat—under the U.S.-U.S.S.R. Grains Agreement, for delivery in the current agreement year ending next September 30. We have discussed purchases of 15 million tons with the Soviets, and this total may still be a good estimate for the year. Meanwhile, the Peoples' Republic of China came into the U.S. market for 1 million tons of wheat, and this figure may also be increased. We are hopeful that this will happen.

On pages 3 and 4, I want to make a couple of points on what we have been doing in FAS. Just briefly, we are interested in a very strong international market policy to increase our exports.

A strong international market policy is basic to these goals. With the support of Congress we have taken a number of specific actions in the past 15 months to enhance export market development. For the most part, these actions were built on an existing structure of market development, Public Law 480, CCC credit, and other programs that have worked successfully over the years. These programs involve cooperation with private business, State agriculture and marketing organizations. Some of the witnesses from Florida will testify to this later, along with representatives of some 40 cooperator organizations created especially to further export development. We have done several things, and I would just like to mention some specific things.

We have increased program funding by about 15 percent for export market development cooperators.

FAS and the cooperator organizations have worked to take advantage of wheat and feed grains opportunity in new market areas—developing, Communist, and OPEC countries—while at the same time paying keen attention to servicing older markets so important to U.S. farmers. A wheat sales office is being opened in Morocco and a new feed grains office in Singapore, which will bring to 20 the number of U.S. grain cooperators sales offices in overseas markets. Also, we are expanding attaché coverage in the Arab countries.

In London, a new agricultural trade office will be opened May 25 to house in one building the cooperator organizations that work with FAS in developing foreign markets. This office, the first of its kind, will present a "one-stop" approach to European importers and will give U.S. agriculture higher visibility. The staffs will work not only with the United Kingdom market but also parts of continental Europe.

The U.S. Meat Export Federation, which is a new cooperator with FAS, is sharply expanding its activities. A sales office recently opened in Tokyo, and a second will be opened shortly in the new London agricultural trade office.

*See p. 172 for the prepared statement of Mr. Hughes.

The Federation will work toward lowering trade barriers in Japan and other markets. In the past year, U.S. exports of animal products exceeded imports of those products.

The total fiscal year 1978 budget for CCC credit has been more than doubled, to \$1.7 billion, to support exports.

Functions within the Department of FAS have been reorganized to better coordinate the work of the General Sales Manager with the market development work of FAS. The two agencies have undertaken a system of integrated export market program planning. The objective is to best fit the Sales Manager's CCC credit and Public Law 480 tools and the FAS market development programs into the specific needs of each major current and potential market in export growth plans of up to 5 years each.

The administration asked for and the Congress approved more funds and more flexibility for Public Law 480.

In addition, Secretary Bergland met several times in Washington and in Brussels with European community officials and Ambassador Strauss traveled to Brussels in a successful effort to break the deadlock over agriculture in the Multilateral Trade Negotiations in Geneva.

We are a little more optimistic than we have been in the last few months in regard to these negotiations.

Secretary Bergland traveled to European, Japanese, and South-east Asian markets—in part to promote U.S. exports and emphasize the reliability of the United States as a supplier. He will be in the Soviet Union and East European countries in May to discuss trade and cooperation.

An easing of Japanese restrictions against imports of high-quality beef and citrus is being negotiated.

All of these actions will help. We must continue, however, to be alert and receptive to additional tools that can help us to export more farm products.

Thank you, Mr. Chairman, for the opportunity to appear. I would be pleased to receive any questions the subcommittee might have.

We are hopeful we will continue to expand our export opportunities.

I will be very glad to reply to any questions, comments.

Senator LUGAR. Do you have any comments about the bills that have been introduced, that the committee is considering today?

You have given a good summary of a number of things the Department is doing. Specifically, we are taking a look at the intermediate credit in the CCC, and related factors. What comments does the Department have about this?

Mr. HUGHES. The OMB has made a decision not to support this legislation.

Senator LUGAR. So your comments—

Senator STONE. On any of the bills?

Mr. HUGHES. Well, particularly the ones that deal with intermediate credit.

Senator STONE. OK.

Senator LUGAR. That explains why your testimony is restricted just to a recitation of what the Department has been doing, and

therefore, unfortunately, rather irrelevant to our consideration, I suppose.

Mr. HUGHES. Yes, sir.

Senator STONE. Senator Bellmon?

Senator BELLMON. Well, Mr. Hughes, we did not invite you up to testify about OMB's position. We invited you up to testify about the USDA position.

What is your position on the bill?

Mr. HUGHES. Well, in the past years, as you know, from statements that Senator—Secretary Bergland—has made—we have been interested in looking at, obviously, the expansion of the export market and considering specific intermediate credit positions.

Unfortunately, at this moment, this is not receiving complete support within the administration.

Senator BELLMON. Does USDA feel that intermediate credit would be an assist in developing export markets?

Mr. HUGHES. Yes, sir.

Senator BELLMON. That is a little better, I think.

Senator STONE. Mr. Harrison, go ahead.

Mr. HARRISON. I think Senator Lugar has raised a very important point that has to be understood very well, and that is, What are we looking for? I think primarily how do we expand long-term markets in the next year or 2 years, 5 years? And I think we feel—as we have looked at this very carefully and considered it and discussed it a great deal with our competitors, as well as inside the government—that this kind of a credit facility could be used to do that. Of course, your bill aims directly at that, Senator Lugar, and I think it could be done that way.

There is no doubt that the State Department and Treasury people have every right to be very concerned about the competitive aspects. And I think we have no interest in the Department of Agriculture—in getting it into a situation where we are leaving money on the table, as the people in business say, where we are just giving away credit without getting any benefits for it. I think that would be foolish for the Department of Agriculture to do that.

But I think where we have some optimism is that it could be done in such a way as to avoid excessive competitive negative factors. We are confident that could be done. I guess we are not being successful in convincing our colleagues.

Senator LUGAR. I appreciate that comment very much that you have made. It just seems to me important, in a humanitarian sense, apart from an agricultural one, that there be some infrastructure available in the developing countries.

One reason why we have not been exporting much is that they do not have money with which to buy it. There is a mismatch between production, and I know of no simple way to help them establish herds, mills, crushing facilities, or this sort of thing. We have got to use some imagination and move, at least in the credit area.

My bill does not simply accelerate credit, but really sets up a whole new set of conditions that would lead to customers abroad—customers at least having sufficient reserves and infrastructure to pay for it and

use it. I would think in terms, literally, of the Australians and Canadians. It is not entirely a neutral policy. Herds that are built from one could use grain from another. I am not certain that I perceive—this extraordinary analysis of the State Department as having any relevance whatever, if one thinks about it very long. And my conclusion is that they really have not thought about it very long and hard. But this is the purpose of these hearings, to try to refresh everybody's memory and get us on the track of considerations very important for farmers and for our country.

Mr. HUGHES. I would just say that these are the things that we have been considering, the things that you have mentioned here, and in the comments previously, with other witnesses here.

Without any question, there is a big difference between the Commodity Credit 3-year loan and the Public Law 480 2- to 3-year loan.

Senator STONE. I asked the Department to review all these bills and to comment in writing about the nonmedial credit provisions. We have commented about—we understand the constraints of the State Department's position. But could you give us, in writing, your comments about all of these bills that we are considering, four or five bills.

Give us your comments on the approaches in these bills, not just the support facilities, but all of these other proposals, such as upgrading to counselors, and export centers abroad and things like that would be helpful to us.

Mr. HUGHES. Well, the OMB has taken the position against those two particular items also.

Senator STONE. Is that right?

Mr. HUGHES. Yes, sir.

Senator STONE. Is there anything in any of these bills that they support?

Mr. HUGHES. We will be glad to provide that information to you.

Senator STONE. Would you explore that?

Mr. HUGHES. Yes, sir.

Senator STONE. Thank you, Mr. Hughes.

Senator BELLMON. By accident this morning earlier I had a chance to meet with a group of attachés. I think 15 were here. And they—not myself—brought up the fact that one of the main concerns in the so-called developing countries is to build up some food reserves—Sahail—I have forgotten which country—and they cannot build a reserve because they do not have any place to store it or keep it, and they are asking me why we could not make available longer term credit to those countries so that they could provide a place to store food that they could eat.

Apparently, there has been a problem. The port is only open 4 months out of the year, because the river is flooded. It seems strange that at least part of your people feel like these credit provisions might be of great value, and yet the Department seems to think otherwise.

Senator STONE. I might just intrude.

There is no question about the support of the administration in this approach for Public Law 480. So why have support for these

facilities but no support at all for interim groups of developing countries that could turn into cash consumers? What is the logic there?

If you can explore that and come back to us, either in writing or at another hearing—

Senator BELLMON. Along with what the chairman has said, look over the bills, and perhaps not less than, but find out the amendments that you might recommend that could make the bill more compatible. We are going to pass some kind of a bill.

Senator STONE. Are we not, though?

Senator BELLMON. It may not be what I like, but you could make it a little better, not simply saying no, but give us your thoughts as to how it could be improved.

Also, I am not so much concerned about starting a credit war. The fact is, of course, that these other countries are—we might as well get into wheat, so I would not use that as an argument.

Now, then, one other thing, very quickly.

I should have asked our friend from the State Department.

Do you know of any actual agricultural representative who is at the MTN negotiations, who is representing Agriculture there?

Mr. HUGHES. Well, for instance, in the International Wheat Agreements—the Associate Administrator of FAS, Tom Saylor, is our representative. In fact, he left last night to go to Europe to discuss them. And also we have an agricultural attaché located in Geneva, who participates there with the STR people in their negotiations.

Also in FAS, as you know, Senator, we have an international trade policy agency that provides technical information and a lot of services to Ambassador Strauss. So we are involved in there.

Senator BELLMON. You really have an attaché on the side?

Mr. HUGHES. Yes.

Senator BELLMON. He said he was our representative. Obviously, he cannot be there.

Mr. HUGHES. But he has been involved in this a lot, as you know, and has made two trips to Europe to discuss with others—but we do have people who have been involved with this on a day-to-day basis.

As a matter of fact, 80 percent of the Associate Administrator's time is spent on this.

Senator BELLMON. The person who runs the American negotiating team is an ambassador?

Mr. HUGHES. That is right.

Senator BELLMON. What rank does the person have?

Mr. HUGHES. The man in Geneva full time—which is not Mr. Saylor. He is an agricultural attaché from FAS.

Senator BELLMON. Does an attaché speak to ambassadors in—

Mr. HUGHES. Sometimes that is difficult.

Senator BELLMON. Why do we not get someone with some clout and get some assurance that Agriculture's interests are being represented?

Mr. HUGHES. Well, the present law provides that our representative overseas are agricultural attachés.

Senator STONE. That is one of the provisions of one of these bills, to upgrade attachés to counselors. And it is opposed.

Senator BELLMON. And do counselors speak to ambassadors?

Mr. HUGHES. It is my understanding they do, yes, sir.

Senator STONE. That is opposed by the State Department.

Mr. HUGHES. In many of the instances, our attachés do have a good relationship with the ambassadors. I do not mean to imply that they do not.

Senator BELLMON. In looking over the bills, would you also take the initiative to decide that there are other tools? I am not asking you to get OMB to bless the tools, but if there are things that could be done to help us help you, to help develop foreign markets for our farm products, please make those recommendations.

Mr. HUGHES. Yes, sir.

Senator STONE. Thank you, Senator Bellmon.

Thank you, Mr. Hughes.

Senator LUGAR. As it was mentioned earlier in our testimony, the Secretary of Agriculture did write to the attachés and 22 responded. I think, in fairness to the Department of Agriculture, there has been an attempt to find out what is going on in the field—at least prior to OMB's involvement or whoever else has intruded.

Mr. HUGHES. Thank you.

Senator STONE. Thank you very much.

I would like to call on the best agricultural commissioner in the United States, Doyle Conner, from Florida, for his testimony.

Incidentally, that happens to be a ruling of the Chair.

**STATEMENT OF DOYLE CONNER, COMMISSIONER, FLORIDA
DEPARTMENT OF AGRICULTURE, TALLAHASSEE, FLA.**

Mr. CONNER. Mr. Chairman, I realize you have a number of witnesses to appear. You have a copy of my testimony, and I might just summarize, for the benefit of the time schedule here this morning.*

I am here in the interest of supporting bill S. 2968.

My name is Doyle Conner, commissioner of agriculture in the State of Florida.

We recognize that our country has an economic problem at the present time. When I reflected on February's trade deficit, of course, I was alarmed. And then when I saw the first quarter total exports of \$30.9 billion, at first I thought I should be proud. And then when I recognized that it is still deplorable and needs so much more improvement, I can now appreciate the work this committee and Congress are faced with.

In 1977, of course, we exported an enormous amount of agricultural products, \$23.7 billion, while we were importing only \$13.5 billion. I think the strength of our country lies in our agricultural capabilities.

I am here primarily speaking for the 16 Southern States who constitute the Southern United States Trade Association. This is 16

*See p. 174 for the prepared statement of Mr. Conner.

State departments of agriculture. I was identified previously as serving as the charter president of the group, and I might, Mr. Chairman, if I may, talk very briefly about the purpose of this organization.

We have recognized for some time that perhaps agriculture does have the capability to provide, at least in part, some of the answers to this very serious problem. We work very closely with the Foreign Agricultural Service, with an office in New Orleans, where we have access to major trading offices.

At our reverse trade show, a couple of months ago, we had more than 40 countries represented, where they came to us. And they saw products exhibited from these 16 Southern States and, of course, we were elated when we received orders, including one for a very small packer in Madison, Fla., as a result of this reverse trade show.

We feel that this southern region, as well as other regions of the country, are indeed contributing immeasurably to this effort in foreign trade.

We generate about one-third of the total exports of agricultural products from the United States, in this area, about \$8 billion, basically, soybeans, tobacco, feed grains, cotton, rice, wheat, poultry, fruit, and vegetables.

I might add for the benefit of other members of the committee that the chairman was in Tampa on Monday helping to load \$2.5 million worth of grapefruit and oranges on board a Japanese vessel. That was not as much as \$15 million worth of Toyotas, which came over, but it was better than nothing as has been the case in the past.

So these small efforts that we are talking about here today are the ones that really count.

Now, we have a dual purpose, of course, that that is the concern that all of us have for agricultural exports would indeed aid the farmers' situation. And this has already been adequately expressed here this morning.

I certainly support not only S. 2968 but the other bills which have been discussed, which would benefit the total situation.

Now, let me speak just briefly to the establishment—and Mr. Hughes has already alluded to the establishment of these foreign trade offices.

I think this is essential. There are those who have foreign trade outposts today, the large shipping concerns. And we are acquainted with them.

But perhaps our greatest potential lies in the fact that we have people not yet exporting, and they do have potential to export. I just mentioned a small one from our State.

But you can multiply those by literally thousands and thousands of people who do have an exporting capability, if they can establish some proper contacts in marketing. These trades offices, in my opinion, are staffed with competent people as well as local nationals who would be capable of speaking and writing and negotiating between our customers and the buying companies—or buying individuals—in those countries.

I support the enactment of this legislation.

Then I would like to see the establishment of those offices implemented just as quickly as possible, up to the maximum, I think, of 25 or 26, that the bill proposes. And credit has been discussed here.

Senator STONE. What you are saying, the more salesmen, the more sales?

Mr. CONNER. Well, we have found that to be true. In our trade shows, for instance, the personal contact results in considerable sales; and we certainly support this. Indeed, that is correct.

As far as extending credit, I do not know of anyone who is any closer with a dollar than I try to be, but it is necessary to get on with the business of selling; and it is going to be necessary to extend credit for several years, particularly pertaining to establishing a capability for processing, storing, and distributing the products in these foreign countries.

Also, in the area of livestock financing, we need some assistance in that area. I am vitally concerned with the upgrading of our personnel to give them equal status. As the chairman knows, I have traveled in more than 50 countries, and this is one of the things that I noticed first, is that we must get on with upgrading our personnel.

We may have the mistaken idea that in this country agriculture is second rate, or it is back seat. But in countries where food is not as plentiful and is not as reasonable as it is in this country today, the thing that we are recognized most for is our capability of producing a sufficiency of food and fiber for our people, and many of the peoples of the world. There is no reason why we cannot have people appearing on an equal basis with the same diplomatic titles who have at the same time the same responsibilities.

Well, let me put it in these terms: I honestly feel it is simpler to teach a farmer a little diplomacy than it is to teach a diplomat a little agriculture. I think this would shorten considerably the time involved, and of course, time is of the essence.

The lesser developed countries, those developing countries—I think with just a little encouragement on our part—can become some very, very fine customers for us.

Also, I would like to see an Under Secretary for International Affairs in the Department of Agriculture. I heard today considerable discussion on the status quo. The status quo has put us where we are today. I think it is time that we move on and maybe let wheat become our Toyota; let soybeans become our Volkswagen, and do a better job of selling than they are doing of selling their products in this country. Then perhaps I could be a satisfied voter back home when I see that our trade has fallen back into a favorable balance and that we, as public servants, have indeed done our job.

Thank you, Mr. Chairman, for the privilege of being here.

Senator STONE. Senator Zorinsky, any questions?

Senator ZORINSKY. No. It was a good presentation.

Senator BELLMON. I would like to congratulate you, Commissioner, for a fine statement. You have recommended the establishment of an Under Secretary for International Affairs in USDA.

What do you think about an Under Secretary for Agriculture in the State Department?

Mr. CONNER. Well, we have long needed a voice there, and we have long needed expertise there, which very candidly—and I have said this before, and I have said it publicly, and I am not saying it in a real sense of criticism, but in desperation, I would say—we need it badly.

The voice of agriculture needs to be in the mainstream.

Senator BELLMON. It seems to me that the failure—perhaps I am being too harsh—in the State Department to understand the problems of agriculture, is one thing that has led to the absolute total inequity in trade agreements between the United States and Japan, and the other States and EEC. Perhaps if we had an agriculture voice in a high place in the Department, we might be able to overcome that inequity.

Senator STONE. A very good idea. That is a very good idea.

I would want to modify my earlier caustic comment, which I really did not mean, about an American desk.

What I really meant to say was "agricultural desk."

Mr. CONNER. Thank you very much.

Senator STONE. Senator Lugar?

Senator LUGAR. I think the dialog that has occurred here is significant. It could be that from these hearings we will really begin to zero in on the intergovernmental relationships which are so important. And I think that Senator Clark's bill has a number of constructive ideas that I support in upgrading our salesmanship efforts.

But clearly in response to the questions that you answered, sir, you have mentioned the State Department's need for this type of liaison. And I think this is important.

How would we go about legislatively modifying that? Maybe it is more of an ambitious project that we do not want to undertake, but on the other hand, it is a timely one.

Senator STONE. I will turn the hearing over to Senator Zorinsky, because there is a hearing going on, and I want to go over there and participate in that.

I want to thank Senators Bellmon and Lugar for your loyalty to this hearing.

No question about it, but our subcommittee is going to report legislation. And we appreciate your input.

Senator Zorinsky?

[Whereupon, Senator Zorinsky assumed the chair.]

Senator ZORINSKY. Could we have Michael L. Hall, president, Great Plains Wheat; Darwin Stolte, president, U.S. Feed Grains Council; and William Kling, Washington representative, American Soybean Association.

Mr. Hall.

What we will do is divide—use the time as a combined panel, and each of you will be allowed about 7 minutes for your presentation, and then we will then have questions of the panel, with questions directed to each individual, as the Senators see fit.

STATEMENT OF MICHAEL L. HALL, PRESIDENT, GREAT PLAINS WHEAT; ACCOMPANIED BY: HAROLD D. SMEDLEY, PRESIDENT, U.S. FEED GRAINS COUNCIL; AND WILLIAM KLING, WASHINGTON REPRESENTATIVE, AMERICAN SOYBEAN ASSOCIATION; AND JEFF GAIN, DIRECTOR OF LEGISLATIVE AND FIELD SERVICES, AMERICAN SOYBEAN ASSOCIATION

Mr. HALL. My name is Michael L. Hall. At the outset, I would like to comment that I am representing not only my organization but also Western Wheat Associates. These two foreign market development organizations represent the bulk of the U.S. wheat farmers with a view toward expanding foreign markets for U.S. wheat.

I will not try to read my prepared statement, but will submit it, Mr. Chairman, for the record.*

Many of the remarks I would have made are in the prepared statement. In the interest of time, I would just like to highlight the provisions of these several bills.

I believe that three of these bills are addressing themselves to credit, and I think that is something that we need. And I think we have to continually expand not only U.S. wheat exports, but all agricultural exports for the obvious reasons you have already heard this morning.

With respect to those four bills being considered by the subcommittee today, I think there is a need to improve the overall conditions in terms of our export promotion program for wheat. And I think that these bills, in various ways, attempt to do that.

But after addressing the specificities of these bills, and in particular to S. 2968, I would like to emphasize that the present, past, and future export financing programs do not incur costs to the Federal budget, the General Treasury, or to U.S. taxpayers. As a matter of fact, the interest accrued from those lines of commercial export credit generates a slight revenue for the United States, which is generally used to cover the costs of the operations of the CCC credit program. Moreover, credit does not in fact lower the wheat price. It only facilitates wheat sales at the current prevailing market prices.

We particularly support the initiatives of many in the Congress to extend CCC financing to Socialist countries, commonly called non-market economy countries.

I would like to recall for you that it was the late Senator Humphrey who best expressed this need when he said: "International business and trade is a world of its own that can't be turned on and off just because of shifts in political views."

The lack of export financing authority by the CCC for the Soviet Union could well have reduced potential U.S. wheat and grain sales to the U.S.S.R. Moreover, it is the opinion of most observers that the Trade Act of 1974 was really counterproductive inasmuch as the denial of U.S. tariff and credit considerations to the Soviet Union do not result in any appreciable changes in the domestic policies of the Soviet Union.

*See p. 175 for the prepared statement of Mr. Hall.

One of the major objectives of the various amendments to the 1974 Trade Act was to increase the number of emigrants from the Soviet Union. Nevertheless, according to the U.S. State Department, in 1973, there were 33,500 emigrant visas issued; in 1975, only 13,300 visas, and in 1977, only 13,250.

We believe intermediate credit is needed. It would bridge the gap between the 3-year credit program and the Public Law 480 concessional program. I believe it provides a transitional credit program for various countries; and that it is needed to assist countries in moving to the traditional 3-year credit.

And we believe, too, notwithstanding some of the observations this morning, that to effectively compete against government wheat boards, which are at liberty to set sales prices and credit terms at any level, the U.S. wheat industry needs all of the marketing tools available. And this would be one that we believe that intermediate program credit could be the factor that brings additional foreign customers to our market.

I would also like to point out that with the use of a percentage of the repayment funds, we, in Great Plains Wheat and Western Wheat, feel we could put them to excellent use in further market development activities in assistance in handling and processing of wheat. To facilitate the ability to receive and mill wheat would increase consumption of the commodity, and consequently increase the total demand for wheat in those markets.

Our organization—Western Wheat and Great Plains Wheat—believes that the three bills you have before you on the credit side could be developed as a multiphase commercial financing package. We believe that the initiatives in this area are also appropriate and necessary to engage in the competitive international market for expanding U.S. wheat exports.

We urge, therefore, the establishment of an intermediate commercial credit program of from 3 to 10 years to finance the sale of U.S. agricultural products.

I believe that these provide a package that we need to improve on to sustain our exports. And we are proud of the efforts and initiatives of this committee and Congress.

I am pleased to come here and express our views, and perhaps to answer any questions.

Senator ZORINSKY. Mr. Smedley.

Mr. SMEDLEY. My name is Hal Smedley, vice president of the Feed Grains Council.

Mr. Chairman, the council is honored to participate in the important deliberations relative to strengthening the competitive position of the United States in the world market for agricultural commodities. Provisions of the four bills being considered today reveal an impressive depth of understanding of the problems the United States faces in marketing its agricultural commodities and products overseas.

While these bills seek to provide a more competitive market program for an impressive variety of products and bulk commodity exports, I will confine my remarks to that with which I am most familiar—feed grains—and from my understanding of the probable impact of legislative matters under consideration.

Prior to addressing the specific provisions of bills before this subcommittee, I wish to emphasize that increased exports of U.S. feed grains depends upon an expansion in foreign utilization sectors comprised of the following:

A mixed feed industry characterized by high quality product and cost-efficient production and distribution; economically viable livestock and poultry sectors capable of quality animal protein end-product production, distribution, and marketing; and a commodity acquisition system, public or private, that is cognizant of quality and value of competing sources of origin for raw commodities.

This requires long-term planning and coordination within the foreign utilization sectors. Many of the countries holding promise of becoming sizable markets for feed grains are just now entering the economic stage of development capable of supporting expanded animal agricultural systems. Our best analysis indicates that the United States can increase its exports of feed grains, primarily corn and grain sorghum, by about 1 billion bushels over the next 5 years.

We heartily applaud the initiatives under consideration today, in that they will aid in the attainment of our projection.

In terms of intermediate credit, the history of our CCC commercial credit program is replete with successes of initial credit utilization in building an eventual cash customer. There has been a wide gap, however, between the 6 months to 3 years short-term CCC credit program, and the concessional credit program of up to 40 years.

Countries whose needs fall between these two programs, but who nevertheless must maintain sound performance in their utilization sectors, must identify alternate sources of supply more responsive to their needs and capabilities. There is no belt-tightening in livestock production without painful reduction in animal numbers which then represents serious setbacks in long-term livestock development plans.

Intermediate credit would provide our customers with the required flexibility to plan and coordinate the development of their utilization sectors, and to develop through concessional, intermediate and short-term programs to a cash-customer basis.

CCC CREDIT TO NONMARKET ECONOMICS

The exclusion of our credit from some nonmarket economics results in the abdication of growing markets to our competitors. Agricultural export credit programs have not been an effective lever on the human rights actions of foreign countries; they have merely served to relegate the United States to the source of last resort in filling import requirements.

Several nonmarket economics represent significant opportunities for U.S. feed grain market expansion over the immediate few years ahead. The United States has the opportunity, in our opinion, to participate in this expansion from a position of friendship and technical assistance which the utilization sectors of these countries consider extremely valuable, if not essential, to their development.

That trade servicing, representing friendly trade relations and development progress, would seem to provide a more sound basis for human rights influence than what is viewed as selective, punitive

exclusion of credit that has served only to strain working relationships and reduce much-needed markets.

We feel that the establishment of agricultural trade offices would serve to enhance market servicing and market development in a number of ways. For the smaller, specialized, nonresident agricultural cooperator, trade offices offer an opportunity to promote products from an accessible base of operations concentrating on trade opportunities and established contacts. We believe that the result would be a heightened image for U.S. agriculture abroad, greater efficiency, coordination and impact of marketing efforts, and maximization of trade opportunities.

We also see a benefit to larger cooperator organizations, but from a different perspective. The option of co-locating within a trade office offers greater flexibility in long-term program planning. The U.S. Feed Grains Council has decided to co-locate within the trade office in London, and while objective program evaluation might not prove beneficial for program purposes in other major capitals, the option will result in a more cost-efficient and effective program in the United Kingdom.

We feel that establishment of trade offices of benefit to the feed grains sector would be in regions not now represented by agricultural attachés or by cooperator physical presence, or inadequately represented.

In the establishment of agricultural trade offices we would encourage careful consideration of the working relationships between the agricultural attaché within the Embassy and the head of the trade office. We feel that lines of authority and responsibility should still run through the attaché in the Embassy for coordination and smooth-working relationships among what would be an extended family.

UNITED STATES AGRICULTURAL COUNSELOR

The United States, highly industrialized and urbanized, is in jeopardy of losing its perception of the importance of agriculture. This is reflected in the status we bestow upon our official agricultural representatives overseas.

Their duties, representational, reporting, providing understanding and insight to the foreign agricultural environment, are conducted with a high degree of professionalism. We strongly endorse the proposal to give agricultural counselor status to selected posts.

Such designation and concomitant status would simply be in line with the expectations that official and private foreign sectors have of the senior resident representative of U.S. agriculture.

We commend the initiatives under consideration to strengthen our foreign marketing program efforts; and thank you for your leadership in this regard and for the opportunity to present our views.

Senator ZORINSKY. Thank you, Mr. Smedley.

Mr. Kling?

Mr. KLING. Mr. Chairman and members of the committee, my name is William Kling. I am testifying on behalf of the American Soybean Association as their Washington representative.

Mr. Jeff Gain, our director of legislative and field services, is here with me.

The American Soybean Association appreciates this opportunity to present before this committee its concerns and views regarding the expansion of U.S. agricultural exports.

Our association represents about 350,000 soybean farmers through administration of soybean checkoff programs which generate funds for market development, for research and for other beneficial purposes.

Paid up members of our association number 20,000. About half a million farmers grow soybeans, which are the single most important U.S. export in many years.

United States agricultural exports are vital not only to the farm economy and to the welfare of farmers but also to the U.S. balance of trade and strength of the U.S. dollar. The \$6 billion annual export earnings of American soybeans and soybean products represent about one-half of the U.S. agricultural trade surplus.

Soybeans are the U.S. No. 1 cash crop and American farmers export over half of their production. U.S. soybean producers are working hard to demonstrate to foreign customers that we are a reliable source of the high-quality protein and edible oil obtained from soybeans.

American agricultural trade is facing aggressive competition from other major food-producing nations and we have lost ground at times to this competition because we have not had the tools to compete.

The tools have been insufficient in recent years because U.S. Government programs and funding to develop markets have not kept pace with potential foreign demand and with inflation. To maintain our traditional stand as leader in world markets, and to increase demand for our exports, government support and cooperation are required on a scale that at least meets programs instituted by our competitors.

The American Soybean Association sets high priority on establishing the Agricultural Trade Offices, provided in the Agricultural Trade Act of 1978, S. 2968. The world's new emerging markets represent untapped demand for our crops and farm exports because of the nutritional needs of great and growing populations and economic growth often enriched by petroleum wealth.

Agricultural Trade Offices in these nations would spur exports as well as assist them to meet their food needs. We also endorse continued market expansion activities and establishment of trade offices in developed nations. The United States has already invested time and funds with visible results in these markets which need to be serviced and expanded where possible such as in the processed food area. For example, the large number of food products manufactured from soybeans have great potential in all markets, such as textured soy protein and other soy protein products.

We support the proposal to give agricultural attachés a status commensurate with the importance of agricultural trade to the U.S. economy. Our agricultural representatives should be designated agricultural counselors as other nations designate their agricultural representatives.

In major markets such as Japan and the EEC, our agricultural representative should have the status of agricultural minister. We

believe that the officer in charge of a trade office should report directly to the agricultural attaché or counselor. This will help coordinate actions particularly those affecting U.S. agriculture in a country and avoid confusion. The Secretary of Agriculture should keep in mind career principles for these posts and make appointments on the basis of professional competence.

Trade channels should be kept open and widened between our country and potential importing nations. Continued market expansion in traditionally developed markets such as the European Economic Community and Japan must be protected from trade restrictions or the threat of embargoes at home, which damage our image as a reliable supplier to the world.

Trade agreements between the United States and importing nations beneficial to our farmers must be protected. I should note parenthetically that the zero binding of U.S. soybeans in the EEC is the major if not most valuable concession accorded to U.S. agriculture in the course of the trade negotiations of the last few decades.

The provisions in S. 2968 and other bills concerning intermediate CCC credit are needed to provide greater flexibility for export credits in order to meet competition, as needed, and for special situation.

Such credits of up to 10 years can be used as a transition from the longer 20- and 40-year terms of title I, Public Law 480. We urge that these funds and repayments from these loans be made available to reinvest in handling, processing and distribution systems that facilitate our exports.

I would like to make a few comments to clarify our position on the intermediate credit question. I would like to emphasize that this is discretionary authority to the Commodity Credit Corporation, and would be available when and where needed. It would not necessarily be used generally.

Such a provision would give other countries pause in providing cutthroat, longer term credit to our competitive disadvantage, if they know that we have the means to retaliate and give equal terms.

It would also be useful in financing breeding livestock and for meeting credit situations where there is a bunching of credit obligations referred to by Senator Stevenson.

It would also give us a competitive handle in meeting the longer term credit offered by other countries.

And, finally, I would like to say we do not necessarily want a cutthroat competitive race. We want to have the tools to meet what other people are doing, and also to give them some pause before they engage in cutthroat competition.

The American Soybean Association supports the bill of the late Senator Humphrey and Congressman Findley as well as similar bills which provide for granting CCC credits to nonmarket economies. At present, Commodity Credit Corporation, credit cannot be extended to a number of these countries, although Romania, Yugoslavia, and Poland have benefited from them with consequent mutual benefit to both U.S. exports and to these nations. Granting CCC credits to other nonmarket economies would open the potential of vast markets for agricultural exports.

The American Soybean Association most vigorously supports H.R. 8309 because without locks and dam 26 on the Mississippi, much of our exports of soybeans would be jeopardized.

We cite this in this hearing on agricultural exports because without locks and dam 26 on the Mississippi, through which many of our exports move, we could not have any export expansion program if we had a transportation crunch.

All our efforts to promote exports would be in vain if we were unable to ship our product. The obsolete facilities of locks and dam 26 are deteriorating. Measures to assure the efficient and continued functioning of this facility are essential as provided in H.R. 8309. Work toward this end should proceed without any delay so that transportation catastrophe is averted.

I understand that H.R. 8309 will be taken up by the Senate on Tuesday, and that is the reason why I am citing this here today.

In summary, American farm exports make a major and growing contribution to the human diet in the world. At the same time, they are basic to the welfare of American farmers and are essential elements in the U.S. economy generally.

Measures to enhance the position of U.S. agricultural exports are needed, particularly the extension of CCC credits from the present 3 years to 10 years when necessary.

The granting of such credits to nonmarket economies would provide a great boost to exports. Measures that provide U.S. agricultural exports with the tools needed to do a more effective job are needed, particularly opening of trade offices to facilitate such trade and also according our agricultural representatives a status commensurate with the importance of their mission, that is, designation of U.S. agricultural representatives as agricultural counselor and/or agricultural minister, depending on the importance of the mission.

Finally, without adequate transportation, the maintenance of U.S. exports and export expansion could not be realized so that measures to assure the continued and efficient functioning of locks and dam 26 should be given high priority. We hope that H.R. 8309 will be adopted in the Senate when it is considered next week.

Thank you, Mr. Chairman.

Senator ZORINSKY. Thank you, Mr. Kling.

Senator LUGAR. Mr. Chairman, I would just comment that I appreciate Mr. Kling's point. Several bills give authority to the Secretary of Agriculture with regard to credit terms. I think there may have been a misunderstanding in the minds of some of the administration persons this morning, who felt that this was sort of being mandated.

But clearly, this is simply another weapon the Secretary has in the event that others are invading the international markets with the weapons at their hands, in terms of credit. And we simply feel that our Secretary ought to have this, and likewise, we hope that the Secretary of State and others would want us to have that too and not to be so inhibited in our ability to compete.

So I appreciate your highlighting that. I would simply add, as further comment—because you have given some additional testimony

on lock and dam 26—I think, obviously, those of us in favor of exports are very hopeful we can move toward getting that fixed up and will be looking forward to the debate. I hope it can be expedited. It is clearly a bad situation.

And the matter of the Ohio River, the Great Lakes ship routes, the St. Lawrence Seaway, each of these things are tremendously important.

I appreciated your remarks.

Mr. KLING. Thank you, Senator.

Senator ZORINSKY. Mr. Kling, I would like to ask you a question concerning your thoughts on the ability of the soybean industry to react to importations which, through aid from the World Bank, have become competitive; for instance, Malaysia.

I had breakfast with Robert McNamara yesterday. I bring this up because one of the questions I asked him concerned Brazil's dipping into quite a lion's share of the business from Japan, which we used to have—and the competitors we create for ourselves with the money market that we provide in many areas of the world.

Do you have any comment?

Mr. KLING. I am very glad you asked that question. I have been on both sides of the fence, because, in spite of what everybody said about the State Department, I used to be with the State Department. The American people are a very generous people. We have a great interest in the welfare of the world, and we have shown this materially, and otherwise.

Now, the American Soybean Association has considered the problem very carefully, and as you well know we have come out very vigorously against the subsidization of palm oil production.

Now, let me explain how we come out on that.

We, the American Soybean Association, have helped other countries produce soybeans. We have given them technical assistance to produce soybeans to feed their own people. We are much aggrieved when we find that the U.S. Government, and international organizations, are subsidizing the production of palm oil, or any other oil seed that competes with us in the affluent export markets of the world.

Now, let us take palm oil as an example.

Palm oil produced in Malaysia is exported. It is exported to Japan. It is exported to the United Kingdom. It is exported to the United States. Little is consumed by the people of Malaysia. Little is exported to the underdeveloped or poor people of the world. It is exported in competition with soybean oil in the affluent countries of the world. And we feel that this is most unfair, because the cost of producing palm oil is on the order of 12 cents a pound, landed in the United States.

Now, as you probably know, the price of palm oil today is in the area of 28 cents a pound. We maintain that you do not have to subsidize a commodity which has such a high profit margin. In fact, it always amazed me that the World Bank has come out this way, but I guess they are bankers; as they say, they are looking for a viable project. You receive as profit more than twice your costs when you market the product.

So that we have no objection to anyone producing—well, to say, we have no objection is a presumptuous statement, in a way. Everyone has a right to grow crops of their own choosing.

However we do object to subsidization of products which are not used to feed hungry people, but are used to feed the fat of the world, so to speak, in competition with our exports.

Thank you.

I would like to elaborate. I could talk for about an hour on this, Senator, but I have given to you in a nutshell where we come out on that.

Senator ZORINSKY. Mr. Hall, I would like to ask you a question.

Recently, with the advent of the farmers' presence here in Washington, D.C., I often heard the comment that no matter how much we increase our exports of wheat to foreign nations, it really does not enhance them or benefit their economic situation, because we always seem to sell it at such a low price that it weakens the farmer's ability to survive in the market. In other words, I guess what I am saying is: You know we can create a new market for great volumes of wheat, but at what price? And, of course, that is the key.

Do you have any comment?

Mr. HALL. I think history tells us what volume wheat export will do with respect to farm income. If you take the period 1972 through 1975, f.o.b. prices of wheat were in the neighborhood of \$5; ex-farm prices were in the neighborhood of \$4.

With respect to the dialogue you had this morning with several witnesses, we have had a firming up of prices over the last 6 to 9 months; resulting in a dollar increase on ex-farm prices because of increased f.o.b. volumes of wheat basically because of the increased export volume. Nevertheless, as Senator Bellmon pointed out, wheat prices in the country have taken a setback this week. Nevertheless, the picture is very bright for sustained, higher volume of U.S. wheat exports now and in the 1978-79 season, the result of which will certainly be increased prices to farmers in the country.

Wheat prices have moved higher, but it is on the basis of stronger fundamental factors in the international market. The U.S. is essentially the only supplier of wheat between now and the end of calendar 1978. I suspect that with greater export volume, there will continue to be stronger price in cash and FOB wheat.

Senator ZORINSKY. Do you feel that a national commitment to an industry such as agriculture creates a barrier to competition in the world market?

For instance, a great deal of subsidization in the area of transportation, with respect to Canadian wheat, and Brazil's Government subsidizes their agriculture.

Mr. HALL. Notwithstanding Mr. Bosworth's remarks this morning, I suspect that subsidization of Canadian wheat exports is far greater than we realize. There are indirect domestic subsidies, on rail transportation. And we do not know at all the undisclosed terms on which the Canadian Wheat Board makes exports and such matter as credit, interest rates, terms of repayment, and so forth.

As you know, the Canadian Wheat Board has little if any responsibility to make public reports to either Parliament or wheat farmers the specificities of actual transactions, with one or two exceptions: annual volume and annual gross aggregate value of wheat export sales.

We do not know; the State Department does not know; and the Canadian wheat farmers do not know, and U.S. wheat farmers do not know fully the details of Canadian wheat export sales transactions.

Senator ZORINSKY. Thank you.

Do you have any questions?

[No response.]

Senator ZORINSKY. The next witness is Richard Arsenault, vice president, American Express International Banking Corp. accompanied by Robert Scholle, assistant vice president and head of the Agribusiness Department.

STATEMENT OF RICHARD ARSENAULT, VICE PRESIDENT, AMERICAN EXPRESS INTERNATIONAL BANKING CORP., ACCOMPANIED BY ROBERT SCHOLLE, ASSISTANT VICE PRESIDENT AND HEAD, AGRIBUSINESS DEPARTMENT

Mr. ARSENAULT. Senator Zorinsky, members of the subcommittee.

My name is Dick Arsenault and I am a vice president of American Express International Banking Corp., American Express Plaza, New York City, and I have with me today Mr. Robert Scholle, who had to take a telephone call, and who is assistant vice president and head of our Agribusiness Department.

Our organization in the past few years has become quite active in the area of support for exporters of U.S. agricultural commodities and related products. We have worked with such organizations as the Southern United States Trade Association, the Eastern United States Agricultural and Food Export Council, the Old West Regional Commission, and many cooperators to the Foreign Agricultural Service. Mr. Scholle sits on the Board of Directors of the Animal Air Transportation Association and the Agribusiness Council. He will soon join the Board of the U.S. Meat Export Federation.

We have come here today to speak before you concerning proposed bills S. 2385 and S. 2968.

To give you some background on American Express International Banking Corp., AEIBC was incorporated in 1919 as a wholly owned subsidiary of American Express Co. to take over international business which the parent company previously then had conducted at many locations in Europe and Asia. One of these businesses was international trade finance which, today, is a principal AEIBC activity. I might note here that our business is exclusively international.

On the U.S. side, our New York agency only provides financial services incidental to our business outside the United States. Thus, it is particularly appropriate that AEIBC should be represented here today.

In recent years, as AEIBC has intensified its efforts to support the export of U.S. goods and services, it was recognized that certain

industry-segments and geographical markets should be identified and brought together if their full growth potential were to be realized.

Accordingly, I was given the responsibility in 1974 to organize a unit to trace growth and changing patterns in the flow of international trade as reflected in our own worldwide trade financing activities.

AEIBC was in a good position to undertake this kind of analysis. With 65 commercial banking offices in 29 countries—a coverage which encompasses virtually all the trade and financial centers of Europe, Asia, and the Middle East—AEIBC branches or subsidiaries usually are located at both points of origin and destination. Hence, all phases of all financial transactions between exporters and importers in or near such cities can be handled completely within the network.

From our analysis, several U.S. industry sectors emerged as growth potential candidates—none, however, demonstrated higher potential than did agriculture. After all, everybody has to eat. And my own 15 years experience in high absorber areas for agricultural goods—namely, Japan, Pakistan, India, and Taiwan—have given me some insight into the problems faced by U.S. exporters: First, in trying to find credit-worthy buyers; second, in getting the product out of the ground or off the range into the buyers' possession. Any export program that takes the mystery out of selling to foreign markets has got to produce results.

In the past, unless you were a sophisticated co-op or a major commodity house, you had no interest in getting involved with the complexities of marketing in a foreign environment. Today, the situation has changed: (1) The demand is there; (2) the price is often more attractive than in domestic markets—to say nothing of the need to increase foreign sales if we are to ameliorate our balance-of-payments problems.

With specific reference to the bills under consideration, we would unhesitatingly endorse S. 2968 on the basis that the United States has seen an erosion in its share of world agricultural markets. No one is in a better position than AEIBC to know this—wherever we or our subsidiaries operate, we are financing trade between countries.

Regarding S. 2968, we know from firsthand experience that U.S. agriculture attachés are at a competitive disadvantage because of their subordinate position within the diplomatic community. Their competition outranks them and enjoys the credentials to approach foreign governments at ministerial levels. We enthusiastically endorse provisions of S. 2968 to accord counselor status to our senior agricultural attachés abroad.

With reference to S. 2968, the functional description of scope and intent as set forth in the bill is clearly defined.

We favor the notion to establish and place specific agricultural trade offices and facilities in countries of high potential and in an environment more conducive to the conduct of business.

We feel that because the nature of agricultural commodities are so specialized, they need to be looked upon as a speciality product.

We, as well as other major financial institutions, recognize this uniqueness and have organized ourselves accordingly. Our endorsement, however, would be contingent on the incorporation of a provi-

sion for objective performance measurements on the respective new trade officers, coupled with a performance review to be undertaken at regular intervals. For example, one measure might be dollar volume of new business originating with new buyers who have been researched, identified, and sold by the agricultural trade officer.

As regards S. 2385, with its provision calling for an increase from the maximum of 3 years to allow terms in excess of 3 years but not more than 10 years to be financed by the CCC, we support this type program with the understanding that the extension of terms would be used in a discretionary manner to promote the sale of agricultural commodities and to keep the U.S.A. in a competitive position.

However, in specific areas such as breeding livestock where a minimum of 5 years is a more realistic repayment schedule, it is in these select areas where longer credit terms should be the norm under this program.

We would like to make the point that in working with the CCC, their programs have been helpful to agricultural exporters and that increasing specific credit terms can only serve to help make U.S. agricultural products more competitive.

We would also like to note that an amendment to be made on line 6, section B, to read, after "the Commodity Credit Corporation," "with breeding livestock accorded both cost and freight status."

It is our opinion from experience in working within this industry that breeding livestock should be considered as a special situation. Breeding livestock most often is shipped via air as opposed to other commodities which normally are shipped by surface or sea transportation.

The cost of the air transport is considerably greater than the other modes of transportation and in many instances may range between 35 to 55 percent of the value of livestock.

Assistance in extending terms for these freight charges will greatly enhance the future sales of the U.S. breeding livestock.

I appreciate the opportunity to present this testimony to the committee and you can be assured of our continued support in programs promoting the exports of U.S. agricultural commodities.

Senator ZORINSKY. Thank you, Mr. Arsenault.

Senator LUGAR?

Senator LUGAR. I have no questions.

Senator ZORINSKY. We have talked about these bills which prescribe the positions we feel need to be created in order to—in a more viable manner—represent agriculture throughout the world as a means to offset our deficit and balance of trade.

How, in your opinion—or do you have any suggestions to offer—can we assure that these individuals, once they are appointed, once they are in place, do in effect have agriculture's interest at heart?

Evidently, we have got people, even in the U.S. Department of Agriculture who, in the eyes of many, do not have agriculture's interests at heart. When you are trying to create an export credit bill for the industry called agriculture, how do you assure that these individuals are an extension of the will of the people producing agriculture for the rest of the world?

Mr. ARSENAULT. Senator, "management by objective" is how I would handle it, the same way we did with Bob Scholle when he was put in charge of our new agribusiness unit.

We had him research key agriexport markets: We then identified the trade patterns to certain countries that looked like good target markets; as we had no previous business from these markets we gave Bob certain objectives he was to achieve with the unit: for instance if the total export trade volume for a certain product to a specific country was say \$100 million a year, Bob was given a job objective to capture during the year 10 percent of the export trade resulting from this volume. To do so he was required to research this market segment, finding out who the buyers and sellers were, terms of the trade and then using all the arrows of business experience that were stored up in his quiver of learning, so to speak, stalk the market, and hit the target through achieving the export finance goal set for him.

He was then evaluated on how good or bad a job he did toward achieving his job objectives.

It is by establishing a set of job objectives for these people to achieve during the year that will assure these individuals are the extension of the will of the people producing agriculture.

If it can be clearly identified that their individual efforts resulted in opening up new markets for agricultural products that have never been sold before or increased volume of sales for current products, this would be clearly an indication back home that these representatives are achieving results/objectives set.

Senator ZORINSKY. Well, in our Government, titles seem to be more important, in many instances, than the actual substance of the issue. I guess I should take it back to the word "management."

Mr. ARSENAULT. Yes, sir.

However overseas the name of the game still calls for diplomacy in the sense that titles play an important role.

Senator ZORINSKY. Of course, diplomacy is synonymous with the State Department, and the State Department is not synonymous with agriculture.

Mr. ARSENAULT. The pecking order is still important in getting a job accomplished.

Senator ZORINSKY. Thank you.

Our last witness to testify today will be Mr. Jerry Goodman, the executive director of the National Conference on Soviet Jewry.

STATEMENT OF JERRY GOODMAN, EXECUTIVE DIRECTOR, NATIONAL CONFERENCE ON SOVIET JEWRY; ACCOMPANIED BY MARINA WALLACH, WASHINGTON REPRESENTATIVE

Senator ZORINSKY. Mr. Goodman, your entire statement will appear in our committee record as having been presented in whole. If you would like to either summarize or refer to the text in any way, why, feel free to do so.

Mr. GOODMAN. Thank you, Mr. Chairman.

I appreciate your patience in terms of the lengthy session this morning.

I have been asked by our chairman, Mr. Eugene Gold, who is also the district attorney of Brooklyn to extend his apologies. He is attending the meeting of the executive board of the National Association of DA's in Colorado Springs, and would have liked to have been here.

Mr. Chairman, we welcome this opportunity to appear today and present some views concerning legislation pending before this subcommittee. Our Washington representative, Marina Wallach, whom some of you may know will join us. For those who may not be familiar with our organization, the National Conference on Soviet Jewry is the central coordinating body on policy and program in this country concerning the large Jewish minority in the Soviet Union.

Thirty-nine national organizations and hundreds of local affiliated councils, federations, and committees comprise our constituency.

Our concern for human rights is one of a long-standing commitment for all people whose rights have been trampled upon. We have learned from recent history that when the rights of a minority, such as those 3 million Jews in the U.S.S.R. are threatened, all people are threatened. By securing those rights for Jews in the U.S.S.R., we are in fact helping secure the rights for all people. Indeed, their struggle becomes our struggle.

This committee is now considering various bills which among other things, would authorize the Commodity Credit Corporation to finance export credit sales of agricultural commodities and to authorize non-market economy countries to participate in certain programs of the Commodity Credit Corporation.

These bills would amend the Food for Peace Act to allow the CCC to offer credit for up to 10 years, rather than 3 years. They would also remove legal restrictions that currently make nonmarket economies ineligible for CCC credit.

We are in full sympathy with the needs of American farmers to increase their income, especially through the expansion of sales.

Mr. Chairman, I have just been joined by our Washington representative, Marina Wallach.

Senator ZORINSKY. Welcome.

Mr. GOODMAN. This subject has been pending with the Congress and the White House and we trust that effective legislation will be forthcoming, and soon. However, in our view, the proposed legislation would not help the beleaguered American farmer in any measurable degree. It would certainly aid a few corporations who trade in agricultural commodities and who have already reaped great profits in grain sales to the U.S.S.R. over the last few years.

Only a few years ago, these notorious sales not only did not benefit the mainstream American farmer, but drove consumer prices up for such basic staples as bread. Hopefully, we have learned from that experience to move cautiously in this sensitive area.

Mr. Chairman, a number of concerns are raised with the proposed legislation.

Nearly 4 years ago, when the Congress passed the so-called Jackson-Vanik amendment to the Trade Reform Act, the American people and its leaders took a moral stance. I recall Senator Bob Packwood of Oregon, at a hearing on the amendment, exalt the idea that this

country and its people were finally putting moral principles above and before pecuniary interests when it supported the free right of people to emigrate, especially for oppressed minorities.

At a time when this administration firmly advocates its continued support for the advancement of human rights, and has gained the support of millions of men and women in countries where we have friendly as well as adversary relations, it is unclear as to why this Congress would begin the steps which would dismantle this unique statement of concern for human dignity.

As Senator Henry Jackson said in proposing his original amendment:

Long before the President went to Moscow, I was one of the handful of Senators who sponsored the East-West Trade Relations Act to promote trade with the Soviet Union. But while we do some bargaining with the Russians over dollars and rubles, let us do some bargaining on behalf of helpless human beings. When we talk about free trade, let us talk about free people.

While we have witnessed and welcome an increase in the number of Soviet Jews and others allowed to leave the U.S.S.R. since September, 1977, we have yet to see if this is to be an ongoing trend or a short spark of hope for would be applicants. If it continues to increase over a respectable length of time, I am certain we would all want to see how this impacts on United States-Soviet trade relations. We believe, however, that this is too soon.

The fight for free people was a commitment expressed by Ambassador Arthur J. Goldberg and the U.S. delegation at the recent Belgrade Conference to review the implementation of the 1975 Helsinki Act.

The Ambassador made clear before our recent National Leadership Conference, held in Washington, that "The ideals to which the U.S.S.R. has committed itself are still far from a realization."

"Over the long run," the Ambassador pointed out, "I am confident that the powerful idea of human rights, not only for Jews but for all, which has now become a central element of the Commission on Security and Cooperation in Europe, must prevail."

Our Ambassador took a firm moral stand. We believe this truly reflects the direction of this country as well the will of the American people.

Mr. Chairman, in years past, the CCC sales program has been helpful in expanding U.S. farm markets in Eastern Europe, North Africa and other areas. It has been useful in meeting competition from other suppliers who also provide credit terms.

We recognize that the use of CCC credit is presently limited to Poland, Yugoslavia and Romania. Bulgaria, East Germany, Czechoslovakia, Hungary and the U.S.S.R. are not eligible because they lack "most favored nation" status, and the 1974 Trade Act limits the use of Government credit to nations with MFN tariff privileges.

However, the President has announced his intent to try to include Hungary at some point. It is reasonable to expect this, and that Hungary will become eligible. Bulgaria does not need our grain credits. We should therefore, bear in mind that among all these nations, it is the Soviet Union which would be the single largest purchaser, and probably for years to come.

Unlike other countries, the United States is not forced to sell our resources at low prices. Most of the proposals before this committee would encourage countries like the Soviet Union, who need our commodities, to buy them.

The goal of expanding such sales would be welcomed by all Americans. In fact, existing legislation allows for such purchases, not with substantial credits but at market value. It is therefore disturbing that such credits could be extended to countries who are now prepared to buy for hard currency, anyway.

Based on discussions we have had with leading academicians and observers of the Soviet scene, it is not even certain that the U.S.S.R., while it would accept the proposed legislation, is actively pursuing these proposals. It may be that they attach far less significance to the issue than do some in this country. Indeed, they could be more interested in solving the larger issue of broad-based trade relations with this country.

Assuming this is so, why grant that which is not really necessary, or which is not being sought by the U.S.S.R., and at the same time weaken existing legislation and threaten the moral commitment this very body has already assumed?

If our trade relations are to be reviewed because of varied national interests, then we respectively suggest that it not be done in this manner. Let us not act in haste, or for symbolic rather than meaningful reasons, and piecemeal dismantle the law of the land which, in this instance, also speaks for fundamental principles.

Mr. Chairman, I thank you.

Senator ZORINSKY. Thank you, Mr. Goodman.

Senator LUGAR?

Senator LUGAR. Mr. Chairman, just for the sake of clarity on these bills—because in your testimony, you lumped them all together—I would say that on behalf of Senate bill 2405, which I have sponsored, that I think it recognizes the point which you have made. I suspect there are bills that do not, and this is one reason they are referred jointly to the Agriculture Committee and the Committee on Finance.

That may be a way of differentiating the group of bills that fall in one group or another.

And I appreciate your testimony, because I agree with it. But I would simply indicate, for the sake of clarity, that having recognized the validity of your viewpoint, we still seek your support with the thought that there are some things to be said in a humanitarian way about the extension of credit to countries abroad that have a real need for building up an infrastructure that will help feed people in those countries, and I see those countries as a very different group: the Warsaw pact nations, or the Soviet Union, or others that are covered by the Jackson-Vanik amendment.

And I think very clearly this is something that the subcommittee and committee will have to wrestle with, come down on the side of the question that you have suggested.

And I would appreciate your comment on that.

MR. GOODMAN. Senator, we appreciate your own recent comments, and I accept the need to differentiate between the various pieces of legislation.

What we have tried to do, for the record, is support a principle which is affected by some but not all of the bills proposed. I accept the modifications.

There is no question that people who are starving, people who need food, and who can also provide a market for surplus grain products need our support in any legislation. I would encourage such sales to those countries. I am sure it would have the support of Americans, Jewish or non-Jewish, this organization or any other. To the extent possible, we certainly supported that principle.

Our concern is in the particular reference, such as the bills introduced both in the House and the Senate—with which you are familiar—which would extend credits with a very broad brush, taking into account the concerns we have raised. And we appreciate your own bill, which attempted to differentiate.

I was also very much interested in Senator Stevenson's earlier comments, which have also been taken into account. These concerns perhaps represent an interesting approach.

Any formulation which this subcommittee could develop, which would meet our concerns, I think would have our support.

Senator LUGAR. I appreciate those comments, because, clearly, to have this—for the American farmer, and likewise for the Conference on Soviet Jewry—and I would not want to create antagonism among the various groups. This is not intended. And in this case, it appears to me that you likewise, for various reasons, would have sympathy, full sympathy for American farmers, who have higher incomes through greater export policy, to the extent that does not violate the basic principle of your testimony, would have enthusiasm for that idea.

Mr. GOODMAN. Yet, some of our own leaders are farmers. So I would certainly support that.

Senator LUGAR. Thank you, Mr. Chairman.

Senator ZORINSKY. Thank you, Senator.

Mr. Goodman, concerning Senator Stevenson's suggestion earlier, his testimony that the export credit not be extended, wholesale, to nonmarket economies, but rather that the President send to Congress a list of countries to approve, how does the National Conference on Soviet Jewry feel about Senator Stevenson's proposal?

Mr. GOODMAN. I will be very candid, Mr. Chairman. We only received his approach this morning. It is sufficiently interesting and along the lines we should like to support. It deserves more attention by us, and I would be happy to bring this back to our leadership and, keeping in mind your own calendar, get back to you with our comments.

Senator ZORINSKY. I would appreciate it if you could just reply to the committee for our records.

Mr. GOODMAN. I would be pleased to do that.

Senator ZORINSKY. One last question.

I notice, both in the oral statement that you gave and in your written testimony you referred to the notorious sales to the Soviet Union as not benefiting the American farmer but driving up the consumer prices for such basic staples as bread.

In 1973, though, the farm price of a bushel of wheat was around \$4.30, and last year, it was down to about \$1.76.

Do you have any explanation as to why bread—if in fact it is a fluctuation of the farmer that creates it—why bread prices did not tumble half of their previous price?

Mr. GOODMAN. I am not a specialist in this area, Mr. Chairman, but I suggest that Mr. James Trager, in his book, "Amber Waves of Grain," might give a better clue to that process than any testimony I could offer.

As a consumer I can merely say that in 1972, when those deals were arranged with the Soviet Union, was it not shortly thereafter that the price of bread went up? Why it did not tumble—I do not manipulate or deal with the market—suggests closer investigation.

Senator ZORINSKY. You are aware, then, that the farmer does not package the bread, nor does he create the new contract for the preparation of the bread, nor does he advertise the bread. And these are many other items that go into making up the cost of the product.

Mr. GOODMAN. As I indicated, Mr. Chairman, it was our view—and whatever data is available supports the view—that it was not the farmer who benefited greatly from the wheat agreements or the consequent or subsequent market manipulation, but a few large corporations who—

Senator ZORINSKY. Well, then, I would think it would be a more credible statement if you said that the bread industry's prices increased, since there are certainly more factors involved than the farmer producing a bushel of wheat. And this is the reason a lot of animosity developed between the consumer and agriculture, in specifically looking at—I will use the word, because we are all familiar with the word—pointing to a minority who are to blame for something that happens which is not in the interest of everyone concerned.

Mr. GOODMAN. I would be happy to amend my statement.

Senator ZORINSKY. Thank you. I appreciate that.

And thank you very much for coming here and testifying. We appreciate having you.

We will now stand adjourned, and we will resume this hearing at 10 o'clock tomorrow morning in this same room.

We stand adjourned.

[Whereupon, at 12:15 p.m., the subcommittee recessed, to reconvene at 10 a.m., Friday, April 28, 1978, in room 324, Russell Senate Office Building.]

EXPORT PROMOTION

FRIDAY, APRIL 28, 1978

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 324, Russell Senate Office Building, Hon. Richard Stone (chairman of the subcommittee) presiding.

Present: Senator Stone.

Senator STONE. The Subcommittee on Foreign Agricultural Policy will come to order.

This is the second day of hearings regarding export promotion and we will start with Mr. Joseph Halow, the executive director, North American Export Grain Association.

We will follow the same rule of 10 minutes, plus 10 minutes for the Senator's questions.

STATEMENT OF JOSEPH HALOW, EXECUTIVE DIRECTOR, NORTH AMERICAN EXPORT GRAIN ASSOCIATION

Mr. HALOW. I would really like to summarize my statement.*

First of all, I would like to apologize. I expected to bring with me one of our members. You might have been able to speak with him regarding what could be done to expand export policy. But unfortunately, in trying to get here on relatively short notice, he was not able to come, so that I am here alone.

I appreciate the opportunity to testify, to present the statement before this committee, because you are obviously very much interested in exports and export policy. We would like to discuss what are the requirements for a good export program.

The first and primary requirement for a good grain export program is a firm dedication to such a program. We speak a great deal about the grain export program, but the United States tends to wax hot and cold on exports.

There are times when we are extremely aggressive, which is when there is an oversupply here in the United States. And at other times, when supplies are less abundant we seem to back away from them.

I do not feel that a dedication to exports has always been evident in our own agricultural policy, and yet I think a good export program should be the cornerstone of agricultural policy.

* See p. 175 for the prepared statement of Mr. Halow.

I think that if the events of the last several years are any indication, it must be obvious that only in good export years has farmer income been adequate. Had, for example, the United States been a more aggressive wheat exporter during the 1976-77 marketing year, and the early part of this marketing year, there would probably have been no farmers' strike, and there would also not have been the resultant pressures for a different type of legislation. There would not have been the horrible ill-will that was created by the pressure for higher farm supports and the disappointment among the farming community when the Emergency Farm bill was defeated.

I feel that the export programs support domestic agricultural policy. In fact, it seems to be the only viable form of support. I think we can forget domestic policy as a means for improving farm income. Expanded exports do the job without placing the burden for supporting agriculture on the taxpayer. And I think we are seeing pressure from consumers with regard to what they want to expend for food and agriculture.

There are several other points which I have listed, in my prepared statement which I think could be good programs for increasing agricultural exports. Of course, the first one is price competitiveness. We are deceiving ourselves if we think people buy on the basis of friendship alone. People do look at price. They look at a combination of quality and price. The United States should try to maintain a competitive stance in the world market all the time.

One of the reasons we lost exports during the past market year is that other exporters were much more aggressive than the United States, and continued to undercut our prices. During the past marketing year rather than try to compete, the U.S. stated that it would never again resort to the use of export subsidies.

I certainly do not recommend the use of export subsidies and am philosophically opposed to them. I do feel however, that the United States should be in a position to tell other exporting countries that if they are going to cut the prices, the United States is prepared to do the same thing. Standby authority to institute subsidies would be helpful, since a threat probably would suffice. It is certainly not helpful if the United States stands back and lets others subsidize their exports, while we say we will never do so to compete with them. This gives them perfect license to continue unimpeded.

Another important point, is credit. We do have some credit programs in the United States, but I feel that frequently they are tied to political considerations. I feel it would be better if they were kept on a strictly commercial basis. I think CCC should be kept completely commercial. This 3-year credit is a commercial term of credit.

I would like to see these incentive programs, GSM, credit and the Public Law 480 program, extended to some of the nonmarket countries where I feel this would help expand sales.

I feel it also might be helpful if we had some type of interim term credit which would be for a period longer than the 3-year CCC credit and the longer term Public Law 480 sales, which are considered a concessional program. CCC credit, is extended for periods

of up to 3 years. We would be able to compete with some of the other exporting countries if we had a credit that would be, say, for 5 to 10 years. Such a program would help wean people away from the concessional Public Law 480 program and get them into strictly commercial buying, as their own economies progress and their buying practices do, too.

I think timely shipment of U.S. grain is extremely important. I feel that we should do everything we can to keep port and transportation facilities open for grain shipments. Part of the problem of lower prices during the past several months has been due to transportation tieups which caused the grain to back up into the country, reducing the price to the farmers.

I think we have to maintain a lower overhead, yet we have instituted some programs which are increasing overhead unnecessarily, such as the grain inspection service, for example. We do not question the need for an adequate inspection system, but this system has been expanded much further and is costing much more than Congress had apparently ever anticipated. I feel that we should try to cut down the overhead. An immediate example of the exorbitant cost of this program is provided by the case of a farmer cooperative in the Midwest. The highest item of overhead for this co-op was labor of \$5,400 in a week. When the FGIS moved in, the operator was shocked to find that the cost of grains inspection and weighing amounted to about \$6,200 for the same period. This was almost \$1,000 more than his total cost for labor during the same period of time.

I think we should engage in better market servicing. There are many foreign buyers who do not understand our marketing system and I feel we should be explaining it to them, discussing with them I think that we should engage in more of qualities and availabilities. We do some of this already, but I think it can be intensified, and I think our market servicing can be expanded to other areas. This would let foreign buyers, for example, be more aware of what market movements might be, the availability of supplies, et cetera, all of which help them in their buying practices.

I think that foreign buyers tend to buy from the country which serves them the best and supplies them the best information.

Then again, I think the trade policy of the United States is extremely important. I fear that we have restrictions in effect on sales to certain areas, and I think we should re-evaluate our policies to determine if they are in our own best commercial interests. I fear they are based on political rather than commercial considerations.

I realize, of course, we have certain political goals, both in the United States and abroad, but I feel that they should be divorced from our commercial interests.

I think some of our credit programs should also be made available to some of the nonmarket countries. I do not see how this would cause us any particular problem. I feel the United States still discriminates against some of these nonmarket countries by imposing restrictions on them not applied to other countries, as, for example, not extending credit to the Soviet Union. There are also other restrictions on sales to some of these countries, such as U.S.-flag ship-

ping requirements, refusal to extend most-favored-nation status, and quantitative restrictions.

I feel that lifting these restrictions would be quite helpful. Many of the comments above with regard to marketing servicing to our customers in general apply even more to those in the nonmarket countries. They know less about our system and are quite concerned about access to supplies from the United States. They are actually completely dependent on grain imports and concerned about their ability to import grains on a continuing basis from the United States. I feel that some of them are really quite nervous about their ability to continue to come here.

Then I feel also, we have to consider purchasing from some of these countries, improving their own access to our markets, so that they can keep buying from the United States. We cannot discriminate against their products, shut off our markets to them, and expect them to buy from us, other than when they actually have to.

As I mentioned above, the U.S. grain exporters are very much concerned and extremely anxious about the agricultural economy and want to do what we can to try to stimulate a much better and freer export policy, which we feel would be very much in the interests of the U.S. farmers. We have offered our services and advice, but have been quite disappointed, frankly, that the Administration's attitude has ranged from something like apathy to almost downright hostility. I think this is rather difficult to understand. I feel that certainly in this particular area our own interests have run parallel. The interest of the grain exporters runs completely parallel to that of the farmer. Both want the largest possible volume of U.S. grain exports. What we are both working toward is an expansion of the export markets.

We must be consistent exporters, for if we do not remain in the market all the time, we wind up back in the role of being a residual supplier, which is what happened to us last year. This is what led to our problem. The United States must realize that it is very dependent on its agricultural exports.

I thank you for the opportunity to present our views, and I think this will complete the summary of my statement.

Senator STONE. Thank you.

What current problems do we face from foreign export competitors, as to subsidies in price cutting? Give us a few examples.

Mr. HALOW. The most blatant example of very serious price cutting, we consider Brazil our traditional market, but Argentina does, too, was what took place in Brazil during the last marketing year. It is a very good market. Argentina, which is a fairly large supplier, came in and undercut U.S. prices constantly to such an extent that although we normally sold to Brazil each week against their tenders, we did not sell anything to Brazil for about 7 months.

Senator STONE. By means of subsidies, or was this because of price cutting in their own country?

Mr. HALOW. It is a subsidy, a disguised subsidy, and one taken, in effect from the farmer's pocket. The Canadians do the same thing. In their system, the Wheat Board establishes the sales price wherever it wishes and then works back from that to determine the price that

the farmer gets. The farmer receives, in effect, whatever is left over. The Canadian Wheat Board sells at whatever price it can get, cutting prices in order to obtain sales. At the end of the fiscal year, the year for which it makes its calculation, it deducts its overhead and various other costs. What is left over goes to the farmer.

Senator STONE. How should the United States respond to that type of price cutting, or that type of indirect subsidy?

Mr. HALOW. The United States should tell other exporting countries that if they are going to cut prices, we will be prepared to institute a subsidy in order to compete. There is a subsidy, whether it is disguised or not, and we should tell them we can do the same thing. The United States should have a standby authority for a subsidy whether or not a subsidy is ever instituted.

Senator STONE. Is it measurable to the extent that the United States would be able to do that kind of subsidy?

Mr. HALOW. Oh, yes. What the Canadians are selling at, for example, we know. They do not announce their selling price, but the exporters generally know what the prices are. Normally these are known in trade circles.

Senator STONE. How would such a competitive response subsidy operate economically, if you were designing it?

Mr. HALOW. Well, I think that the U.S. Government would probably, again, pick up the difference. The U.S. Government could pick up the difference between a higher domestic price and the price at which the export sale would have to be made; that is, the price at which we could compete.

Senator STONE. Would that not give, for example, the Canadian Wheat Board the ability to set world prices just by compelling us to make a subsidy and meet their price?

Mr. HALOW. They would probably be loathe to cut prices severely if they knew we would do the same.

Senator STONE. So you feel that standby authority, with funding and capacity to form, would prevent that kind of indirect subsidy or severe price cutting, apart from genuine costs, in the world market?

Mr. HALOW. I think it would help. I am not really sure it would completely prevent it.

Senator STONE. All right.

You mentioned the making available of 5- to 10-year-type credits, and you mentioned them in connection with a typical Public Law 480 recipient of the U.S. shipments. Would you restrict such midterm credit to such types of countries, or would you not?

Mr. HALOW. No; not necessarily. The Canadians, for example, have extended, at different times, many credit terms from 5 to 10 years. I think they do so on wheat sales to Algeria. They have made various other commitments to the Algerians and Brazil, and I think, quite effectively.

Now, the Lugar bill proposes a 5-year to 10-year credit in order to still leave a gap between the 1 to 3 years, the "up to 3" approach that is in law currently. And the gap is proposed in order not to simply shift cash or short term customers to midrange customers, for the sake of simply obtaining more credit.

On the other hand, several of the other bills proposed simply expand the authority up to 10 years.

Senator STONE. What do you think would be the most useful, in terms of holding our cash and short term customers, while obtaining new customers?

Mr. HALOW. I would like that better.

Senator STONE. Which?

Mr. HALOW. The second approach.

Senator STONE. Just leave the authority to the lending institutions to go up to 10 years, flexibly, without starting the 5-year credit?

Mr. HALOW. I would prefer to see them really start at levels, for example, maybe, say, 3 years, and set a different type of program that would be a 5-year-type program, and then perhaps one at 10-year credit terms. The terms on the Public Law 480 sales run from, say, 20 to 40 years.

Senator STONE. Right. How do you feel, specifically, about the cargo preference requirements?

Mr. HALOW. Well, I find them discriminatory. I am opposed to them.

Senator STONE. What specific U.S. purchases of products, from our foreign agricultural customers, do you have in mind when you talk about expanding our exports in order to help them expand our imports?

Mr. HALOW. I really can't answer that. I think we would have to speak with those who actually trade with those who are importing grains from the United States, to discuss with them what it is they want to sell to the United States—access to our market for what.

Senator STONE. Are you familiar with the PRC market, the mainland Chinese market?

Mr. HALOW. Only superficially, I am afraid.

Senator STONE. In the hearings, I mentioned an article in the Washington Post, that cited Chinese traders' objections to the lack of consumer penetration, or customer penetration, into our market in order to help them pay for our exports. Are you aware of that?

Mr. HALOW. I have heard something to that effect. I am not really quite sure what type of products they are interested in coming to the United States with. I know very little about what they are producing.

Senator STONE. It would be interesting if the industry could give us that information. We asked the Government agencies to try to give us a study on that, but I am also interested in what the industry finds, when they talk and deal with traders, particularly from China, but really all of these foreign agricultural customers to whom you referred. In the course of dealing with them, if the industry can gather the kinds of specific suggestions that they have in mind, and will let us have that, we could work on the U.S. agencies, to help them.

Mr. HALOW. I would be happy to do so. I can speak with our members who have dealt with the Chinese, and see if they have any indication of what it is the Chinese would like to sell here.

Senator STONE. The same article mentioned tariffs, and other barriers that we have in this country to their goods, and I would like to hear some specifics.

Mr. HALOW. This is the point on which importers of grain from the United States continue to complain, that they are, in fact, discriminated against by higher tariffs.

Senator STONE. One final question relating to the Chinese. You mentioned the complaints, and others in the high cost of inspections. But is it not also the cost—that customers like the Chinese complain about—rust and other problems, and want higher quality, constantly higher and more reliable quality?

What is the better answer for that, if it is not the high cost of inspections?

Mr. HALOW. During the 10½ years I worked in Great Plains Wheat, we found the quality of U.S. wheat was actually superior to most of the other qualities sold in export. There were some comments with regard to the amount of cleanout, in U.S. wheat as compared, for example, to the Canadian wheat. But most of the buyers were not really anxious to pay the difference for cleaning the wheat. We found that the U.S. grain exports had a very high reputation, and our shipments were superior to others. Our experience was that reports of complaints were highly exaggerated.

Senator STONE. They wanted it, but they did not want to pay for it?

Mr. HALOW. That is right. The cleanout frequently went into their feed mills, so it really was not the type of loss that one would have assumed.

Senator STONE. Are there any other points you would like to make before we conclude your portion?

Mr. HALOW. I think that probably is all, unless there are further questions.

Senator STONE. Well, I appreciate very much your testimony. It has been most interesting and constructive.

Mr. HALOW. Thank you very much.

Senator STONE. Our next witness will be Sy Bichler, the general manager of Farmers Export Co., Kansas City, Mo. He is accompanied by Mr. Ed Jaenke of Jaenke & Associates.

STATEMENT OF SY BICHLER, GENERAL MANAGER, FARMERS EXPORT CO., KANSAS CITY, MO.; ACCOMPANIED BY ED JAENKE, JAENKE & ASSOCIATES

Mr. BICHLER. At the outset, I would like to thank the committee for the opportunity to appear and to relate our position on the expansion of foreign agricultural trade.

I am Sy Bichler, executive vice president of Farmers Export Co., representing a large segment of Midwest farmer-owner cooperatives currently actively engaged in the exporting of grains and agricultural byproducts grown in the Midwest States from the Gulf of Mexico to the Canadian border.

Farmers Export Co. is the largest U.S. cooperative-owned organization formed in 1966 for the sole purpose of putting approximately 1.5 million U.S. farmers into export markets through their local and regional cooperatives. Farmers Export Co. is owned by seven Midwest regional cooperatives listed as follows:

Far-Mar-Co., Incorporated, Hutchinson, Kans.; Farmers Grain Dealers Association, Des Moines, Iowa; Farmers Union Grain Terminal Association, St. Paul, Minn.; Illinois Grain Corp., Bloomington, Ill.; MFC Services, Jackson, Miss.; Indiana Farm Bureau Cooperative Association, Indianapolis, Ind.; and two interregional cooperatives, St. Louis Grain Corp., St. Louis, Mo.; and Kansas City Terminal Elevator Co., Kansas City, Mo.

Since 1968, our export volume has grown to in excess of \$1 billion on an annual basis in behalf of the U.S. farmer, and realizing that savings from our operation finally goes back to the farmer in the form of patronage through his local cooperative elevator. The farmers, through their cooperative efforts, have a large commitment to the continuation and expansion of U.S. agricultural exports.

However, the size of our marketing area, worldwide, needs the additional support and promotion of U.S. Government efforts as well. For this reason we believe an agricultural trade expansion act is long overdue.

I am pleased that bills have been introduced which will establish a policy of expanding our international agricultural markets. Real farm income is at its lowest level since the Great Depression. However, at present most congressional debate has been centered on short term solutions for solving this long-term problem of raising farm income. One of the most effective long-range solutions is expansion of our agricultural export markets.

Exports are vital not only to the well-being of farmers, but also to the Nation as well. Agricultural shipments abroad in recent years have helped offset trade deficits—largely brought about by high imports of oil. Nearly three-fourths of farm income from wheat and one-third from corn and soybeans come from exports. Overseas markets account for more than one-fourth of all our farm products and affect 15 to 17 million agricultural-related jobs. One out of every \$5 of gross farm income is generated from exports. These agricultural exports of \$22 billion annually create \$50 billion of agricultural and nonagricultural business activity.

With agricultural exports playing a major role in our economy and the United States with its clear worldwide advantage in producing and exporting farm products, it is unfortunate that the United States spends an amount equal to only one-tenth of 1 percent of our farm exports on developing and expanding our foreign markets—only a small fraction spent by other major exporting countries. Israel is spending 1.54 percent; even New Zealand is spending 0.9 percent. Our Government and private industry, through the cooperator program, together only spend a little more than one-third as much developing new or expanding old markets for agricultural products, in constant dollars, than it did 10 years ago.

The United States is one of the few nations in the world where private industry is allowed to operate in a competitive free-market economy. Within this competitive structure, private industry has done well in expanding our agricultural markets.

In the area of grain exports, farmer-owned cooperatives have begun entering the world market and, we are now strengthening

our position in those markets. Nevertheless, to meet competition from other countries—who support their agricultural export programs with a large amount of funds spent on market development activities—we need Government action.

The United States has the tools needed to expand its markets, but we lack the funds and a well coordinated plan. Because exports are important to agriculture, our cooperative owners suggest the following six recommendations for establishment of a well-coordinated plan to expand and sustain our international markets.

1. The first step of any effort to expand U.S. agricultural trade should determine where the greatest opportunities and payoffs for trade presently exist or, more importantly, will be in the next decade. To accomplish this task, we would urge the creation of a regional data and market analysis team. The analysis should determine geographical areas or specific nations which offer the greatest potential, discover where the priorities on funding should be placed, ascertain cultural and economic conditions, and determine the key commodities and market development tools desirable.

It would include marketing specialists to analyze the structure of the market and the effectiveness of our competition, economists to collect data and conduct demand and supply analyses and, regional specialists who have knowledge of the cultural and economic conditions of the particular country or region. Results of the team would include new creative marketing techniques and market development tools which fit the marketing structure of each country, for example, new products or combination of old products, old products to new markets and package projects offering a whole array of services which could establish a marketing system for a given product.

2. Upon completion of the team's comprehensive analysis, we suggest the placement of a marketing specialist for each region and, depending on the importance and potential of the market, placement in key countries. His primary role would be to coordinate, foster and promote U.S. agricultural products and continue to update the analysis provided by the regional data and market analysis team. We would suggest that such officers be subordinate to, report to, and obtain policy guidance from the attaché at his assigned post or region.

3. As a domestic backstopping mechanism for these marketing specialists or trade officers, we encourage the establishment of a centrally located, one-stop information service to provide farmers and small- and medium-sized firms and cooperatives the information needed to engage in new or expanded foreign sales. It would provide an effective market development tool assisting in the marketing of agricultural products directly from the farm to the export buyer. The one-stop service would be composed of approximately 15 to 20 specialists providing a coordinated information service to small U.S. businessmen interested in foreign trade and, likewise, to foreign businessmen interested in importing U.S. products—the FAS-TORS system would be expanded and would form one small component of this one-stop service—the specialists' areas of expertise would include livestock, grains, transportation, fruits and vegetables, tariff and

trade barriers, guarantees, exchange rates, political-economic intelligence, trade intelligence, financial and credit facilities and knowledge of development projects sponsored by the U.S. Government and by international organizations. This one-stop information service would provide one central location for information on foreign market expansion.

4. The attaché must have sufficient staff to enable him to ameliorate the process of information assemblage, to improve his foreign market information and make the analysis more meaningful to farmers and exporters.

All too frequently, an information gap occurs because attachés are expected to cover a broad range of areas, thus evolving the attachés into generalists who lack the time to effectively gather information needed for a detailed economic analysis.

In addition, we strongly believe that a few attachés should be upgraded to higher status in the State Department's ranking. However, only senior agricultural officers in selected key posts as authorized by the Secretary of Agriculture should acquire the higher rank.

5. To fill the gap between CCC credit and Public Law 480, we desire the establishment of an additional intermediate credit program, with authorization, if necessary, for payment of excess shipping costs should the decision be made that sales under it would be subject to the cargo preference requirements.

The existing GSM-5 CCC credit program has been successful in improving our competitive position in export markets while at the same time it has avoided being categorized as concessional and, thus, has been exempted from the cargo preference rule. We further urge granting this intermediate credit and regular CCC credit to non-market economy countries.

6. Our final recommendation is that the bulk of the funds generated from the sale of intermediate credit and, at least, 5 percent of the funds generated from the sale of Public Law 480 goods—which would require an amendment to Public Law 480 legislation—should be utilized for export incentive activities and agricultural purposes in the recipient country. Recommended uses for funds would include the improvement of the marketing structure; the development of port facilities; the construction of grain storage, cold storage, feedlots, et cetera; improving the ability to handle expanded quantities of agricultural products, and stimulating increased use of U.S. goods.

Establishment of a U.S. policy of expanding and sustaining our international markets will have the greatest long-term effect of fulfilling the objective of increasing farm income.

This subcommittee is to be commended for initiating discussion which, hopefully, will lead to a comprehensive agricultural trade act.

Thank you, again, for offering me this opportunity to be heard.
Senator STONE. Thank you, Mr. Bichler.

May I ask you, you heard the question that I propounded to the previous witness, about the choices we face between simply extending the authorization to extend credit from 3 years to 10 years, or cre-

ating a separate or new program, starting at, for example, 5 years and up?

As an expert, what do you think would do the best job of enhancing and expanding our customer situation?

Mr. BICHLER. As I see it, I think we need to cover the whole range, and depending on what we do, it depends on the situation in the particular country that we are dealing with.

Senator STONE. So some countries might need 4½ years, not 5 years. Some might need a 6-year term, not 5 years. It ought to be flexible?

Mr. BICHLER. I think that in order to expand our export activity to the continent of Africa—and certainly somewhere down in the future, it appears that this will be a market, as the population goes.

Senator STONE. And as they find oil.

Mr. BICHLER. They have already, to some extent. In these underdeveloped countries, I think we probably need some long-term loans, whereas other countries perhaps shorter term loans. And we believe that the judgment, as to the terms of this loan, can be left up to the administrators of this Trade Act.

Senator STONE. You do not think that the qualifications for the longer term ought to be restricted, specifically, or by implication, to Public Law 480 countries? Or should it be wide open?

Mr. BICHLER. I think it should be wide open, and I think it should be measured based on the need of the country, and what we see—in other words, let us not try to solve our situation by giving loans today and not looking down the road 10 years. We need to develop the country, and he is not going to start using our grains, because his diet is going to change gradually.

Let us just develop that and make sure we are going to have a market, not only now, but 10 years down the road.

Senator STONE. One thing in common in about all the witnesses is the felt need to help customers, or potential customers, with storage facilities, crushing mills, feedlots, cold storage—in other words, port facilities within those countries.

Do you agree with that?

Mr. BICHLER. Yes, to a point, where I think we can supply the technical expertise that they need, show them how to feed the grains, and how to set up their feedlots. We may, under the program, and we mentioned it in our recommendations, where we probably would have to finance some of the port facilities. This is one of the biggest problems; most countries have very limited—and especially the underdeveloped countries—limited port space, and as a result you run into long demurrage, or long waits on unloading vessels, and this runs up the price of grains by several dollars to maybe \$5 or \$10 a ton on freight rates.

Senator STONE. But do you not also have to look past the port, into the storage facilities, otherwise all you really do is unloading? We had a problem that way a couple of years ago.

Mr. BICHLER. Then again, of course, in our recommendations, to have the team of experts, when you start developing port facilities, you have to start looking into internal transportation and distribution as well. And these are the long-range programs that we need

to get with now so that we will still have our agricultural markets down the road.

Senator STONE. Under Senator Bellmon's bill, and others, the Senate seems to feel a need of worrying about the long-range import situation. After we teach our customers how to feed our grains to their livestock, do we not also have to work some kind of situation out where we have reciprocity, in terms of our own import markets for meat?

Mr. BICHLER. Well, I do not see that that is really a big problem, because our reasons for selling grain—or our reason for the program is to upgrade the diets of the countries that we are talking to, or that we are trying to sell our products. And I think a good case in point is Japan, where the diet has changed since World War II to the present. The young Japanese, coming along, likes to go to hamburgers, the fast-food chain. The old Japanese still eats his rice.

So that as the generations keep growing, the diet will change, and there will be a bigger demand for U.S. feed grains and protein products.

We have seen this happen in Europe. We think we are seeing it in Russia, China, and around the world. And that is where we think our important thrust of our program should be, to get the guy used to eating a little piece of steak, and he will not go back to potatoes and rice, I guarantee you. But he has got to have some money to buy it.

But the commitments on the part of the government, the Communist governments, in particular, the Eastern bloc countries, Russia, China, they cannot afford to let their people go hungry any longer. They are improving the diets, and this is again in the long range. So let us get in and help them do this. That is what we are saying.

Senator STONE. You heard the Government witnesses. I think you may have heard them, if you were here.

Anyway, they all testified against any of these bills. Do you think they are right or wrong?

Mr. BICHLER. Well, I would have to say they are wrong, for the reason that I represent the farmer, who is interested in exporting. And in the interest of increasing our farm income, exporting grains is the only route we can go, and we need to sell our products. The products do not sell themselves.

I do not care what industry you are in; you must convince somebody that he needs it. Many times, even in this country, if you are running a manufacturing plant, you must supply technical expertise to the user, to the manufacturer, or the manager that is using your product, whatever it is, automobiles, pencils, I do not care. That is what we need to do.

Now, we have done, we have got a start on it. We have organizations that are promoting, but I do not think we have the people in the field that can get down to the technical basis.

Now, I do not mean that these will all be U.S. people. I believe that we are going to have to use the nationals of that country. And there are some good people that we can use in promoting the activity.

It is a long-range program. It is going to take a lot of time, but then we are looking for long-range benefits.

Senator STONE. Thank you for very good testimony. We appreciate it.

Mr. BICHLER. Thank you.

Senator STONE. Our next witness is Mr. John C. Datt, director of the Washington Office of the American Farm Bureau Federation.

**STATEMENT OF JOHN C. DATT, DIRECTOR, WASHINGTON OFFICE,
AMERICAN FARM BUREAU FEDERATION; ACCOMPANIED BY
THOMAS HAMMER, NATIONAL AFFAIRS STAFF**

Mr. DATT. How are you this morning?

I have with me Mr. Thomas Hammer, who is a member of our national affairs staff, particularly in the international trade affairs.

With your permission, I would like to have him assist me in presenting our statement. Also with your permission, I would like to have the statement made a part of the record. I will try to brief it down, in the interest of time.*

Senator STONE. It will be done.

Mr. DATT. Farm Bureau has a keen interest in legislation designed to increase export sales of American farm commodities. We support S. 2385, the Agricultural Trade Expansion Act of 1977, which was coauthored by Congressman Findley and the late Senator Humphrey; S. 2504, introduced by Senator Dole; and S. 2405, introduced by Senator Lugar; and S. 2968, introduced by Senator Clark.

We, in the statement, outline why export markets are vitally important to American farmers. You have had this information presented to you, so I will not take the time to go over that particular part of our statement.

The growth of commercial agriculture exports and their contribution to our balance of trade has helped to keep the value of the dollar from dropping to still lower levels in the world markets.

In addition to these benefits, U.S. agricultural exports have played a very important role in our relations with other countries. During the past several years increasing ability to export agricultural commodities has helped build a firm domestic base for our political and economic foreign policies.

These benefits have been achieved because we have the most efficient and productive agricultural system in the world. We submit that further expansion of agricultural exports can be achieved by:

(1) Liberalization of restrictive trade barriers, which reduce the flow of agricultural exports through bilateral or multilateral trade negotiations, and

(2) Aggressive market promotion and development.

TRADE LIBERALIZATION

Farm Bureau actively supported the Trade Act of 1974. This legislation authorized the United States to participate in the current multilateral trade negotiations. These trade talks provide opportuni-

*See p. 181 for prepared statement of Mr. Datt.

ties for action to expand mutually advantageous trade through reciprocal agreements among nations to reduce their trade barriers. To insure that significant results are achieved in terms of liberalizing the barriers affecting our agricultural exports, Farm Bureau has been monitoring these negotiations closely. Farm Bureau leaders are serving on the agricultural trade advisory and agricultural policy advisory committees which advise our trade negotiators with respect to agricultural matters. In addition, Farm Bureau has assigned staff members to monitor and report on the progress of the trade negotiations, both in Geneva, Switzerland and here in Washington.

Let me say, Mr. Hammer is the gentleman on our staff who has been assigned this responsibility, and has been going back and forth to Geneva, and reporting on those particular trade negotiations.

The outcome of these trade negotiations will have a significant impact on trading rules and patterns for years to come. We urge the Congress to take an active interest in these negotiations to insure that American agriculture's current competitive position in world trade is at least preserved and is improved wherever possible.

MARKET DEVELOPMENTS

During the past 2 years Farm Bureau has conducted numerous trade missions abroad, including trips to Western Europe, Israel, Japan, Mexico, India, and Indonesia. These missions are part of the Farm Bureau's continuing effort to expand international trade and to improve relations with our trading partners.

In the final part of the statement, we indicate our support for S. 2385, which was introduced by the late Senator Humphrey. Also we indicate our support for S. 2405 and 2504, and then S. 2968.

I will not go into detail, because, as I say, you are familiar with them.

These bills are in keeping with Farm Bureau policy that, "every means possible be used to expand the exports of agricultural commodities."

There are other areas to which the Congress could address itself, such as increased funding for export sales credit and Public Law 480 sales.

Given the proper climate, prospects for future expansion of U.S. agricultural trade look bright. We shall continue to have a strong demand in such traditional markets as Japan and Western Europe.

In addition, as the nations of the Third World continue to develop and to increase their participation in international commercial trade, they will become customers for more of our food and fiber. In recent years the nonmarket economies or Communist bloc nations have been a very important market for U.S. agricultural commodities, and they promise to remain so in the future.

If U.S. agricultural commodities and products maintain their competitive prices and high quality—and if we make aggressive efforts to remove impediments to trade and to market our products abroad—there is very little doubt that we shall continue to experience a continuing expansion of agricultural exports.

In conclusion, we urge prompt action on this legislation by the Congress.

We commend the subcommittee, and I personally commend you for the interest that you have shown in this particular area.

Thank you.

Senator STONE. Thank you, Mr. Datt.

Mr. Hammer, I would like to ask you a few questions.

You have heard testimony this morning about the choice we have between a 5- to 10-year term, which would intentionally leave a gap between 3 years and 5 years, in order not to simply transfer short term customers into medium-term customers without increasing the volume. And you have also heard testimony in favor of simply increasing the authorization, to go anywhere from 1 day up to 10 years, from our export lending agencies.

What does the Bureau favor?

Mr. DATT. I think the previous gentleman indicated basically about the attitude—the attitude that he expressed is about the attitude that we have. We ought to have the type of credit that would meet either short-term or long-term needs, and we ought not try to restrict it in terms of 5 to 10, or 3 to 5.

We do not know today what the demands in this particular area are going to be tomorrow, and they vary from one country to another.

Senator STONE. How could we insure against simply transferring customers to long-term credit, without increasing volume? What could we do there? Is there some kind of policy statement we ought to be putting out, if we increase the credit authorization extension?

What could we do to meet this problem, which some of us seem to be worried about?

Mr. DATT. I will ask Mr. Hammer to comment on that, because he is considerably more knowledgeable.

Mr. HAMMER. Well, I am not sure I have given it adequate thought, but it seems to me that we have got a couple of criteria here.

Number 1 is the need for the loan, which any time you submit a loan to any sort of a loan officer, that is one of the first things you are charged with trying to do, is determine whether there is need.

And the other one, which is very important here when you are talking about commodities which may be financed for more than 1 year, or up to 10, in this case, credit worthiness of those customers.

It appears to me that if you are following normal strong financial criteria, you have overcome a lot of these problems. We would certainly expect that the program would be administered in such a way.

We have had excellent payback records under the current CCC program. We have never had problems with it, and I am sure that the people would have to have the responsibility of determining whether this loan is indeed necessary or not.

We are in one way trying to keep this demand up, where otherwise it may have fallen down, because the 1- to 3-year loan was not flexible enough. I think it is going to have to be looked at.

I guess pretty much what I am saying, a case-by-case example, the purchaser of breeding stock, livestock, may require a different pay-

back period than someone else that is not in the market constantly, or something may have happened in the country which has caused a drain on their ability of their reserve to pay back loans.

I think that is what we are trying to do, is make the program flexible enough that we can get in and meet these demands.

Senator STONE. I would suggest that it would be helpful for the Farm Bureau to give us some of your thoughts, possibly in writing, about the issues raised by the previous witness, that is, simulating support facilities for the use of feed grains, and finding meat imports coming back to trouble the domestic economy, and some form of policy statement which might address that problem, as we can go about expanding the port facilities of our customers.

We have seen palm oil, citrus, and some other problems. We do not want to—our customers ability to buy, but do we not also want to give long range attention?

Mr. DATT. We are very much aware of the point that you make, both as related to palm oil and citrus, and in terms of the potential that might develop, as related to the livestock area.

Senator STONE. Senator Stevenson made a proposal here, in a previous hearing, and it was similar in many ways to the bill of Senator Lugar, in which the nonmarket approach would be by formulas that would extend the credits immediately to the Peoples' Republic of China, and to the European bloc countries—with the exception of the Soviet Union at this time—as a way of maximizing the expansion efforts of these bills, without slowing any of the bills down, at least a year or two years, as a way of getting a bill this year.

And I think the Farm Bureau ought to think about that, and let us know how you feel about that. We are looking for a way in the subcommittee to pass the strongest possible bill we can to expand exports. And we do not enjoy the administration's support at this time, which does give up a little difficulty in moving swiftly legislatively.

There are some practical problems, but we want to go as far as we possibly can, and still try as hard as we can to pass a bill this year. So we certainly could use your advise and counsel in this very difficult area. I would like you both, particularly Mr. Hammer, who is involved in these negotiations in Geneva, to give us a little advice.

Mr. DATT. We will be delighted. As I say, Mr. Hammer is really the one who is much more knowledgeable in this particular area. We will make his talents and ability available to you in any way that you would like to have them.

Senator STONE. One last question.

We had some testimony here, in the previous hearing, and you have addressed it in your prepared statement, about the desirability of a high official, sub-Cabinet level, for international operations within the Department of Agriculture. But we also had a very interesting suggestion raised by Senator Bellmon yesterday, about the concept of an Assistant Secretary of State, or high Secretary, or high State or Agriculture Department official. That concept is just as interesting as yours.

What I would like you to do, for the Farm Bureau, is to evaluate the benefits of both of those proposals. Whether or not we can put it in this committee bill, I am not sure.

On the other hand, I am a member of the Foreign Relations Committee, so what we could not do here, maybe we can do over there with other Agriculture Committee members jointly on that, Senator Clark, and there are others.

Mr. DATT. Well, this idea has been discussed, and we will be happy to, you know, give you our point of view. It has been discussed even at the Department of Trade, International Trade, or something.

We have some reservations about going that far, but we will be happy to give you our comments as it relates to Senator Bellmon's proposal. I do not think we are prepared this morning to comment.

Senator STONE. We have time before the markup, and I want to thank you very much for your testimony. We are going to work together and see if we cannot come up with something—it is not good if it rots. It is very good if we can sell our agricultural exports.

Mr. DATT. That is our attitude. We have been in the forefront of this area. We are the only ones of the general farm organizations that has anyone like Mr. Hammer, who is involved in this day-to-day Geneva negotiations, and as I say, we will be happy to make his talents available to you and the subcommittee any way that you can use them.

Thank you very much.

Senator STONE. Thank you very much. We appreciate it.

[The following information was subsequently submitted by Mr. Datt:]

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., May 3, 1978.

HON. RICHARD STONE,

Chairman, Subcommittee on Foreign Agriculture Policy, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR SENATOR STONE: During your Subcommittee's hearings on the various bills to increase export sales of American farm commodities, you asked the Farm Bureau to respond to three questions.

Your first question concerned the level of beef imports into the United States and the impact that increased feed grains sales abroad may have on beef imports.

The problem of beef imports is not due to the large volume of feed grains which we provide to foreign markets. The beef that comes into the United States is primarily "grass-fed." The United States is the largest market in the world for exported beef. We also are the largest beef producing country in the world. We would like to have the opportunity to export more of our "grain-fed" beef to overseas markets; however, these markets are protected by a variety of restrictive barriers which largely prohibit imports of U.S. beef. Our meat import law is rather mild in comparison with the practices used by the European Community and Japan to control the level of beef imports. If the U.S. trade negotiators are successful in achieving significant reductions in the trade barriers affecting our beef exports, there will not be as much resistance to liberalizing our own meat import law.

Your second inquiry basically asked which of the many pieces of legislation Farm Bureau prefers. In our statement to the Subcommittee, we stated that we supported S.2385, S.2405, S.2504, and S.2968. It is our belief that no single bill should be chosen to the exclusion of the others. We strongly favor a more flexible system of Commodity Credit Corporation credits and the extension of CCC credit to the so-called nonmarket economy countries.

The four major pieces of legislation to which we have responded form an excellent basis for providing tools that are necessary to aggressively promote the sale of U.S. farm commodities abroad.

The final questions which you posed to us referred to the possibility of setting up a position for a high agricultural official in the State Department. While this idea sounds attractive on the surface, Farm Bureau has always contended that what is really needed is that the importance of agriculture to

the national economy be recognized in the determination of government policies. We feel that this can best be done by insuring that the Department of Agriculture is given not only a prominent but the leading role in determining what actions are in the best interests of a market-oriented agriculture. We believe that this approach would maximize benefits of trade not only to the farm sector but to all other sectors of our economy. We are studying the proposal to establish a department of international trade, but would have serious reservations if the decision to establish such an agency did not provide for the proper coordination of domestic farm programs and international agricultural trade policies. Failure to coordinate domestic farm programs with international trade policies would seriously affect the ability of our farm commodities to compete in the world marketplace.

We appreciate the opportunity to respond to your questions on this very important matter.

Sincerely,

JOHN C. DATT,

Director, Washington Office.

Senator STONE. Our next witness is Mr. Robert Lewis, the national secretary of the National Farmers Union.

STATEMENT OF ROBERT G. LEWIS, CHIEF ECONOMIST AND NATIONAL SECRETARY, NATIONAL FARMERS UNION

Mr. LEWIS. Mr. Chairman, I will submit a copy of my statement for the record.*

I will abbreviate my remarks, and I will be prepared to respond to your questions.

The Farmers Union, and I am sure I speak for all farmers, welcomes the initiative of the committee and the authors of this legislation to do something about farm prices and income. We think that there is no question that an increased effort of salesmanship should be aimed at assuring our customers that they will get a good quality for what they pay for. This will be very helpful, to our commodity export efforts, and these are among the purposes of the bill to which we subscribe.

But I think that we just cannot lose sight of the fact that the bottom line of the farmer's concern is not merely the volume that is sold, but also the price that he gets for his product. And on that score, some of the provisions, some of the proposals might do more harm than good.

Senator STONE. Which?

Mr. LEWIS. I think the long-term credit provisions may have the effect, in actual practice, of cutting prices in the world market. When you understand the structure of the world market, for cereals—as we do—I think we can see that there is no improvement in farm income that can be achieved by cutting prices.

In the first place, let us examine who is the world market. Well, we have about 2 million American grain farmers, mostly family farmers. Ninety-five percent of all grain produced and sold in this country is produced on family farms. And we have a dozen governments. That is the world market—

Senator STONE. You mean the customers are half a dozen—

Mr. LEWIS. No. The competitors are about half a dozen governments, and the customers, for the most part, are 100 or so govern-

*See p. 183 for the prepared statement of Mr. Lewis.

ments. Now, that is not absolutely the case, but that tends to be, in general, the way most of the supply is going to be handled.

The price that will be paid in the world market, and the price at which our competitors' products will be sold, is determined by the actions of governments, by the Canadian Wheat Board, an agency of the Canadian Government; the Australian Wheat Board; the Argentine Wheat Board, the equivalent of the Swedish Government, and I do not know just what agency does it but in effect the Turkish Government, and so on. Whether the U.S.S.R. is in the market as an exporter, which they sometimes are, or as a buyer, which is sometimes the case, it is obviously the U.S.S.R. Government, and not the U.S.S.R. farmer, that is the seller.

There are a couple of million American grain farmers matching wits with 100 governments who do the buying, and half a dozen governments who are their competitors. And the price will be set at the point where the independent American farmers, matching wits with half a dozen governments, decide that they should hold the product off the market. And that substantially is dependent upon the U.S. price support loan rate.

Now, farmers have been able, on some occasions, to hold their crops off the market in anticipation of higher prices, when they and their bankers expect that there might be higher prices in the offing.

We had that experience in 1973 and 1974, when $1\frac{1}{2}$ million bushels of wheat were held almost entirely by farmers, in reserve status. They were getting support from their bankers, and production credit associations, because everybody thought maybe the price would stay up. But as soon as everyone became convinced that we had a little bit more than barely enough grain in the world, then the price began to weaken, and the farmers' creditors began pressing them for money. And the farmers had to liquidate, and you had American farmers turning loose their grain and breaking the price down, and by June 1977, it was down at \$2.02 per bushel. And very, very cheap dollars they were, too.

Now, in this situation, the Canadian Wheat Board and the Australian Wheat Board anticipated what would happen. As soon as the new administration demonstrated that it would not raise the U.S. loan rate, contrary to what many of us had expected would happen, including people in these other governments, they saw the handwriting on the wall, and they anticipated what would happen to prices better than 2 million independent farmers could be expected to do. They anticipated that the price was going down, and the Canadians, Australians, and Argentina, and everybody else, started making their sales for as much above the U.S. loan rate as they could get.

And, of course, that accelerated the race downward, and the price did go down.

That is the nature of the so-called free market. And I think that we have to recognize that some of the people who advocate dependence upon that system, do not make their money on the price. They make their money on the volume. The grain traders make more money on the more bushels they sell, at whatever the price. There are, of course, also opportunities to make money, if they can anticipate

correctly that the price might go down, or that it might go up. There is that kind of speculative opportunity also.

But the farmer is dependent upon getting a price that will cover his cost of production.

Senator STONE. How should he do that?

Mr. LEWIS. I think the farmer needs, and deserves, help from the U.S. Government. It is unrealistic and unfair to put American farmers into this arena with a handful of governments as competitors, and a few dozen governments as buyers, which for the most part is what the "world market" is and expect that the farmer should fend for himself with a loan rate below his cost of production.

I think the U.S. Government needs to raise the loan rate for grain to the point where it will cover the farmer's cost of production, and give him a fair return on his investment, his labor and management, and then negotiate with the other countries to agree to withhold their fair share of stocks off the market, in order to maintain a respectable world reserve, which the world needs, and the present administration acknowledges that. I think we all do. The world needs to have more than just barely enough grain.

In that way we could maintain prices to the farmers at a fair rate of return.

I have been assured by officials, high ranking officials, in every one of these grain exporting country governments, that they would be prepared to raise their selling prices, if the U.S. would raise its loan rates. They are prepared also—and this is something new, for the first time in history—all of the major grain exporting countries have a capability and willingness to hold stocks as a part of a concerted program by the exporting countries to hold stocks in reserve.

Senator STONE. Is our Government moving in that direction, our executive branch?

Mr. LEWIS. I think our executive branch is resisting this approach. I think that is where the problem is; the problem is in Washington, D.C. I think that Ottawa, Canberra, Buenos Aires, and the other main exporting countries—I think also in Brussels headquarters of the European community—these other governments would collaborate in some program of this kind to rationalize this grain market.

Senator STONE. We had a description by a previous witness, of the Argentina price-cutting in the Brazilian market. How does that square with what you have just said?

Mr. LEWIS. The Argentina system is the weak link in this whole picture. We are all familiar with the great difficulties, the political difficulties, that that country has endured. They now have a stable government, at least it appears to be stable, and it appears to be fairly competent to get such things done.

I think, in any event, that Argentina accounts for only one-eighth as much grain in the world market as we do, and we can take a chance that they would perform well enough.

Senator STONE. But you think these other governments, with their wheat boards and grain boards, would cooperate with a higher loan policy in this country?

Mr. LEWIS. I have no doubt about it.

Senator STONE. And would not price-cut, below their costs, in order to increase their market share at our expense?

Mr. LEWIS. I believe that they would cooperate. I think we need to understand what "undercutting the price" is.

The United States undercuts the price on over half of all the grain that is sold in world trade. We account for over half the sales of grain, and obviously, the buyers of our grain would have bought from somebody else if they could not have bought better quality from us, for the price they paid, and that is what they did.

So, as far as undercutting the price is concerned, it is the United States which has outdone all the competition over half the time, in terms of world trade in grain.

And, of course, every bushel that the Canadians sell, they have undercut the price below what anybody else could offer, in terms of quality at the price they offered. So any time anybody makes a sale, he has undercut everybody's else's price in the market.

Senator STONE. Is there anything else—go ahead.

Mr. LEWIS. The key, it seems to me, to this problem, as to getting our fair share of the market, is in the commitment, country-by-country, to hold a fair share of the reserve stocks off the market, and then set prices accordingly. It will achieve the reserve objectives, and that will result in holding the prices at the desired levels.

Senator STONE. Now, you have commented in general about export policies, and particularly grain support policy, domestically. Those issues are addressed by other pieces of legislation, primarily, and we are working in this committee, and in the House, to address those issues.

Here we have four or five bills, or more, taking the approach of stimulating selling, increasing credits, and other such proposals.

Do you have a mid-term credit proposal? What, if anything, in these bills we are considering today do you think would be of use?

Mr. LEWIS. We think that we should have a beefed up assistance to our salesmanship effort, the additional agricultural attachés. We think we should make China, the U.S.S.R., and other Communist countries eligible for CCC credit, as the legislation proposes.

We do think that there is a place, in the real world in which we live, for offering credit to the Governments of China and the U.S.S.R., and so forth, because that is now an accepted practice. That may be the case also in offering long-term credits, under Public Law 480, for economic development, because actually, the food represents a capital component of an economic development project. But we do not think it makes sense to extend long-term credit on food, which is gone as soon as it is eaten. And I think it is important to recognize that.

Senator STONE. Your approach is credit for capital items, not credit for food itself?

Mr. LEWIS. Yes, I would really prefer to make the loan directly to finance the broiler set-up, for example—

Senator STONE. Port facilities?

Mr. LEWIS. Or the port facilities. I think that would be much more sound than to tie it in to the sale of commodities. There is a danger

in this long-term credit that is attached to sales of grain, for example, that is that the buyer or the seller of the grain, whoever receives the 10-year credit, actually has two things of value to sell, for the price of one.

He gets the money for the grain from the Government, the government lends him \$1 million to buy the grain. He sells the grain overseas, and he gets local currency. But he does not have to convert all that into dollars, and pay it back, for 10 years. And so he puts it out in interest, so that earns more interest from the borrower overseas or his own business enterprise that he uses the money to finance. And he has 10 years to pay it back to the Government. So he has two things of value. Cheap interest—cheap credit; and grain.

And what is likely to happen is that he will scalp the price of the grain, in order to get the money, the principal. The money is the big end of it. That is where the price cutting comes in.

So there is a very serious danger, I think. I think the Government, in administering these programs, will have to examine the primary use of the credit very carefully. And so—

Senator STONE. That is a factor that you would build into the consideration of midterm and longer term loans, whether the prime motivation is the sale of food items, or the acquisition of local currency for business enterprises?

Mr. LEWIS. Well, I think—

Senator STONE. Is that it?

Mr. LEWIS. The primary interest is going to be in the cheap credit, rather than the sale of commodities.

Senator STONE. You assume it will always be that way?

Mr. LEWIS. If we get into 10-year credit. If somebody, if the Government will lend you \$1 million to buy corn, to sell corn overseas, you will take the \$1 million and buy the corn, and sell it as soon as you can, and try to figure out where you can put the \$1 million out at interest for 10 years to take it to \$2 million, or \$3 million.

Senator STONE. So therefore you would oppose the extension of these terms to the exporters, just the same as you would to the importers?

Mr. LEWIS. Yes. I think it would be better for the Government to make the credit for the capital facility to be financed, and relate it directly to the financing of the capital improvement, and leave the—

Senator STONE. Food operation at 3 years, or less, credit?

Mr. LEWIS. Leave that the way it is. I think we ought to try to keep our sales of grain, as much as possible, in accordance with normal business practices. And I do not know of any private buyer of grain who will sell grain on 10-year credit.

Senator STONE. Mr. Lewis, thank you very much. It was most useful. I appreciate it.

Mr. LEWIS. Thank you.

Senator STONE. Our next witness is Mr. Hans Blocklin, chairman, Government Affairs Committee of the Council of American Flagship Operators. And he is accompanied by Mr. Brand, president, Transportation Institute; Mr. Maskin, executive director, American Maritime Association; Mr. Man, executive director, Joint Maritime Congress.

They are here to discuss the shipping issues of these proposals.

STATEMENT OF HANS BLOCKLIN, CHAIRMAN, GOVERNMENT AFFAIRS COMMITTEE, COUNCIL OF AMERICAN FLAGSHIP OPERATORS; ACCOMPANIED BY HERBERT BRAND, PRESIDENT, TRANSPORTATION INSTITUTE; ALBERT MASKIN, EXECUTIVE DIRECTOR, AMERICAN MARITIME ASSOCIATION; BENJAMIN MAN, EXECUTIVE DIRECTOR, JOINT MARITIME CONGRESS; W. H. WILLIAMS, VICE PRESIDENT, AMERICAN PRESIDENT LINES; AND EARL CLARK, CO-DIRECTOR OF THE LABOR-MANAGEMENT COMMITTEE

Mr. BLOCKLIN. Thank you. We will try not to go over the minimum, Mr. Chairman. You have covered their affiliation, and I guess that is what brings us together. I represent a true cross section of the various components.

I represent Chester Ferguson, who sent me up here to testify on behalf of the other groups.

Senator STONE. Give him my best regards when you see him.

Mr. BLOCKLIN. I certainly will.

Senator STONE. Your prepared statement will be included in the record in full.*

Mr. BLOCKLIN. Thank you, Mr. Chairman.

As I said, we collectively represent every segment of the ocean-going U.S.-flag merchant marine—liner vessels operating on regular schedules and trade routes; tankers and dry-bulk carriers operating as tramps or contract carriers; subsidized and unsubsidized operators; labor and management groups. Together, our organizations represent 278 U.S.-flag vessels built in U.S. shipyards and manned by American citizens. Approximately 24,000 U.S. seamen are employed in an onboard capacity and an additional 250,000 maritime related jobs are supported by the U.S. merchant marine.

These various segments of our merchant fleet frequently have diverse interests. Yet, all are united with respect to our views on the legislation the committee is considering today.

Your committee has before it today three bills—S. 2385, S. 2405, and S. 2968.

There may be one more that Senator Stevenson introduced and I did not catch up with.

Common to each of these is that they would improve the terms, conditions and availability of credit for the export sale of U.S. agricultural products. The present Commodity Credit Corporation/GSM-5 program finances the sale for export of agricultural commodities on credit terms not exceeding 3 years, at current interest rates of from 7 to 9 percent. Current exports under the CCC/GSM-5 program are about 10 million metric tons annually. The legislation before you now would extend the CCC credit terms from 3 to 10 years, with interest at or slightly above the average cost of funds borrowed by the CCC from the U.S. Treasury.

Mr. Chairman, we strongly support any legislation that would create new and expanded markets for American products. We recognize the significant and continuing contribution of our agricultural

*See p. 185 for the prepared statement of Mr. Blocklin, et al.

community to the economy of the United States. The bills before you today can strengthen that community and we urge that they be considered favorably, with modifications which we shall discuss and offer today.

Senator STONE. How would you modify the common elements in all of these bills?

Mr. BLOCKLIN. We would request that there be included a provision to encompass Public Law 664, cargo sharing for U.S. flagships. And only Senator Lugar's bill seems to include that provision.

Senator STONE. With half a percent compensation to take care of the problems of cost.

Do you have proof that that formulation is—

Mr. BLOCKLIN. I would have to see how that would equate out so that we could make a value judgment.

Senator STONE. I think it would be very useful to this subcommittee if you all would analyze that particular formulation and write us a letter, or several letters, if you want to write more than one, addressing that, with any modifications if you have any.

Mr. BLOCKLIN. We will do it. Thank you.

Vessels flying the U.S. flag provide employment for seamen, shipbuilders, and those working in related industries which provide supporting services to the fleet. These people, as well as the companies that employ them, pay U.S. taxes and procure goods and services in the United States which contribute to our continued economic growth. It has been estimated that U.S. shipping companies return 71 cents of every freight dollar to the U.S. economy. It is axiomatic that payment of ocean freight to foreign operators in U.S. dollars would constitute a loss of dollar reserves—definitely counterproductive to the position of the United States in international balance of payments.

I want to get some of this in and talk about it because, all along, as I was listening to the testimony that was going on in the House and in the Senate. I am getting a feeling that we are considering one or two segments, and we are leaving out a very important segment, and that is the American merchant marine. And I think the history of the merchant marine needs no defense. And it should not have to be defended, but constantly we have to defend it until the next war comes, and then we rush around and try to build ships and so forth.

But I just—let me get back to this.

Senator STONE. Your scars are showing.

Mr. BLOCKLIN. Well, you know, they probably are. And I have, you know, I have been in three world areas. And like so many of us had, and I never saw a grain trader's ship. I never saw a cargo or ship like that. But, no, their return on investment—we all—in the merchant marine, American-flag merchant marine, and I say to you that so much that is good about this bill should be kept in, but this other element, I think, would create windfall profits for the grain houses, not the farmers.

Mr. Chairman, I think that ought to be kept uppermost. Well, let us go to our people in this whole merchant marine family.

In addition, U.S.-flag vessels provide the nucleus mobilization capability to respond to our defense requirements in times of emergency. In every which this Nation has faced, the U.S. merchant marine has

played a vital role. In Vietnam, U.S. vessels delivered 98 percent of the materials used by our forces—the balance moved by air.

Senator STONE. You feel that retaining the cargo preference reference helps the balance-of-payment situation? Excluding it or omitting it would hurt the balance of payments?

Mr. BLOCKLIN. Absolutely.

We have quantified—we have figured somewhere about \$2 billion that the—but for the American flag carriers, so forth. The balance-of-payments situation would be \$2 billion worse than it is today.

Now, I am just going to abridge this and say, as you are aware, we have, under the programs, under Public Law 480, a 50-percent sharing requirement. It is proposed that this sharing requirement be removed, and under the GSM-5 program, as it is extended, that a parallel—that a 3-year program, which does not have cargo sharing—we think that would be a disaster for us.

Senator STONE. What benefits would it provide to offset the disaster to you, as you see it?

Mr. BLOCKLIN. I think the benefit that it would provide, as I stated before, it is going to provide a windfall profit to the grain houses, the five or six grain houses that are almost totally foreign-owned. At least they do not pay U.S. taxes. Their deposits are abroad.

I think that this has to be examined very carefully, or we are going to make a serious mistake on something we would not want to do, as responsible legislators, because there is a very big danger here. It is not going to benefit the farmer as much as this is going to benefit the grain houses. They are the big winners.

I do not know how many millions of tons were sold to Russia. But who are the big beneficiaries? These grain houses were the beneficiaries. There is very little capital investment. You can start a concern, such as a brokerage concern, with a pencil and a piece of paper. That is all you need.

They do not have a capital investment in ships and equipment such as we do.

Senator STONE. Well, how do you maximize the benefits of negotiating in any of these bills?

Mr. BLOCKLIN. Well, I think that the one gentleman—I was very impressed with Mr. Lewis, who testified just before me. I thought that he struck a vein—opened up a vein of interest to me in this whole program, because I myself have wondered how we get more profit or get some kind of direct recognition of the work and the risk that the farmer has, and which we do not seem to be doing. It is the middleman and the exporter that seems to get the profit. And I would like to think more about what Mr. Lewis said. And I think somewhere along this lines lies a solution to this problem. And this is my own view, too.

Senator STONE. Our next speaker is Herbert Brand, president, Transportation Institute.

Mr. BRAND. I think that the gentleman that preceded us put it in a nutshell. I think his terminology was very interesting. He referred to what he called the “so-called free market.” There is no free market, although every time the American merchant marine is mentioned, people say, “You guys cannot cut it in the free market.”

This legislation is in the best interest of the grain salesmen and not necessarily that of the farmer or any component of the American society.

Although we are in favor of seeking expanded markets, I think that all people who are involved, other than the promoters of sales, should be considered, in the broad national interest.

Speaking for the American merchant marine, these grain people are looking for ways and means to improve their ability to compete, for they cannot evidently do it as well as they would like to under the present circumstances. And they are asking for credit terms to be extended from 3 to 10 years. And mindful of what the gentleman preceding us said, this is an opportunity to make a profit on the interest, in effect, beyond that which would derive from the sales. They are now asking the U.S. Government to step in and assume some role on these sales by granting additional credit terms to promote sales they cannot otherwise make.

Again now, I think at that point the U.S. Government becomes involved additionally through credit extension. It is already involved in supporting the prices to the farmer. At that point it becomes a broader question and I think there are national interest and national security questions that must be resolved in the process. As I perceive the sale of our grains overseas, I think it is important that it be delivered by American flagships. I think it is important that wherever our grains are shipped and delivered, where it is possible under fair and reasonable rates that our American-flag capability be used.

I think that whenever the United States has sought to use the cargo preference methodology, criticism has been raised that our people cannot compete in the free market. Now, we have just heard that this whole problem arises out of the inability of our farmers to compete under the present circumstances. And I say it is no different from the problem that confronts the American merchant marine. I think it is incumbent upon us in matters of this sort to explore every possible means for including all facets of our economy in the project without having to suffer the argument that the inclusion of U.S.-flag shipping means the consumer will have to pay for it.

Senator STONE. Thank you very much.

Mr. Blocklin, do you have any concluding remarks?

Mr. BLOCKLIN. Well, I am going to make these concluding. I could go on forever. I could go on for a long time, but I want to go back to this, the position of the Department of Agriculture that Public Law 664 does not apply to the current CCC/GSM-5 program was upheld by an opinion of the Attorney General, dated August 29, 1963. That opinion, which examined at length the legislative history of Public Law 664, made it very clear that a determination must be based on whether or not the particular transaction was, in fact, purely commercial in nature. It went on to say that if the United States advances credit in connection with a sale, the terms of which are more favorable to the purchaser than they would be in a normal business transaction, the transaction cannot be regarded as purely commercial and the commodities involved would come within the scope of Public Law 664.

We submit that in no case where credit terms of up to 10 years are granted for the purchase of a consumable commodity can the transaction be considered purely commercial in nature.

It is this, whether the transaction is commercial or—upon which some of the judicial aspects might hang, such as the way the Attorney General viewed this question when he looked at it several years ago, that 3 years was near enough to a commercial transaction for this to be commercial and not concessionary. And therefore cargo sharing on U.S.-flags did not apply. But I believe now that we are—now we have moved it up to 10 years. I think you would have built one heck of a mousetrap. You would find these other countries beating a way to your door to get this grain, and I do not think you need a further concession of barring American flags from carrying their cargo.

I think that is the point I would like to make. I hope to make it wherever I can around Washington as this bill gets considered.

I will submit the rest of my statement. We had a little discussion here that covers a number of the things, and if there are any more questions, we would be delighted to answer them.

Senator STONE. There will be many as we get a little further, but I will try to conduct them in writing so that your group will have the opportunity to analyze them and take a position.

Mr. BLOCKLIN. We appreciate that, Senator.

Senator STONE. Does anyone from your panel want to make a remark or two?

Mr. WILLIAMS. I think it is evident through all the testimony that the program which we heartily endorse, by the way, is totally dependent upon Government support as to storage facilities, port facilities, marketing facilities, overseas, and it just seems inconsistent to expect to write into the same type of legislation the exclusion of American flag ocean carriers.

Senator STONE. Your point, if we are financing supporting port and other facilities of foreign countries, why exclude an American operation?

Mr. WILLIAMS. Exactly. I would only make one other point, sir, and this is for today and future reference.

By and large, the Soviets in their purchases of grain which is not contemplated necessarily by all this legislation, much of their dollar earnings for which their hard currency is derived directly from what we think of as predatory rate practices in our economy, in our trades, as you well know, they do not have to make a profit, and they can come in and undercut and they will undercut—history is replete with records of the Soviet rate undercutting. This is how they get their dollar earnings to buy the grain which is primarily at the expense of American steamship carriers.

Senator STONE. Thank you very much. Thank all you gentlemen.

Mr. BLOCKLIN. May I say just one thing more without overburdening the record or doing most of the talking.

We also feel that there will be a switch from the Public Law 480, title I, to programs, particularly the title I program into this program, so that there necessarily will not be a net gain in our grain exports.

Senator STONE. The question is——

Mr. BLOCKLIN. With this caveat——

Senator STONE. The question is, if there is a switch from Public Law 480, if it is free to this program, if they pay, is that not good? The volume may not go up but will not the proceeds go up?

Mr. BLOCKLIN. It brings the foreign policy and some of your other considerations, I am sure you are aware of and deal with in your other hat that you wear on foreign relations. The Public Law 480 programs have other qualifying, or other caveats attached to it. Their human rights obligations, situations such as that would not be included in this program. It would be—there would be much greater freedom to act, and there would not be a tying down on of other considerations, political considerations that we enjoy now under the Public Law 480 program. So I think there would be inducements for some countries to move into this program.

Senator STONE. Yes, I see that.

Thank you very much, Mr. Blocklin and gentlemen.

Our final witness today is Mr. Horace Davis, retired agricultural attaché and assistant administrator in charge of attachés.

Before calling on him, let us just say that it is my understanding that, in addition to our formal witnesses, there will be submitted statements from the tobacco associates, cotton council, and the chamber of commerce. In addition, I am delighted that we will be receiving comments from some of our Florida citrus exporters. These will be included in the record.

I should also add that a major study which I asked the Congressional Research Service to carry out for me on exports is almost finished, and it will be made a part of our hearing record.

STATEMENT OF HORACE DAVIS, FORMER ATTACHÉ, AND FORMER ASSISTANT ADMINISTRATOR FOR AGRICULTURAL ATTACHÉS

Mr. DAVIS. I am in a state of self-imposed isolation.

Senator STONE. You are better off than you would be in Japan where you would be wearing one of those handkerchiefs over your face.

Mr. DAVIS. I have submitted a statement for the record. I will comment just briefly.*

I am a happy retiree from the Department of Agriculture. I spent almost 20 years with the Department in the overseas operations as an attaché for more than 12 years, and then 7 years here in Washington in charge of attachés. I am an outsider now.

I would like to comment specifically on part of these very bills that deal with the attaché title overseas. That happens to be title IV of S. 2968, which proposes the upgrading of the title of the Senior USDA representatives overseas from attaché to counselor.

Let us just drop back here half a minute in history. The Foreign Agriculture Service, including the attachés, was created by Congress in 1930. In the late 1930's, World War II clouds were assembling. There was reorganization of the Government, and attachés were all

*See p. 188 for the prepared statement of Mr. Davis.

brought back into one happy family, the Department of State. Then, a few years later, several years later, after World War II, in 1954, Congress brought the attachés back home to the Department of Agriculture.

Since we came back to our home office, to the Department of Agriculture, this question of elevating the title, getting the counselor title for our senior people, senior attachés in more important agricultural countries has gone up and down several times, and the problem has never been resolved to the satisfaction of the attaché family, Foreign Agriculture Service.

We, of course, have previously tried efforts to go through the administrative channels, between the Secretary of Agriculture and Secretary of State, and tried to work out something so that everybody would be happy. There were not big battles, but that has not been successful so far. The objections raised in the Department of State have always prevailed.

Now, in the Embassy ranking lineup, of course, the Ambassador is the No. 1 man. The deputy is next in command. Then you have some Ministers along the way in the larger Embassies. Counselors and then finally we get down to the attaché level.

Senator STONE. Is there anything beneath you?

Mr. DAVIS. Well, there are a lot of good workers, assistant attachés.

Senator STONE. But, by title, nothing?

Mr. DAVIS. I do not believe—here is a former field man. I see one over here. I do not believe anything—you have assistant attaché, yes, but I think that is it.

And again that problem has been with us for a long, long time, and all of our previous efforts to correct it have not worked out.

Since the attachés were transferred back to the Department of Agriculture in 1954, they have been quietly proliferating, quite an increase in the use of the counselor title in our overseas missions and Embassies. But that has not been available to the attachés.

Now, there was a period when they were at the Department of State—from 1939 until 1954—when we did have a few of our senior people overseas who were given the title of counselor. But that practice was discontinued when we came back to the Department of Agriculture.

We do run into some problems in the overseas offices because of this question of title. That is a problem that we do not understand here. I mean in Washington, by and large, we do not care about titles. I think that is generally true but that is not always true overseas. And it sometimes creates problems when you want to see the top officials that you should work with in the Government.

Senator STONE. In the foreign government?

Mr. DAVIS. In the foreign government. That is especially true in Ministries, outside of the Minister of Agriculture.

Now, we do get involved with other Ministers.

Senator STONE. So, in Japan, the Minister of—

Mr. DAVIS. We have to work with other people, and that does become a problem.

In my last post, when I first arrived at the post, I made the rounds, meeting the government officials, the State officials with whom

you will be working later on, and I called for an appointment with the Minister. Well, it was "Who are you? Are you an attaché?"

Well, back and forth, "Could I see the deputy assistant? Look, I am the top man from the USDA." So I got in. The Minister, Mr. Ahmad, his first question was, "Why this difference?" He had an administrator earlier that morning, I think it was Japanese, who came in with the title of counselor. And here is a man from the most important agricultural country, who is rated as an attaché.

Why, why, why? Well, the answer, of course, is that we all have peculiar ways of classifying people, and let it go at that. But that has been a problem in some of our posts in operations, the work of these attachés that we have around the world.

Senator STONE. How would the title of counselor remedy these problems?

Mr. DAVIS. Just one notch up the ladder.

Senator STONE. Should it be counselor or higher?

Mr. DAVIS. Well, I would settle for counselor. I know some of our friends may say it should be Minister. That is true, that a lot of Embassies do have a Minister in charge of their agricultural representations overseas.

But, by and large, if you take a look at that listing here in Washington, the Foreign Service list, this is the latest, put out in November 1977. I could not find anyone listed as a Minister, specifically identified with Agriculture.

But looking at counselor they had that have diplomatic rankings and functional titles, there were 16 listed as agricultural counselors, and only seven listed as attachés.

Senator STONE. I am going to put in the record at this point a listing of counselor-ranked diplomats assigned to Washington Embassies to represent agriculture, which the staff has prepared.

Mr. DAVIS. Good. Good.

Senator STONE. The list includes Argentina, Australia, Belgium, Bulgaria, Denmark, Egypt, Iran, Japan, Sweden, Turkey, U.S.S.R., and there are others.

Mr. DAVIS. Yes.

[The list of counselor-ranked diplomats follows:]

COUNSELOR RANK DIPLOMATS ASSIGNED TO WASHINGTON EMBASSIES
TO REPRESENT AGRICULTURE

AGRICULTURAL COUNSELOR

Argentina, Australia, Belgium, Bulgaria, Denmark, Egypt, Iran, Japan, Sweden, Turkey, USSR.

COUNSELORS (AGRICULTURAL AFFAIRS)

Federal Republic of Germany, Netherlands, Pakistan, South Africa, Venezuela.

COUNSELORS OF EMBASSY COVERING AGRICULTURAL AFFAIRS

Canada, Brazil, India, Italy.

Mr. DAVIS. Those of us in the foreign field, in particular I think feel strongly in the decades ahead that food is going to be a much bigger factor in world affairs than has been true in the past.

If you look at our population growth through the decades and the projections down the road, it has to become a bigger, bigger issue in the future than has been true in the past.

We have a lot of unused capacity in the country to produce more food, and we think we should crank up our machinery to make the most of these challenges, opportunities that lie ahead. And, in my judgment, speaking as an oldtimer, I think the upgrading of the title of our field people in—it is the overseas USDA field force—would be a good step in the right direction.

Senator STONE. Thank you, Mr. Davis, very much.

I am not supposed to state my opinion this prematurely but, after the hearing, I will.

Mr. DAVIS. Good. Good.

Senator STONE. Thank you, Mr. Davis.

This concludes the hearing, and the subcommittee is adjourned.

[Whereupon, at 11:45 a.m., the subcommittee adjourned, subject to call of the Chair.]

SUBMITTED STATEMENTS, ARTICLES, AND LETTERS

STATEMENT OF HON. RICHARD F. STONE, A U.S. SENATOR FROM FLORIDA

It is a pleasure to begin these hearings on how to promote United States agricultural exports. We have before us five bills, all of which try in slightly different ways to achieve that goal. The purpose of these hearings is to investigate what problems our exporters will face in coming years and how we can plan for effective ways to assist them in expanding U.S. agricultural sales abroad.

At the outset, it is important to remember that agricultural exports have increased and become exceedingly important to the United States balance of trade in recent years. Last year, our agricultural exports reached \$24 billion, and the surplus of agricultural exports over imports topped \$10 billion.

In the coming years, we will have to work harder to maintain and to expand markets overseas. This subcommittee is following developments of major significance to U.S. agricultural exports, such as the multilateral trade negotiations underway in Geneva and the negotiation of a new International Wheat Agreement.

Agricultural exports are closely linked to the overall economic policy and economic strength of this country. The value of the dollar—especially in relation to energy imports—has a major impact on exports. You will recall that the devaluation of the dollar in August 1971 and in February 1973 played a major role in boosting agricultural exports. Assuring fair value for the dollar must be part of any long-range exports strategy.

Within this larger economic setting we must take up the special concerns of agricultural exporters. It seems that in recent years export markets have expanded despite the lack of positive efforts by the Congress and the Administration to promote them. The United States has an efficient, ever-improving agriculture industry, and it can be competitive in markets abroad. We in the Congress need to analyze what tools are available to help, and which of these tools should be used more fully in order to increase the attractiveness of United States products to buyers in other countries. We need to examine tax policy, research support, market development, political leverage, and any other possible methods at our disposal. We also must consider how well U.S. exports are treated by other nations that have access to our markets, and determine what impact this should have on U.S. policy.

It is my hope that through these hearings we will formulate preliminary agreement on a legislative approach that will lay the foundation for a stronger effort to promote United States agricultural exports. This is a complex and challenging task, and I welcome the views and recommendations of all our witnesses.

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

The CCC credit program is the best "tool" available to the Secretary of Agriculture to facilitate farm exports. It is one of the few programs that cost the Government little except a limited staff to administer it. In fact, Secretary Bergland has testified that "we make money on the CCC credit program." This comes about because the interest rates charged the foreign users of these credits is higher than the rates that CCC pays Treasury for funds.

Not many months ago virtually every member of this Committee signed a letter to President Carter asking that CCC credit funding for Fiscal Year 1978 be increased from \$750 million to \$1.5 billion. This is one of the few instances where the White House responded in a positive manner and did increase funds for CCC export credits to the requested level.

There are four bills that have been introduced by members of this Committee to improve the CCC credit program.

I have a bill that would make credits available to exporters who could better meet competition by making export sales on a deferred payment basis to foreign customers (as the Canadians make sales to the People's Republic of China).

Other Committee members have bills that would extend the credit terms beyond the present three years, up to 10 years.

I will be interested in hearing the various witnesses address these bills and present ideas of their own.

STATEMENT OF HON. ROBERT MORGAN, A U.S. SENATOR FROM NORTH CAROLINA

Mr. Chairman, it is a pleasure for me to be here today to testify on the need to improve this Nation's agricultural export expansion policies.

In recent months Congress has devoted a great amount of time and energy to improve our domestic farm program. To me, it seems inconsistent to improve our domestic agricultural policies without examining our export policies. After all, the economic welfare of the Nation's farmers is being increasingly tied to our success in export markets.

America has made significant strides in our food and fiber exports in recent years. In this decade alone our agricultural exports have tripled to where we now earn over \$24 billion annually.

Our food exports are an extremely important segment of our balance of payments picture. Without strong food and fiber exports, this great country of ours would have a totally disastrous balance of payments deficit.

Agricultural exports are very important to my home state of North Carolina. Tobacco is exported to more countries than any other agricultural commodity. We sell tobacco to over 100 countries in virtually every corner of the globe.

North Carolina exports a good number of other commodities as well. We are exporting large volumes of soybeans and corn as well as poultry products. Our farmers are becoming increasingly tied to export markets. It is my obligation to do my best to improve this Nation's agricultural export policies, and I intend to meet that obligation.

Before I begin my comments, the work being done here today and tomorrow cannot be viewed in isolation from other events. Our Nation is currently involved in negotiations for a new Multi-Lateral Trade agreement and for a new International Wheat Agreement. We must improve our trade policies here in the Congress. If we do so, I believe we can increase our chance for success in these vital negotiations.

There are two elements in our credit system. One is the Food for Peace Program. On the lawbooks since 1954, Title I of PL-480 has been used to develop many of today's important overseas markets. As the members of this Subcommittee know, Title I involves sales at concessional rates of interest with terms ranging from 20 to 40 years.

The second element is the Commodity Credit Corporation. The CCC can issue credit to cover agricultural commodities that are deemed in surplus. CCC credits are issued for terms ranging up to three years. CCC credit has been a welcome complement to PL-480 in our Nation's market development effort.

The charge before this Subcommittee is to work on the expansion of our export markets. This Subcommittee's efforts are vital to the wellbeing of the Nation. We must examine every opportunity to expand markets. We must not become complacent with our recent success.

In my comments before the Subcommittee, I will discuss various agricultural trade issues, the bills pending before this Subcommittee, and action that I believe should be taken before the end of the 95th Congress.

CCC FINANCING FOR NON-MARKET ECONOMIES

Certainly the most controversial legislation pending before this Subcommittee is Senator Humphrey's S. 2385, the Agricultural Trade Expansion Act. Introduced shortly before his death, this bill enjoys the support of 29 co-sponsors, including myself. The section of this bill that has stirred much controversy is that particular portion which authorizes non-market economy

countries the opportunity to participate in programs of the Commodity Credit Corporation. Enactment of that section would modify restrictions incorporated in the Trade Reform Act of 1974 that apply to the CCC.

Modifying such restrictions would enhance this Nation's trading opportunities. Doing so would improve farm income, which has been very depressed, and help reverse our serious balance of payments situation. Modifying restrictive portions of the Trade Reform Act that relate to the CCC would not totally change the general thrust of this body of law. Similar restrictions would remain on Export-Import Bank credits.

In examining this issue we must keep in mind the fact that the CCC is a creature of the U.S. Government and that credit decisions will likely remain political in nature. The CCC credit line is decided by the Office of Management and Budget which really is the President.

It is clear to me that this Nation is not about to extend credit to countries with which we have poor relations. In fact, we have used CCC credit in the past to improve our relations with other Nations.

We must also keep in mind that the CCC has been superbly managed and that it has been very conservative in its financial management of credit. The CCC does not automatically grant credit to every country that applies. The CCC uses strict tests to determine a country's eligibility. Further, I think we should note that the CCC has actually returned a profit, funds that accrue to the Treasury.

The restrictions included in the Trade Reform Act were included because of this Nation's commitment to human rights. Let me state unequivocally that human rights have to be the concern of this Nation. We were founded as a Nation of free men and women and we have fought for liberty time and again during our two centuries of existence. Human rights must be at the top of the list of our priorities. History has demonstrated that America must be diligent in the cause of human freedom. America must address this issue because too often no other Nation has.

There are, of course, other arguments that have been made against providing CCC credit to non-market economies. One argument has been that we should not give the Soviets something for nothing. On this point, it is not clear to me that the Soviets are particularly interested in CCC credit. In fact, extension of CCC credit would be more beneficial to the U.S. Our gain would be increased trade, primarily through increased consumption. The Soviets are clearly interested in improving the lives of their people and one of the ways it is seeking to improve their lives is through a more protein oriented diet. This consumption would come from increased feeding of livestock, dairy and poultry. Such an expansion of the market for our food would be facilitated by CCC credit.

We must not only look at the need for market expansion, but also at the need for gaining a larger share of the market that exists in the Warsaw Pact nations. Too often in the past we have been the residual supplier of these Nations. We must break out of this residual supplier pattern. The Soviets have a purchasing agreement with us, which to some degree has expanded our share of this particular market, but the Soviets, after minimum purchases from us, have first exhausted other suppliers before turning to us. Part of this situation may be due to the fact that one-third of the Soviet purchase must be transported on U.S. flagships.

East Germany, Czechoslovakia and Hungary are also attractive markets for the U.S., particularly for our feed grains and oilseeds such as soybeans. It is a disappointment to me, and a loss to our farmers, that we do not aggressively seek out these promising markets. Poland, Yugoslavia and Romania have used CCC credit and we have made substantial market in-roads into these nations.

Another argument used against extending credit to non-market countries relates to the indebtedness of these countries. While I have heard this issue brought up, I do not give it much credibility. I am not aware of a single, reputable economist who has proclaimed worry over the external debt of non-market economy countries. The repayment record of non-market countries eligible for CCC program participation has been outstanding. The Soviets, for example, paid-off their CCC indebtedness far ahead of schedule. I think that the record demonstrates that these countries highly value their credit standing.

In the final analysis, we must remember that agriculture is a renewable resource and that the marketing dynamics are very unique. Almost 80 per-

cent of the world's food supply never enters international markets. Further, the Soviet Union produces more wheat than the four principal wheat exporting nations (the U.S., Canada, Australia and Argentina). The Soviets can meet their needs by moving into markets other than the U.S. or by reducing animal production, which reduces demand for grain supplies.

In January, 1977, a report prepared for the House Committee on International Relations listed four conditions "for an exporting country to have food power based on market control with respect to a particular commodity and a particular country." The following conditions must generally exist: (1) The importing country must require sizable quantities of the product; (2) the required quantities must constitute a significant percentage of the country's total consumption; (3) no readily available alternative source can exist or be quickly developed; and (4) no satisfactory substitutable commodity can be available or quickly developed elsewhere. While a special study has not been done to see if these four conditions have existed at any one time in the USSR, I believe that the answer is clearly no.

INTERMEDIATE TERM CREDIT

In summary, I believe that it is clear that we must reassess certain provisions of the Trade Act. We must develop laws that are consistent with the interests of this Nation and its ideals. I will address specifically what I believe should be done in the concluding segment of my comments.

Several bills before this Subcommittee extend the length of the repayment period that the CCC can offer. It is clear to me that we need to move in this direction for a variety of reasons. First, the CCC does not have the same flexibility regarding terms that the other principal exporting nations enjoy. We need to give our CCC the same capacity. Second, intermediate term credit would provide for the financing of storage and dock facilities and for the importing of livestock, items that can be capitalized over a longer period of time than the three year period that currently is available.

One of the troublesome issues relating to intermediate term credit has to do with the exemption that CCC exports currently have from cargo preference. I am a strong supporter of the American maritime industry. We need to do something to assure the viability of this industry. It will be difficult for many members of Congress to decide whether or not commodities shipped under an intermediate credit should continue to be exempted from cargo preference. Senator Lugar, in his bill, has tried a rather interesting approach. I am hopeful that we can reach a mutually satisfactory solution on this problem.

OTHER TRADE BILL ISSUES

A bill introduced by Senator Clark and myself this past week addresses other food and fiber trade issues. Briefly, this legislation would create an Under-Secretary for International Affairs at the Department of Agriculture. Also, it would authorize up to 25 new Trade Offices similar to the one we now have in London. Further, it would permit our agricultural attachés to be promoted to the rank of Counselor. Finally, it would extend intermediate credit, an issue discussed in other parts of my testimony.

The purpose of this legislation is basically to improve the U.S. Department of Agriculture's role in food and fiber trade. When it comes to trade policy matters, the USDA has been treated as a second class citizen. We need to upgrade the Department and to make its role consistent with modern realities. This is the intent of Senator Clark's bill.

BILLS PENDING BEFORE CONGRESS

There are four major agricultural trade bills currently pending before Congress. I will not go into a thorough review of each of these pieces of legislation. Certainly all were spawned with the idea of increasing U.S. food and fiber exports. To some degree, these bills embody differing approaches to the same problem. A brief review is in order:

(1) S. 2385. This bill is the most sweeping of the bills before Congress. Introduced by the late Senator Hubert H. Humphrey, it enjoys the support of 29 cosponsors, myself included. This bill has two provisions. The first involves an intermediate credit. The second concerns establishing the eligibility of

nonmarket economy countries for participation in Commodity Credit Corporation programs.

The second provision is clearly the most controversial segment. When Senator Humphrey introduced this bill, he said that he wanted to trade anything that could not be shot back. I believe I have discussed this provision adequately in other portions of my testimony.

(2) S. 2405. Introduced by Senator Lugar, this bill would authorize an intermediate term agriculture export credit program. This particular approach deserves serious attention. It may prove to be a worthy compromise if unencumbered intermediate credit legislation cannot be enacted.

(3) S. 2504. Introduced by Senator Dole, this bill would permit Commodity Credit Corporation credit to be channeled through exporting firms. This bill should be viewed as a complement to other legislation and the existing program, rather than a separate substitute. This bill would be very helpful in improving the trading relationship with countries such as the Peoples Republic of China which would prefer deferred payments rather than straight credit. This particular bill would permit such arrangements.

(4) S. 2968. Introduced by Senator Clark with my support, this bill has four components. It includes provisions for the creation of a Under Secretary for International Affairs, for the promotion of attachés to the rank of Counselor, for up to 25 International Trade Centers, and for an intermediate commercial credit. It is my understanding that this bill enjoys wide Administration support. I believe that this bill is farsighted and that it will enhance our opportunities in export markets in the next decade.

CONCLUSIONS AND RECOMMENDATIONS

Mr. Chairman, my comments have been rather comprehensive. I believe that I have demonstrated that agriculture is a unique part of international commerce. Restrictions in our food and fiber exports, particularly those added by the Trade Reform Act of 1974, have not achieved the intended effect. We must carefully assess these restrictions to determine if they should be modified or eliminated. Also, we must seek to improve our export programs and policies if such approaches offer promise of export expansion for America's food and fiber.

It makes little sense to attempt to improve domestic farm policy without reviewing the export situation. Clearly, both are related to farm income.

We have made marked improvements in our food and fiber exports in recent years. Unfortunately, I cannot attribute this improvement to our Government, but rather to increased world demand, due to a changing diet (with increased emphasis on protein), and the market development efforts by cooperatives and the private sector. We have nearly two thirds of the world market in feed grains and soybeans, as well as half of the world wheat market. These figures should not lull us into complacency. In fact, we must redouble our efforts to preserve our market share.

Again, we must be careful in our Government policy not to throw this Nation into a bitter trade war with other food and fiber exporting nations. While I believe that we should have a bigger share of some markets, I believe that a bigger world market exists, particularly if we develop the right policies to encourage the growth and development of such a market.

Our government's record in market development has not been bright. We have not given our federal employees involved in this area of responsibility the tools or status they warrant and need to achieve total effectiveness. Our Nation has invested only a small fraction of what other exporting countries are investing in market development activities.

Recently I had the opportunity to share some of my thoughts with Commissioner Jim Graham of the North Carolina Department of Agriculture. Our Commissioner is an enthusiastic promoter of North Carolina agriculture, both at home and abroad. Our Commissioner knows the value of farm exports and he is convinced that farm income will be directly related to our success in international markets.

Mr. Chairman, I believe that many of the trade related issues before your Subcommittee can be resolved in short order. Unfortunately, the Administration has stated that the President will veto legislation containing the extension of CCC credit to non-market economy countries. The Administration's position

disappoints me greatly. But this position is a crucial reality those of us concerned with trade policy must face.

With this in mind, I suggest that extension of CCC credit to non-market economy countries be clearly separated from other trade related issues. I would like to see such a bill come to the floor. I would support it strongly, both because of my desire to expand trade but also because I believe it could lead to a liberalization of the Soviet Union's emigration policies. However, I believe we should send to the President the best trade bill that can be developed.

Mr. Chairman, I want to thank you for calling these hearings. I believe that they will lead to a full discussion of these very important issues. I am going to read as much of the testimony that is given to this Subcommittee as I can. While I feel confident in my views, I am interested in reviewing the ideas and thoughts of those that will appear before this Subcommittee.

Further, I would like to complement Senators Clark, Dole and Lugar, all of whom have introduced thoughtful trade expansion bills. Most importantly, we should not forget that our late friend, Senator Hubert H. Humphrey, introduced one of the bills before this Subcommittee. Certainly, Hubert's dedication to America's farmers was total and his knowledge of food and fiber export policy was complete.

Mr. Chairman, I thank you for this opportunity to appear here today.

STATEMENT OF HON. ADLAI STEVENSON, A U.S. SENATOR FROM ILLINOIS

I am grateful to the distinguished Chairman of this Subcommittee for the opportunity to testify on the need to expand U.S. agricultural exports. I also commend the Chairman for scheduling these hearings. Action to increase farm exports is urgently needed to reduce the alarming dimensions of the farm crisis and the trade deficit.

The U.S. trade imbalance was \$27 billion last year, and a staggering \$4.5 billion in February. The dollar is depreciating erratically and causing inflation in the U.S. and uncertainty in the money markets which in turn reduces levels of trade and investment in the world. The farm crisis is in some ways unparalleled since the Great Depression. Pressures are mounting to protect U.S. industry from foreign competition and decrease U.S. food production. Those directions produce inflation, economic stagnation and global political instability. To decrease food production when much of the world is already hungry and its population is likely to double in the next 25 years would cause more inflation and human distress on a broad scale.

A more promising policy than to decrease imports, is to increase exports. Such a policy would maintain food production, let food prices find their market level, and use subsidies, if necessary, to help sell surpluses abroad. Instead of protecting itself from foreign competition the U.S. would go out to beat the foreign competition. We need increased world trade, free and fair, to continue economic growth and put people to work. We need maximum agricultural production to reward the efficient farmer and feed a starving world. Our authority in the world as well as our economic well-being requires no less.

The importance of exports to our farm economy cannot be overestimated. The U.S. is the world's largest exporter of agricultural products. In dollar value, farm exports over the past four years have ranged between \$22 and \$24 billion. The U.S. ships about one-sixth of the world's total agricultural products. About 100 million acres, almost one in three of harvested cropland, are devoted to production for export. Foreign markets absorb almost two-thirds of U.S. rice and wheat production, almost one-half of our soybean production, nearly two-fifths of our cattle hides, and about one-fourth of our feed grains.

The importance of farm exports to the economy of my home state of Illinois is even greater than for the nation as a whole. In fiscal year 1977, Illinois was the number one agricultural exporter, exporting agricultural commodities worth \$2.5 billion; \$1 billion of the total was feed grains, \$823 million soybeans, \$179 million in soybean meal, and \$100 million in soybean oil. In percentage terms, Illinois exports over fifty percent of its soybeans and over one-third of its corn. This is especially significant when one considers that Illinois

has been the number one producer of corn in each of the last three years, and is always number one in soybean production.

It would be a mistake, however, to focus on agricultural exports as strictly a regional or Illinois concern. It is a national concern because farm exports produce jobs throughout all levels of our economy and all areas of our country. The USDA estimates that in 1974 each dollar of agricultural exports stimulated an additional 96 cents of output in the national economy. In 1974, an estimated 1.2 million full-time civilian jobs were related to agricultural exports. Of these, slightly more than half were non-farm jobs directly or indirectly related to the assembling, processing, and distribution of agricultural goods for export. About 50,000 of these jobs were in food processing, 300,000 in trade and transportation, 100,000 in other manufacturing sectors, and 200,000 in other services.

Given the crucial significance of agriculture exports to the national economy and to reducing our trade deficit, it is disturbing to note that even though U.S. farm exports will increase this year to a record 100 million tons, the export value of these commodities may be only \$22.5 billion—\$1.5 billion below the \$24 billion of agricultural commodities exported in FY 1977. This level of exports is simply not high enough to absorb the crops that American farmers produce. It will not help the farmers currently caught in a tragic cost-price squeeze.

If we are to create growing export markets for America's farmers, we cannot do so by relying on Mother Nature's willingness to create drought and disaster abroad. Aside from being cynical, such a non-policy abandons planning in favor of the vagaries of climate and weather. We cannot rely on floating exchange rates which have little effect on the competitiveness of our agricultural commodities. We cannot rely on any perceived monopolistic position; Canada, Australia and increasingly the developing nations, most notably Argentina and Brazil, have beaten us to the punch in developing new markets, such as the Peoples Republic of China, and in competing for established customers by offering better credit terms. Finally, we cannot naively rely on a free market for trade barriers, as in the European community, can erode large markets.

What we can do is to take a hard look at U.S. agricultural export policy and remove the roadblocks to increased agricultural exports. The Senate Subcommittee on International Finance, which I chair, is presently conducting a review of overall U.S. export policy and, within this review, we have examined the competitiveness and future prospects of our agricultural exports. Some of the impediments we have identified—such as import barriers within Europe and Japan—cannot be reached by legislation. I would urge this Subcommittee, however, to impress upon Ambassador Strauss the importance of reducing foreign barriers to U.S. agricultural exports, especially meat exports. Much of the present controversy surrounding meat imports might be diluted if, instead of exporting grains to feed hogs and cattle abroad which result in greater meat imports back into the U.S., we exported more meat. This may well require more funds for agricultural research to develop improved means for processing, packaging, transporting and storing meat, as well as agreement on international standards for meat quality.

There are, however, major barriers to U.S. farm exports which we have constructed ourselves, and I am here today to urge this Subcommittee to report legislation that helps dissolve those barriers. The principal roadblocks that have come to the attention of the Subcommittee on International Finance are the absence of intermediate credit terms under the CCC export credit sales program and the special requirements for participation in CCC programs imposed on non-market economy countries under Title IV of the Trade Act of 1974.

Several of the bills that are the subject of today's hearing would permit the CCC to extend intermediate term commercial credits to support farm exports.

My own proposal in this regard, which I will introduce today as a separate bill, would amend the law to permit the Commodity Credit Corporation to extend commercial export credits for up to ten years. In this regard, it is similar to S. 2385, S. 2405, and S. 2968. Presently, the CCC is limited to three-year maturities. Our principal competitors in Canada, Australia and Argentina are not similarly handicapped. This limitation not only serves to put our exports at an unnecessary competitive disadvantage but also prevents U.S. sales of farm

exports to countries facing severe buncchings of international debt in the next several years. In hearings on international debt in the Subcommittee on International Finance, and in my meetings earlier this year with officials in Eastern Europe, it has become clear to me that the CCC must have authority to issue intermediate credits if we are to expand markets for our agricultural exports in the developing nations and the non-market economy countries. Poland and other of our best agricultural customers have reached the limit of their short-term hard currency borrowing ability and will not be able to participate further in the CCC program unless we can offer them intermediate credit terms. They will turn to our competitors who, in the past, have shown a willingness to extend longer-term credits when necessary to make a sale. In this regard, I offer for your record a letter from USDA's Foreign Agricultural Service which discusses the practices of our competitors in this regard. The ability to offer intermediate credits will put us on an equal par with competitors and will also expand long-term agricultural trade prospects, since under my bill such credits could be used to construct storage and port facilities and accumulate grain reserves. This will have the benefit of assuring more constant agricultural markets, thus avoiding the sharp downward price pressures that have occurred in recent years.

My proposal differs from S. 2405 and S. 2968 by not limiting intermediate term credits to support only long-term agriculture trade. As I pointed out earlier, the immediate and near-term debt problems facing many of the Eastern European and developing nations make it imperative that we be willing to extend longer repayment terms. Such terms would not be concessional; they would merely fill a gap in the credit market for agricultural commodities, a gap which the Export-Import Bank currently fills for our other exports by extending longer repayment terms than customarily provided by commercial banks. However, following the pattern of the Export-Import Bank, my proposal provides that, in making any intermediate credit available, the Secretary of Agriculture must determine that there is reasonable assurance of repayment. This will insure the commercial nature of the program.

In addition, my proposal would exempt CCC commercial agricultural shipments financed under the new intermediate credit program from the U.S. flag ocean vessel requirements of the Cargo Preference Act. Short-term CCC credits are not subject to this requirement now, and the mandatory use of high cost U.S. flag ocean vessel would severely limit, if not destroy, the value of the intermediate credit program as a means for expanding U.S. agricultural exports because it would price our commodities out of world markets. This conclusion was strongly supported by private witnesses at a recent hearing on U.S. agricultural export policy held in Chicago by the Subcommittee on International Finance. Clearly, such special interest legislation, which does not even now benefit those interests, should not be used at the expense of the U.S. farmer, nor should it be used at the expense of the U.S. taxpayer, which would be the result of S. 2405.

The importance of fully opening up the non-market economies to our agricultural exports has been stressed by every farm witness before the Subcommittee on International Finance and I would like to submit for the record several recent analyses of this market potential, including one by the USDA's Foreign Agriculture Service. The Peoples Republic of China is expected to import nearly 10 billion tons of grain from Canada, Australia and Argentina in 1977-78. So far, the U.S. has been unable to penetrate that market on a regular basis. The Soviet Union and Eastern Europe are chronic grain deficit areas with ambitious plans to expand livestock and poultry production. The potential for strong soybean, feed grain and wheat markets in these countries is large. But the availability and terms of credit to finance their purchases of agricultural commodities has become increasingly important due to their continuing hard currency balance of trade deficits. If we don't participate in these markets now, we may never be able to participate as other nations—Canada, Argentina, Australia and developing nations—take our place. And as we fail to develop commercial relations with the Eastern European nations we also leave them dependent on the U.S.S.R.

Yet, we should not throw open the floodgates of commerce with the U.S.S.R. and other non-market countries with nothing more than a hope for trade and its economic benefits. Our economic relations with the Soviet Union and every other country must be subordinated to matters of higher national interest. I

thus do not support measures to open up all the nonmarket countries to CCC credits without qualification.

I have developed a formula which I intend to propose for Eximbank credits in the Banking Committee. This formula may also prove useful to this Subcommittee in its deliberations on CCC credits. It is not a part of the CCC bill I am introducing today, which relates solely to intermediate term credits.

The proposed amendment to the Eximbank Act would supersede the provisions of the Trade Act of 1974 with respect to Eximbank credits for exports to non-market countries *other than the Soviet Union*, but would not supersede provisions concerning most-favored-nation treatment or CCC credit. The conduct of the Soviet Union in Africa at the moment is not one to warrant apparent trade concessions and certainly not a suggestion that its policy on emigration is acceptable.

We should not, however, let Soviet conduct frustrate better trade relations with other countries that pose no threat to U.S. interests. By doing so, we merely force their continued dependence on the Soviet Union and punish ourselves. Under my proposed amendment to the Eximbank Act, a new procedure would be established for determining the eligibility of countries to receive exports supported by the Eximbank. Under this procedure, the President would submit to Congress a list of those countries for which he has determined that eligibility to receive Eximbank supported-exports is in the national interest, taking into consideration each country's relationship to the United States and to countries friendly or hostile to the United States, its internal stability and creditworthiness, and its policies and actions with respect to the peaceful settlement of international and internal disputes, human rights, including specifically the right to emigrate, and such other factors as he chooses. During the 60 days following submission of the list, Congress would have the opportunity to review the list, and could, if necessary, disapprove the list by concurrent resolution of both Houses under expedited procedures. If the list were disapproved, all countries previously eligible would remain eligible until a new list became effective.

The President could propose a revised list at any time, and such revised lists would be subject to the same Congressional review procedure as the initial list. He could remove a country from the list at any time. The eligibility list procedure provided by the amendment would replace provisions in the current statute which require national interest determinations for Communist countries before the Bank can support exports destined for such countries and separate determinations for each such loan over \$50 million.

I believe such a formula deserves serious consideration because it preserves Jackson-Vanik with respect to the Soviet Union, where there are many persons who wish to emigrate; it ends the anachronistic Communist/non-Communist formula which is a by-product of the cold-war already supplanted by Congress in the Export Administration Act; and it should produce benefits for the U.S. economy by creating more exports and more jobs.

I urge the Subcommittee to act expeditiously on the bills before it and to give urgent consideration to the promotion of increased farm exports.

[S. 3011, 95th Cong., 2d Sess.]

A BILL To authorize the Commodity Credit Corporation to extend intermediate term agricultural credits in support of the export of agricultural commodities and the development of long-term agricultural export markets abroad

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. That this Act may be cited as the "Agricultural Export Credit Act of 1978".

SEC. 2. Section 4 of the Food for Peace Act of 1966 (80 Stat. 1538; 7 U.S.C. 1707a) is amended to read as follows:

"SEC. 4. (a) Commercial sales of agricultural commodities out of private stocks on credit terms of not to exceed three years may be financed by the Commodity Credit Corporation under its export credit sales program.

"(b) Export sales of agricultural commodities, whether from private stocks or stocks owned by the Commodity Credit Corporation, or related services or facilities may be financed by the Commodity Credit Corporation on credit terms in excess of three years, but not more than ten years; provided, however, that for each financing provided under this subsection, the Secretary of Agriculture must determine that there is a reasonable assurance of repayment. The

provisions of Public Law 664, Eighty-third Congress, as amended (68 Stat. 832, 46 U.S.C. 1241(b)), shall not apply to sales financed pursuant to this subsection.

"(c) There are hereby authorized to be appropriated such sums as may be necessary to reimburse the Commodity Credit Corporation annually for its actual costs incurred or to be incurred under programs undertaken under this section."

U.S. DEPARTMENT OF AGRICULTURE,
OFFICE OF THE GENERAL SALES MANAGER,
Washington, D.C.

HON. ADLAI E. STEVENSON,
U.S. Senate, Washington, D.C.

DEAR SENATOR STEVENSON: This responds to your telephone request for a statement about export credit practices of competing exporter countries.

As suggested in your conversation, we find this subject was covered in material supplied for the record to complete my testimony before your Subcommittee in late February. A copy is enclosed for your convenient reference. In addition to items cited in the testimony, it should be noted that Canada has also supplied wheat credit to Algeria on ten year terms within recent years.

Notwithstanding the substantial record of intermediate term credit competition during the recent past, we know of no such arrangements currently outstanding, a circumstance we relate to reduced supplies in competitor countries rather than to any lack of authority to provide such credit. It is quite possible that U.S. capacity to provide intermediate credit would serve to deter competitors from again capitalizing on the existing gap in our authorities, thus restraining rather than encouraging the use of longer term credits.

Sincerely,

KELLY HARRISON,
General Sales Manager.

ANALYSIS OF CREDIT PROGRAMS OF SELECTED FOREIGN COUNTRIES

Competing suppliers of agricultural commodities, notably grains and soybeans, do not make public the terms of their credit arrangements as does the U.S. Consequently we cannot be as specific as we would like to be in this area. What information we have is usually after the fact, second-hand and sometimes incomplete. It can be summarized as follows:

Canada—Wheat exports from our strongest competitor are controlled by the Canadian Wheat Board (CWB) which has monopolistic powers over Canada's wheat marketing, including transportation and exports. It finances its operation with bank credit which is guaranteed by the government. It does not own physical facilities. Privately owned entities such as elevators, terminals and grain companies function as agents of the CWB.

The CWB sells through agents to private buyers in foreign countries, under standard commercial practices. It also sells to such buyers on special credit terms, and negotiates directly with grain importing agencies of foreign governments. CWB offers importers credit terms of up to 3 years. Longer term credits are at times extended on government-to-government arrangements.

No information as to interest rates has been received respecting credit sales to the People's Republic of China. Reportedly, down-payments of 10 percent to 25 percent were made. Information as to the volume of such sales is incomplete. A 1977 sale to Poland was for 5 percent down, for 3-years at ½ percent over the London Bank offering rate. There is reason to believe that many sales to Eastern Europe are on still more favorable terms.

Canada has sold to Peru on 5-year terms with interest as low as 5 percent. Last year, one sale on 3-year terms with 5 percent down was reportedly at 7½ percent interest when the CCC rate for a similar transaction would have been 9 percent.

A sale to Brazil was clearly concessional, with interest at 5 percent, a 5 percent down payment, a 2-year grace period and repayment over 10 years. A sale to Brazil in 1977 was for 3-years at 7¼ percent, below the corresponding CCC Credit rate. Syria bought Canadian wheat on 3-year terms at 6¼ percent (however CWB was not involved).

Canada does not have an official concessional program; however, the Export Development Act of 1969 provides the framework through which an effective concessional program has been maintained. Interest-free loans can be made

available for up to 50 years with grace-periods for up to 10 years. Up to 20 percent of the value under bilateral agreements can be granted for projects in recipient countries, on a totally untied basis.

Australia—The Australian Wheat Board which is controlled by producers, buys and sells all wheat marketed. It receives credit advances from the Reserve Bank of Australia. It sells directly to foreign governments and to commercial grain traders.

Sales to government comprise a large portion of total exports, at times more than 50 percent. These involve substantial use of credit, reportedly up to 10 years although the usual period seems to be 12 months. Interest rates of 6½ percent have been reported but information in this area is incomplete. In at least one instance the AWB provided a "volume discount".

Sales to private traders is a residual amount for after sales to governments are made; also, provisions for the GOA food-aid program. The AWB rarely provides credit to commercial importers, although private grain traders at times do so.

Argentina—The National Grain Board is the only legal market for wheat and feed grains. Among other functions it negotiates bi-lateral agreements with importing countries. These are essentially statements of intent. The eventual price is fixed with reference to actual market values.

EUROPEAN ECONOMIC COMMUNITY

Subsidies, rather than credit terms, comprise the main tool used to stimulate exports and relieve over supply situations. EC prices are normally higher than world prices and some subsidy would be needed to bridge this gap. However, there have been subsidies more than sufficient to bridge this gap, leading to concern about unfair trade practices. Also, the size of the subsidy can vary by country of destination, to encourage penetration of particular markets.

In addition to EC export subsidies, the individual member countries are free to use long-term credits and low interest rates to make the offered price still more attractive. Two-year credits at 3 and 3½ percent interest have been reported. The combination of subsidized prices and convenient credit terms makes the EC a formidable competitor.

Brazil—A system of tax forgiveness and tax credits is a major tool for implementing Brazil's export policy. Adjustment of various tax items within the system can have pronounced affect in distorting export prices of processed goods, increasing or lowering them with respect to domestic prices and world market, according to government aims.

Until recently, soybean oil exports were accorded a substantial price advantage, but no longer. Also soybean meal prices were set so as to favor meal exports. This too has been corrected.

As long as the system itself remains intact, however, the GOB has the means of implementing specific policies that can give Brazilian products a distinct competitive advantage in foreign markets. Reacting to specific commodity situations, future export policy may differ from that of today.

Preferential financing is another export-incentive. Loans are made for production destined for export at two fifths the normal rate of interest.

There are also subsidies. For example, all cotton exports are currently subsidized by 20 percent, payable in raw cotton from government stocks.

Brazil has been known to offer soybean oil on 3 year terms and interest similar to the CCC Export Credit Program.

Japan has a rice-export program patterned after P.L. 480 Title I. At different times, the Philippines obtained rice from Thailand on 12-year terms with a 3-year grace period and 7½ percent interest, and from Taiwan on 10-year terms with the same interest and grace period. The PRC reportedly sold rice to Sri Lanka on 20 year terms, interest free.

COMPETITIVENESS OF U. S. EXPORTS AND MEANS
TO CLOSE THE U. S. TRADE GAP

Prepared for the

United States Senate

Committee on Banking, Housing and Urban Affairs

Subcommittee on International Finance

by the

U.S. Department of Agriculture

Foreign Agricultural Service

for hearings

on

February 23, 1978

in response to a list of questions submitted to the
Honorable Bob Bergland, Secretary of Agriculture, on
January 23, 1978, by the Honorable Adlai E. Stevenson,
U.S. Senator from Illinois.

1. IN WHAT PRODUCT AND GEOGRAPHIC MARKETS HAS THE UNITED STATES BEEN A SUCCESSFUL EXPORTER, AND WHY?

Grains

Overall export success. The United States is the largest grain exporter in the world, accounting for 50 to 55 percent of total world grain trade in recent years. World grain trade has increased sharply in the 1970's with the U.S. capturing most of the increase and improving our market share. Exports of both wheat and corn contributed to this increase. In the future, corn is expected to account for additional increases as the world demand for livestock feed increases.

Principal markets. The destination of our grain exports are world wide. Our major markets are Japan, Europe, and the USSR.

Reasons for success. One of the major factors for our increased export volume in the 1970's has been the success in supplying grain to the USSR and East European markets. In the case of the USSR, we now have a formal agreement which guarantees that at least 6 million tons of U.S. wheat and corn will be sold to the USSR each year. Prior to the signing of the agreement, purchases by the USSR had been erratic and at times caused serious disruptions in U.S. grain prices. Another important factor for our increased trade with the USSR was the extension of credit during 1972 to assist the financing of U.S. grain purchases. Prior to that time such credit had not been available. In East Europe, increased demand for livestock products has increased the need for feedgrain imports, with the U.S. taking the major share of the increase. Again, the extension of credit has been an important means of increasing our grain sales in East Europe.

Another very significant factor has been the transfer by our market development cooperators of technology regarding the processing

and utilization of U.S. grains.

Oilseeds and Products

Overall export success. U.S. exports of these commodities in CY 1977 were a record level of 23.0 million tons (aggregate of oilseeds, meals and oils) valued at more than \$6.6 billion.

Despite tough competition from developing countries like Brazil, Argentina, and Malaysia, the United States managed to maintain a respectable share of the world market for oilseeds and oilseed products.

Currently, the U.S. share of the total soybean meal export market--with soybeans converted to a meal equivalent basis--approximates 65 percent (49 percent in the form of beans and 16 percent as meal). The U.S. share of the world soybean and soybean oil market--oil basis--currently stands at about 71 percent. On the total fats and oils basis, the U.S. share of the world market ranges between 27 and 38 percent.

Principal markets. Nearly all developed nations and even a number of centrally-planned and developing nations are significant markets for our exports of these commodities. Japan, the Netherlands and Germany are our largest three markets.

Reasons for success. Soybeans represent a cheap but protein-rich source for meal used as a feed ingredient in the livestock and poultry industry. No other country at present is able to produce so greatly beyond domestic requirements as the United States is able to. World

demand for soybeans has grown as the demand for meat has grown along with growth in world income.

The P.L. 480 program has made a significant contribution to the expansion of vegetable oil exports from the United States. Currently, our concessional sales of soybean oil account for about one-third of our total soybean oil exports.

Market promotion activities also have had a positive impact on oilseeds and oilseed products in general.

Cotton

Overall export success. In 1976/77 (August-July) U.S. cotton exports were 4.8 million bales, 27 percent of world trade. This kept the United States the world's largest cotton exporter. The 1976/77 volume was substantially higher than average shipments of 3.2 million bales for the recent period of low shipments, 1968/69-1971/72, but not as high as the recent peak level of 6.1 million bales in 1973/74. The 1976/77 level should be approximately maintained in 1977/78.

Principal markets. The Far Eastern countries, which have taken over three-quarters of U.S. shipments in recent seasons, are our principal markets. Japan and Korea, each of which now receive over 900,000 bales of U.S. cotton annually, are the two most important buyers.

Reasons for success. Long-term business ties--fostered by promotional efforts by foreign mills and the Cotton Council International--are partly responsible for the favorable U.S. position in the Far East. Proximity and availability of cotton in quantity and a

variety of descriptions (cotton classifications) are also important, as are the benefits of CCC Credit, P.L. 480, and (in Japan) Export-Import Bank loans. CCC Credit has been important in the Korean market, while P.L. 480, now less important in Korea than some years ago, is important in Bangladesh and Indonesia.

Tobacco

Overall export success. Unfortunately, the United States' market share in tobacco has not been increasing. U.S. leaf tobacco exports in 1977, at 262,179 tons, accounted for 21 percent of total world tobacco trade. This is down from 24 percent in 1973 and perpetuates a slow long-term down trend that is expected to continue in the foreseeable future.

Principal markets. Our best markets for U.S. unmanufactured tobacco exports have been Western Europe and Asia. The European market, although, declining in U.S. share, has been the mainstay for U.S. leaf exports, taking almost one-half of our CY-1977 total. The Asian market, primarily Japan, accounted for 35 percent of total CY-1977 U.S. unmanufactured tobacco exports.

Reasons for success. Increased demand for blended cigarettes containing U.S. leaf has developed throughout our major markets since World War II. U.S. cigarette leaf has certain qualities that manufacturers find essential and unavailable from other countries.

Western Europe is deficit in leaf production and has relied heavily on the United States for its tobacco supplies. Restrictive trade policies and increasing quantities of cheaper leaf available from third country suppliers have, however, limited exports to this area in recent years.

Growing demand for higher quality cigarettes in Japan, Thailand,

The Republic of China, the Republic of Korea and the Philippines has fostered significant markets in these countries. U.S. cigarette exports to these areas and to the Middle East have increased sharply in recent years. Many countries have made the decision to either supplement domestic production with imports, or substitute imports for domestic output. This increased trade is abetted by the multinational nature of many large cigarette companies. U.S. cigarette shipments in CY-1977 reached \$615 million - a new record.

Livestock Byproducts

Overall export success. U.S. exports of livestock and meat by-products have witnessed a strong expansion in recent years. Larger exports of hides and skins, tallow and greases, and variety meats (offals) have been primarily responsible for this increase. In 1977 exports of hides and skins (mostly cattle hides) equaled \$578 million, tallow and greases \$549 million, and variety meats (offals) \$158 million. Since 1970, the volume of cattle hides has grown by more than two-thirds and the volume of variety meats by about 60 percent. The volume of tallow and greases has also grown, but less so.

Principal markets. About half of the U.S. exports of hides and skins are sold to Japan and the Republic of Korea. Western Europe, Canada and Mexico are also large markets. Western Europe, Japan, and the Republic of Korea are the largest markets for U.S. tallow and greases. The European Community and Japan together imported 87 percent of our variety meat exports.

Reasons for success. U.S. hides and skins are derived primarily from grain-fed cattle and are of high quality. Tallow and grease exports expanded sharply in 1977 as a result of lower world availability and

consequently higher price of vegetable oils. While the European Community and Japan impose quotas and/or levies on imports of beef, imports of variety meats are subject to only a duty. As a result, retail prices of variety meats are low in relation to those of beef, encouraging strong consumption of variety meats in those countries.

Poultry Meats

Overall export success. Since 1970, there has been an increase in the export value of these commodities of about 300 percent, with most of this success occurring since 1973. In volume terms the increase has been about 180 percent.

Principal markets. Certain of the Far East countries--Japan, Hong Kong, and Singapore--have been some of our longer term successes. European markets have been substantial markets for our products in the past and some of the Middle Eastern countries appear to have significant potential for us.

Reasons for success. Our success in the Far East results from long-term market promotion efforts. The U.S. share is increasing even though some competing suppliers are closer. In Europe extensive governmental, cooperator, and industrial efforts have been necessary to hold as much of these markets as possible as additional tariff and nontariff restrictions are placed on imports. The Middle East potential depends on the speed with which they complete--and the success with which they operate--certain new domestic poultry-raising operations. Also the nearness of certain European countries permits products to move by truck to the market. The logistics of distributing 100 to 300 metric tons from a few trucks are much simpler than unloading and distributing 2,000 to 5,000 tons from a ship. However, larger shipments of poultry meat, and eggs, have moved to this area and have been distributed.

2. ARE OTHER COUNTRIES THREATENING THE U.S. EXPORT POSITION IN OUR TRADITIONAL MARKETS?

Grains

Although the United States is the world's largest exporter of wheat, competing countries consistently price their wheat below U.S. prices. The United States thereby becomes the world's residual supplier. Australia through lower prices and/or special credit terms undercuts us in Asian markets. Argentina undersells us in Latin American markets, while Canada is a strong competitor in Europe, Africa, and Latin America. In the fall of 1976 and again in 1977, Canada sold large amounts of lower-grade wheat to large grain companies at prices well below their current market prices to reduce their supplies and storage costs. This wheat was shipped to many of our traditional markets throughout the marketing season at prices substantially below U.S. wheat.

With regard to U.S. feedgrains, Argentina, South Africa, Thailand and, on occasion, Brazil and a few others compete with us in our traditional markets. To the extent that these countries are able to export, they tend to displace U.S. sales because most will set their prices far enough under U.S. prices to clear all the grain they desire to sell.

The United States has long felt that the European Community's Common Agricultural Policy (CAP) with its complex system of price supports, threshold prices, variable levies, etc., has promoted intra-community trade to the detriment of our exports. Over the years it

has developed into a powerful force for protectionism and restriction of trade

Oilseeds and Products

The United States is facing stiff competition in foreign markets as a result of Brazil's increasing exports of soybean meal to traditional U.S. soybean meal markets.

Exports of U.S. soybean meal to Europe have dropped sharply due to "quality" problems and competition from Brazil. U.S. soybean meal exports to all markets dropped 16 percent between CY 1976 and CY 1977. More alarming is the fact that U.S. exports of this commodity to Europe dropped 41 percent during the same period, from 4.2 million tons to 2.9 million tons.

Reportedly, European buyers can obtain, at the same price, soybean meal with a higher protein content from Brazil than from the United States. Brazilian exporters of soybean meal are currently receiving approximately \$7 in the form of tax credits for each ton of meal exported. Over the long term, it has been projected that Brazilian soybean production could more than double by 1985, to approximately 25 million metric tons with most of the increase being exported. Exports will likely be in the form of oil and meal as Brazil's crushing capacity expands in line with its policy to increase the value-added portion of exports. Consequently, the U.S. soybean export situation will become worse. FAS and the U.S. soybean meal industry are currently developing a strategy to combat the effects of Brazilian soybean

meal exports to Europe.

Another area of concern is the increasing availability of palm oil in the world market. World palm oil production in CY 1978 is estimated at 3.75 million metric tons and is projected to increase steadily, reaching 6.1 million tons by 1985. The crest in palm oil production is not expected until the mid-1990's. Specifically, Malaysia expects to more than double its annual palm oil production to 4.4 million tons by 1985. A situation is developing whereby world markets must be found to utilize ever-increasing supplies of palm oil. U.S. soybean exports could be seriously hampered since soybean oil competes with palm oil for most major uses--specifically, margarine, mayonnaise, and cooking oil.

Cotton

Although the United States for decades held the dominant market share for cotton in Western Europe, U.S. exports have declined in recent years. Still amounting to a half-million bales annually, U.S. shipments to Europe have been driven down by a number of factors. Several new suppliers have entered the market, notably the Soviet Union but also Turkey and some other Middle Eastern countries. Soviet cotton exports, the most important source for Western Europe, have increased because of:

- a) Steadily increasing Soviet production and Soviet need to earn hard currency,
- b) The Soviet selling agency "Exportljon" will accept

payment in hard currencies such as the French Franc at prices fixed in sales contracts up to six months earlier, thereby taking the risk of foreign exchange and price fluctuations,

- c) Exportljon sells cotton of a quality that the large international merchants in Europe can subdivide into lots with more refined quality characteristics and realize a larger merchandiser's profit upon resale,
- d) Russian transportation to Europe is less expensive and faster than U.S. transportation.

Tobacco

The U.S. export position for unmanufactured tobacco is being threatened in many of our traditional markets, especially our West European markets of the United Kingdom, Germany, Netherlands, Belgium, Ireland. The competition is largely coming from developing countries-- Korea, Brazil, and Malawi. The primary basis of this competition is the EC's Generalized System of Preferences for tobacco, the changes in the rates and structure of tariffs in the EC-member countries, and the escalating prices of U.S. tobacco.

Animal Byproducts

There are at present no threats to the U.S. position in traditional export markets for raw or cured hides/skins and animal protein meals and (meat and bone meal,/feather meal). However, such threats do exist for tallow/grease. These threats are mainly in the traditional Asian

and West European markets--e.g. Japan, Korea, Taiwan, India, Thailand, and the EC countries plus Spain.

Asian market threats are coming from Australian and Canadian tallow exports and also from palm oil exports, mainly from Malaysia and Indonesia. They have become significant in the past three years, and further intensification is currently indicated. Australia and Canada have been using short and medium term credits for exporting their tallow/grease to Korea, and this will likely continue.

European market threats are from palm oil. The threat so far is still minor, although indications are for significant increase in the future. There are also minor threats from Australian, East European and Argentine tallow. The principal threat in the EC markets is a likely continuation of EC domestic production of tallow/grease and exports of this between EC member countries.

There is some indication of an increasing trend for domestic hog grease production in Japan and Korea which threaten U.S. grease exports to these countries.

Poultry Meats and Eggs

The European Community's CAP provides for the subsidization of poultry and eggs into the export market. This is a constant threat to the U.S. position in its traditional markets. The EC is now heavily subsidizing whole broiler exports--up to 12 cents a pound. At present the subsidy impact is the greatest in the rapidly growing poultry market in the Middle East, principally a market for whole broilers. In the past, EC subsidization to Singapore, Hong Kong, and

Japan severely affected the U.S. export position in these traditional markets. At any time the EC could renew subsidization to these markets and initiate subsidization to other traditional U.S. markets.

Recently, Brazil has initiated heavy subsidization of whole broilers to the Middle East.

It is estimated that without subsidized competition, the value of U.S. exports of poultry and eggs would at least double.

Apples

The United States has essentially lost its traditional European market for apples and pears due to restrictive EC import policies--including a heavily protected French apple industry--and EC subsidies on exports of French fruit to these countries. In the mid-1960's, U.S. apple exports to Europe normally amounted to well over 2 million cartons annually. Since about 1970 these shipments have rapidly decreased and at present amount to about 500,000 cartons per year.

In addition, subsidized apple exports from France have decreased the U.S. market share in several South American countries, most notably, Brazil and Venezuela.

Other Fruits and Vegetables

Under its Mediterranean policy, the European Community grants preferential import duties to various Mediterranean countries for the importation of fresh and processed fruits and vegetables. Israel, Spain, Greece and Morocco (the major Mediterranean citrus producers) are able to export citrus products to the Community with tariff re-

ductions ranging from 40 to 100 percent. Tariff reductions (on a seasonal basis) of 30 to 80 percent are granted on imports of many other Israeli fruits and vegetables. Similar tariff reductions on vegetables are granted to the other countries which have preferential trade agreements with the EC. These discriminatory duties have encouraged further investments in agricultural producing areas. They also have reduced the effectiveness of our foreign market development activities in Western Europe.

3. ARE THERE INDUSTRIES AND AGRICULTURAL SECTORS IN OUR ECONOMY WHERE DECLINING EXPORT COMPETITIVENESS IS LIKELY TO RESULT IN JOB LOSSES?

Total Agricultural Exports

Based on an input-output analysis, a USDA study indicates that-- for the \$22 billion of agricultural exports in 1974--about \$43 billion of total business activity occurred. Thus, each dollar of agricultural exports stimulated an additional 96 cents of output in the U.S. economy-- a multiplier effect of almost 2.

The additional \$21 billion is accounted for by an additional activity of \$6 billion in the farm sector and \$15 billion in the non-farm sector. The latter consists of \$2 billion in the food processing sector, \$5 billion from other manufacturing services, \$2 billion in trade and transportation, and \$6 billion from other services. Thus, about 70 percent of the additional economic activity occurred in the non-farm sectors of the economy.

With regard to employment, an estimated 1.2 million fulltime

civilian jobs were related to our agricultural exports. Of this, around a half-million U.S. farmworkers--14 percent of the U.S. farm labor force--were required to produce 1974's agricultural exports.

In addition, more than 650,000 non-farm jobs were directly or indirectly related to the assembling, processing, and distribution of agricultural products for exports. Around 50,000 of these jobs were in food processing; 300,000 in trade and transportation; 100,000 in other manufacturing sectors; and 200,000 in other service. Consequently, in 1974 about 4 percent of the work force producing food and kindred products, and just under 1 percent of the non-agricultural civilian labor force, was likely engaged in providing goods and services for agricultural exports.

Thus, any reductions in farm exports would mean some loss in jobs. And we do face a challenge with regard to soybeans. Some of our economists have made some estimates that reflect what would happen if soybean exports were to decline. Also, a loss of tobacco exports would present some particular hardships.

Oilseeds and Products

It is estimated that for every 100-million-bushel decline in U.S. soybean exports, 23,700 jobs would disappear. Out of these, 13,500 are in the farm sector and 10,200 in the non-farm sector. In addition, for every \$1 million (1967 dollars) decline in vegetable oil and meal exports, our economy loses 96 jobs. Because of higher current export prices compared with 1967, the number should be lower--perhaps 60-70 jobs per \$1 million decline in vegetable oil and meal exports.

Tobacco

Production and processing of tobacco is relatively labor intensive and the labor employed generally is low-skilled.

The present tobacco support programs would prevent prices to producers from falling. However, a buildup in stocks under Government loans would occur if there were a loss of exports. This inevitably would lead to cutbacks in production quotas for our tobacco farmers. Such reductions would sharply and adversely affect the largest, most capital-intensive, production units. Although these units are comparatively well mechanized, they still employ relatively large numbers of workers. Smaller production units, which rely mostly on family labor, would continue to produce but at a reduced level of income.

The volume of tobacco processed would fall with the loss of exports and cutbacks in production. Packing costs would rise and the smaller, least-mechanized packers would be the first to go under. Larger mechanized packers would reduce employment in order to control variable costs.

4. WHICH PRODUCT AND GEOGRAPHIC MARKETS FOR EXPORTS HAS THE U.S. FAILED TO PENETRATE AND WHY?

Grains

The People's Republic of China (PRC) represents the major market for grain which the U.S. has not been able to penetrate on a regular

basis. In 1977/78 China is expected to import nearly 10 million tons of grain from Canada, Australia, and Argentina.

The PRC has traditionally looked to these three countries for its wheat needs and only when they were unable to meet its needs has it considered U.S. wheat. We are hopeful, however, that the PRC will diversify its wheat purchases more in the future and include U.S. wheat. But there are some obstacles. The Chinese want contracts guaranteeing certain specifications at unloading rather than at loading; this is very unconventional for us. The Chinese have deferred payment arrangements with other countries, while we are presently unable to offer this.

Oilseeds and Products

On balance, U.S. oilseeds and oilseed products penetrated a wide spectrum of the world markets. However some markets are limited.

Examples of these are:

PRC: The reasons appear to be political. Access for various oilseeds and products appear to be limited. Just recently, however, the PRC has bought about 50,000 tons of U.S. vegetable oil.

Spain: A marketing quota on soybean oil consumption limits utilization of soybean oil within Spain and frees the oil for export to developing countries, thus reducing our share of the world vegetable oil market. Spain, although a traditional buyer of our soybeans, limits licensing of new crushing plants which in turn limits Spain's import demand for soybeans.

USSR: Because of the centralized decisionmaking process and the absence of a free market mechanism, the Government is the sole buyer for the U.S.S.R.'s needs from foreign suppliers. The Soviet's buying intentions with regard to oilseeds are not predictable, although some guess can be made based on historical purchase patterns and crop conditions. Unlike the case with grains, there is currently no agreement between the United States and the Soviet Union that defines guidelines for Soviet soybean purchases from the United States.

Japan: The existence of an import quota on the order of 50,000 - 70,000 metric tons annually limits U.S. exports of peanuts to Japan.

An export embargo and longshoremen strikes have shaken the confidence of some of our major buyers (e.g., Japan and the Netherlands) in our ability to be a reliable supplier. They have consequently diversified their sources of supply. Some countries, like Germany and Iran, are believed to have negotiated joint ventures with Brazil in processing soybeans. These events have increased Brazil's share of the world market at the expense of the United States.

Cotton

The United States has largely failed to penetrate East European markets for cotton although some sales are made to Poland and Romania. The primacy of planned trading arrangements that these nations have with the Soviet Union, and the absence of most-favored-nation status, are obstacles in these markets. Where U.S. sales have occurred, they have been aided by CCC credit.

Tobacco

Exports of unmanufactured tobacco and products have a growing potential but this potential has not fully developed in the following regions: most of Eastern Europe (except Poland and Yugoslavia), the Soviet Union, PRC and certain areas of both Latin America and Africa.

In Eastern Europe and the Soviet Union, the principal reason appears to be the failure to grant MFN status by the United States to the countries in question. Without MFN treatment these nations face higher U.S. duties; two-way trade in unmanufactured tobacco and products consequently has not developed. Moreover, these countries have not yet allocated the hard currency necessary to import high quality American-produced tobacco leaf and products.

In the Latin American and African markets, many of the countries are either self-sufficient in tobacco, or they have developed as competitors to the United States in the tobacco trade. Also, there are significant trade restrictions existing in these areas as well as a lack of foreign exchange to purchase U.S. tobacco.

It would seem that a mutual lowering of trade barriers could result in increased tobacco trade -- primarily, to the benefit of the U.S. because of the high quality of our tobacco.

Citrus Juices

U.S. penetration of the Japanese citrus juice market has been severely limited by very small quotas for orange and grapefruit juice. Such quotas have been maintained for the protection of the

mandarin orange (satsuma) industry in Japan which has expanded appreciably over the years. Although the recent negotiations between these two countries did result in an enlargement of the annual quota, its size is still far too small to fully accommodate Japan's market potential. U.S. negotiators and industry spokesmen have repeatedly urged that the Japanese open their market to imports with the view of blending the imported product with the locally produced juice. The latter is not, by itself, a very palatable end product to the consumer.

Apples and Other Horticultural Products

The Republic of China (Taiwan) is a market which sorely restricts U.S. horticultural products because of the persistent presence of both tariff and nontariff barriers. Apples provide an excellent example. The basic import duty is 78 percent ad valorem. Furthermore, the procurement of apples is limited to only one importer, the Central Trust of China. Once the procurement is completed, the Central Trust auctions the apples to local traders. Because of the limited supply at hand, these traders are exceptionally generous in their bidding. As a result, the fruit sells at fantastically high prices to the consumer; prices of \$1.25 to \$1.50 per apple are common.

Beef

Next to the United States, the European Community is the world's largest market for imported beef. However, U.S. shipments of beef to it remain limited. The EC maintains a system of duties and variable levies which tightly control beef imports. In addition, EC consumers usually do not have an established preference for grain-fed beef.

As a result, most of the beef imported by the EC is from countries such as Argentina, which can supply grass-fed beef at much lower prices.

The U.S. has not been able to export any beef to the U.S.S.R., which has become a large beef importer in recent years. The U.S.S.R. purchases primarily lower quality frozen boneless beef. Countries such as Australia and Argentina are able to supply this type of beef at about half the price of U.S. beef.

Although Japan is the largest U.S. market for beef exports -- with shipments valued at \$52.5 million in 1977 -- it maintains strict quotas and very high beef prices to promote its domestic industry.

Part of the expansion in beef exports to Japan that have taken place have resulted from increased shipments of cuts known as hanging tenders and skirts. These cuts are considered offals by the Japanese and are therefore not subject to quotas. Even with the recent increase in quotas, U.S. beef exports will be limited by Japan's quotas.

Breeding Cattle

U.S. breeding cattle sales, beef and dairy, are restricted from reaching their full potential due to the unavailability of medium to long term credits, which are offered by other supplying countries.

Leather

Japan is the largest importer of U.S. hides. However, with regard to wet blue chrome leathers (semi-processed bovine hides), Japan has refused to grant access to their economy. This remains their position despite the efforts of STR and the petition filed under the 301 provision of the Trade Act of 1974 by the Tanners' Council of America, Inc.

Other Animal Products

By-and-large, products of this nature have not been exported to the developing nations. A lack of foreign exchange earnings is the primary reason. As these countries start earning foreign exchange, imports of animal products usually expand, as seen by the experience in Korea, Nigeria, and some Middle East countries.

5. ARE THERE NEW MARKETS THAT OFFER SUBSTANTIAL POTENTIAL EXPORT GROWTH AND WHAT IS BEING DONE TO GAIN A FOOTHOLD IN THESE MARKETS?

Grains

Wheat.

Eastern Europe, including the USSR. The Foreign Agricultural Service and the Great Plains Wheat (GPW) are placing increased emphasis on this area. An increasing share of the time and effort of the GPW staff in the office in Rotterdam is being directed toward servicing this market. A team of Polish Government and Grain Purchasing and Processing experts was brought to the United States in December to deal with a specific marketing problem. Increased CCC allocations for credit for wheat purchases have been made. Consultants on wheat quality and milling have visited several countries in the region. Contacts with purchasing officials are being made in an effort to keep them acquainted with U.S. wheat quality and prices. Teams to the United States from the USSR and East Germany are planned this fiscal year.

Africa. Several countries in this area are increasing their wheat purchases. In order to more adequately service this market area, Great Plains Wheat opened an office in November 1977 in Casablanca, Morocco. A U.S. wheat marketing seminar is planned in Casablanca in June, with key government and industry leaders from African and Mid-Eastern countries invited to participate. Technical servicing to the milling and baking industry in the area will be provided through visits by technical consultants. Key decision makers from selected countries will be brought to the United States to see our wheat producing and marketing system.

Latin America. Increased emphasis is being placed on growing markets in this region. In cooperation with a University in Santiago, Chile an adequately equipped and staffed bakers training school has been established. The school will be used to train bakery workers in Chile and from other South American countries also. Great Plains Wheat is planning to establish a regional office in Chile to better service the market area.

South East Asia. These countries are buying increasing amounts of wheat and Western Wheat Associates through its office in Singapore is increasing its efforts in the area. The staff is being increased and frequent contacts with key decision makers are being made. A new baking school has been established in Indonesia to train bakers in an attempt to meet the rapidly growing demands for bread and other bakery products. Bread has been successfully introduced into the school lunch program in Thailand, a country where rice is a traditional staple in the diet. Milling consultants are assisting flour millers in the area in using U.S. wheats. Baking technicians covering several different facets of bakery products are conducting seminars in bakeries in the area. A team of flour mill and government officials from Malaysia visited the United States in October and two cargoes of U.S. wheat were purchased.

Feedgrains.

Eastern Europe. This is a grain deficit area that has undertaken ambitious plans to expand livestock and poultry production. Through our cooperator program with the U.S. Feed Grains Council, we are

sponsoring market development activities designed to increase efficiency and output through the introduction of modern technology and the feeding of higher levels of grain. The most active programs so far have been in Poland. Here, in cooperation with Polish researchers, the Council's consultants have designed and put into operation the first modern feedlot in the country. It will serve as a model for all Eastern Europe. The Council has also a fish feeding activity in Poland and is initiating sheep feeding activities in Bulgaria and Romania. There are activities for poultry, swine, and dairy feeding, management and nutrition, all in various stages of planning and completion. We believe that the market potential for feedgrains in Eastern Europe is enormous. Our technology is eagerly accepted and readily adaptable to East European agriculture.

Africa. Nigeria, with its large and rapidly expanding population, is a potential market of great significance. Modern livestock and poultry industries are in their infancy, and there is little technical and managerial expertise present. Market development activity has begun with a port survey to determine what is needed to effect importation of grain in bulk rather than in bags. An earlier

study established livestock and poultry benchmarks and indicated the general direction market development activities should take.

Morocco, Algeria, Tunisia, and Libya all appear to be potential markets of moderate size for U.S. feedgrains. We expect an increasing amount of market development activity in this area during FY 1978 and subsequent years.

Latin America. This area also appears to have significant market potential for feedgrains. We would like to see a USFGC regional office established in Central America and the initiation of market development activities soon thereafter.

Middle East. This is another market area with potential. Poultry industries are being developed and existing sheep industries could be expanded with the introduction of modern feeding and management practices. The Council has begun a series of activities in the area and will expand them in the coming years.

Rice.

Nigeria. Following a significant duty reduction, U.S. exports of rice (mostly parboiled) jumped from 16,060 tons in 1975/76 to 130,000 tons in 1976/77 and are continuing at about the same pace (61,000 tons for August/December 1977). Largely as a result of this new business, several U.S. rice mills have invested heavily in expansion of their parboiling facilities. There have been persistent rumors to the effect that the Nigerian Government plans to implement some sort of import restrictions. This has caused great concern in the U.S. rice industry. It is our understanding that determinations on which commodities will be allowed entry are made annually in April.

Our market development program in Nigeria consists of three relatively small brand incentive programs carried out in cooperation with three U.S. mills. There is some concern on the part of the Cooperator (Rice Council) that the promotional program for Nigeria not become so large as to attract undue attention and thereby result in some restrictive action by the Nigerian Government.

This market offers additional growth potential for American rice providing access is maintained.

Oilseeds and Products

Eastern Europe and the Soviet Union. There is growing interest in improving local diets by shifting from starches to proteins in these countries. Therefore, an increase in livestock numbers is planned, creating a potentially strong market for soybean meal. FAS/ASA have attempted to show the value of using soy meal as an efficient and economical livestock feed ingredient. They have also used trade servicing to promote the idea that U.S. soybean producers are ready and able to supply needed assistance in feed and livestock technology. Another goal has been promoting increased use of soy oil and soy protein for human consumption. To this end, a conference was held in Moscow in early FY 1977 to show the value of soy protein products, and the economics of including soybean meal in livestock feeding rations. A soy oil refining team and a soy protein team are expected to visit the United States from this area.

Middle East and North Africa. U.S. exports of soybeans and products passed the \$100 million mark for the first time in 1977 in

this growing market. The biggest customers at present—Iran, Egypt, and Morocco—have large populations to feed and are trying to raise the protein level of their diets. These countries, together with other potential consuming countries in the area, are investing in new plant machinery for the processing of soybeans into soybean meal and soybean oil. Investments for meat production, especially poultry, have also grown. FAS/ASA have tried to acquaint all feed manufacturers and direct users with the value of soybean meal and how to formulate it. For those countries expanding their crushing capacity, we have sent an oil technician to show how to operate the plants efficiently for soybean meal production and for refining of oil suitable for cooking use. A nutritionist for poultry production and a soy protein nutritionist to formulate foods for school lunch programs and the military are other projects planned. Poultry teams have been brought to the United States to see U.S. integrated poultry operations, as well as nutritionists to observe the manufacture and various end-uses of soy protein.

South East Asia. Preliminary trade servicing activities were initiated in Hong Kong and the Philippines to promote utilization of soybean meal and soy protein. FAS/ASA are expanding these activities to Singapore, Malaysia, and Thailand. The program emphasis is now on utilizing soybean meal in livestock feeding rations and promoting the use of soy protein in daily diets.

Latin America. The major emphasis in this region has been, as in the Middle East and Eastern Europe, on encouraging the use of soybean meal in livestock feeding rations through feeding

demonstrations, seminars, and publication of technical literature. For soybean oil, U.S. technicians have visited these countries to acquaint oilseed crushers with current processing techniques for processing a quality soybean oil. More effort is also being placed on promoting soy protein for human consumption.

Cotton

Portugal is virtually a new market for large quantities of U.S. and other cottons. This country lost its traditional source of supply for about 200,000 bales annually in 1974 when Mozambique and Angola were decolonized. Under FAS market development activities, a trade mission was sent to Portugal in 1976 and Portuguese buyers have regularly been included on Cotton Council International/FAS annual U.S. Cotton Orientation visits. FAS also conducted a market study in Portugal during early 1977.

U.S. raw cotton exports to Asia increased by nearly 50 percent in the five-year period 1972-1976 in comparison to the previous five-year average. Currently about 80 percent of U.S. raw cotton exports are shipped to Asia. The Cotton Council International (CCI) conducts a joint advertising program with third party cooperators in six Asian countries. U.S. cotton trade and technical missions to Asia and U.S. cotton orientation visits for Asian cotton buyers are also carried out by the Council. CCI is currently planning to open a cooperator regional office in the Far East for the purpose of providing trade and technical servicing to the Asian market.

Meat and Livestock ByproductsBeef, Pork, and Offals.

Our greatest potential for market expansion of these products remains in Japan and Western Europe; the limiting factor is market access. Both markets have very restrictive quota and variable duty systems and efforts to eliminate or minimize these restrictions have been carried out through bilateral and multilateral trade negotiations. We are seeking increased HRI quotas of up to 10,000 metric tons in each market and reduced fixed rates of duty.

The U.S. Meat Export Federation, a FAS market development co-operator, established an office in Tokyo, and will soon have a European office in London. Each office is responsible for servicing U.S. exporters, provide support for market development trade exhibits, seminars, and public relations activities. The European office will also initially coordinate such activities for the Middle East and Africa.

A relatively new market for U.S. beef is the Middle East--Iran, Saudi Arabia, Kuwait and the United Arab Emirates. These "oil rich" countries have greatly expanded beef imports in the past 2 years because of the increasing demand by foreign business travelers, tourists, and the greater affluence of the general public.

Hides and Leather.

Together with the Tanners' Council we have made continuous efforts to develop new opportunities for tanned hides/leather. Severe trade-barrier restrictions in nearly all prospective countries have greatly limited our success. We are now trying to eliminate or reduce these trade barriers via the MTN negotiations.

Tallow and Other Byproducts.

Three years ago we launched a concentrated effort to increase export markets for U.S. tallow/grease in new markets. We expect to complete in a few months a series of market surveys. These and some studies already completed will be the main basis for taking actions to capitalize on these markets--mainly in Latin America, Africa, Middle East, and East Europe. Several follow-up activities have already been taken on the portion of these surveys/studies which have been completed.

USDA is also attempting to ascertain new markets for meat/bone meal, feather meal and blood meal. The most promising areas discovered to date are in the Far East and Eastern Europe. Follow-up actions have already been taken in both areas, especially in East Europe.

Poultry Meats and Eggs

Indonesia and the South Pacific Islands are new markets with substantial potential export growth for these products. Currently, high import duties are a barrier to developing the Indonesian market to its fullest potential. U.S. exporters are being encouraged to contact Indonesian traders to develop interest in U.S. products--particularly further processed items for the restaurant, hotel, and

institutional trade—with the hope that such development of trade interests could lead to a quota for such products, or a reduction in duty.

Trade shows are scheduled to be held in the South Pacific Islands and U.S. poultry exporters will be encouraged to participate. The rapid growth in hotels throughout the South Pacific Island area to service an ever-increasing tourist trade has significantly increased the market potential for U.S. poultry products.

The Poultry and Egg Institute of America (PEIA) is the poultry and egg industries' market development cooperator with FAS. The cooperator has recently included Indonesia and the South Pacific Islands in its market development planning. PEIA will coordinate its activities with FAS activities to maximize the development effort.

Fruits and Vegetables

Japan. This market offers substantial potential growth for U.S. horticultural products. However, Japanese import rules and regulations severely restrict U.S. exports of many fruits and vegetables. For example, if Japan were to fully drop restraints on fresh oranges and orange juice, it would become our largest foreign market for these products.

Several relatively new items also have potential in Japan, for example, avocados, papayas and cranberry products. In order to obtain a foothold in this market, FAS is providing funds for market promotion activities for a number of horticultural items, including these three products. In the case of fresh and processed citrus, we

are continuing to work through the MTN in Geneva and separate bilateral negotiations to increase our access to this market.

Middle East Countries. We believe substantial market potential exists for exporting U.S. horticultural products to this area. It would appear that canned goods show particular promise--especially juices and selected fresh fruits and vegetables such as citrus, apples, grapes, strawberries, and cherries. We are currently working to identify other items showing potential for export. FAS-sponsored food exhibits and trade teams are two important activities through which we can learn more about this area. As an indication of trade interest, we have recently serviced more requests than in the past for information on rules and regulations with regard to business operations in this area, as well as specific commodity information.

The Northwest Horticultural Council in conjunction with FAS is currently studying possibilities for market development in the Middle East.

Taiwan. In recent months Taiwan has demonstrated willingness to increase imports of horticultural products from the United States. Our bilateral negotiations with Taiwan have resulted in agreements to purchase a minimum of \$4 million of U.S. fresh oranges, lemons, and apples, and, \$400,000 of U.S. wines. They have also agreed to a reduction in the tariff rate for fresh citrus. We are also working to reduce other excess tariffs such as those applied to raisins. Where appropriate, the sale of these items will be supported by coordinated FAS/industry promotional activities.

Discussions between the United States and Taiwan concerning the bid/auction import system for apples will continue. This system works against any significant increase in sales volume by artificially inflating retail prices in Taiwan.

India. Discriminatory practices in India in issuance of import licenses and "preferences" with Afghanistan and Iran resulted in nearly all of the almond imports to originate in Iran and Afghanistan in recent years. However, after several years' efforts by the United States almond industry and FAS, the Government of India announced in March, 1977, the liberalization of imports of dried fruits, including almonds. This allowed importers to obtain import licenses but India's requirements that individual licenses be limited to 10,000 rupees and be shipped independently prevented efficient shipment of container-sized orders.

In spite of this limitation, shipments to India totaled 897,075 pounds valued at \$1.3 million for the July-December, 1977 period compared with 33,375 pounds for the same period in 1976.

In late December, 1977, India further liberalized the importation of dried fruits, including almonds, by increasing the import license value limit from 10,000 to 50,000 rupees effective through the end of the current Indian fiscal year 1978 (March 31, 1978). This will further stimulate almond exports by decreasing paperwork as well as enlarging individual orders.

Seeds

In cooperation with the American Seed Trade Association, we have mounted a very aggressive market development program which we have ^{has} been expanding as fast as the Seed Trade Association/found feasible. The program includes foreign market studies, surveys, and representations with both governmental and non-governmental contacts. We maintain active contact with all appropriate regional and international organizations concerned with seeds. We sponsor visits to the United States of appropriate traders as well as government officials in foreign countries concerned with the purchase and importation of seeds to acquaint them with the high quality of our seeds and their availability for export. Also, we are planning to sponsor demonstration plantings of our varieties in some foreign areas where this is needed to convince prospective buyers of the superior quality of our seeds.

Processed Food Items

Two obstacles severely limit the market potential of processed items: a) foreign marketing systems not yet sophisticated enough to absorb the products, and b) the desire of many nations to develop their own processed food industry rather than import.

Despite these hurdles, FAS's on-going market promotion activities include programs designed to locate new markets and to assist firms in exploiting all opportunities. Activities embraced in these efforts include market surveys, sales teams, and new product testing.

6. WHICH U.S. EXPORT SECTORS ARE BEING HARDEST HIT BY THE EXPANDING EXPORT ROLE OF DEVELOPING COUNTRIES?

As discussed in the answer to question #2, the United States currently is receiving strong competition from tobacco exports from Korea, Brazil, and Malawi; and from fresh and processed fruits and vegetable exports from Morocco and Israel. The competition from these sources is not discussed further here.

Oilseeds and Products

The expanding export role of developing countries so far has reduced significantly the U.S. share of the world market for oilseeds and oilseed products. Nevertheless, U.S. soybean exports doubled over the past 10 years. With regard to soybean meal, however, Brazil succeeded in capturing a large segment of the market.

The U.S. share of the world market for soybeans and soybean meal in 1965—on a soybean meal equivalent basis (SME)—was 92 percent (66.4 percent in the form of beans and 25.6 percent as meal). At that time, Brazil had less than 2 percent of the market (0.1 percent as beans and 1.3 percent as meal). At the present time, the U.S. share contributed by soybean exports has stabilized at about 50 percent; however, soybean meal exports have declined, contributing an expected low level of 16 percent in 1978.

Brazil's accelerated growth in soybean meal and oil exports is largely attributed to several tax incentives for soybean products and not so much soybean production per se. These incentives include tax credits, preferential financing, which offers below market interest rates to finance production for exports, and waiving income taxes on profits earned from the export of soybean products.

Some impact on the U.S. export market for vegetable oil has developed in recent years because of the expanded role of Malaysian palm oil exports. Needless to say, the United States itself is a large outlet for Malaysian palm oil exports. However, U.S. vegetable oil exports managed to maintain a significant share of the world market. The U.S. share currently accounts for about one-third of the world total edible vegetable oil export market.

Cotton

Although U.S. raw cotton exports have not dropped, a large number of developing countries have become increasingly important suppliers of raw cotton to West European and Far Eastern markets. These countries include West African countries (the Ivory Coast and Chad), South American countries (Colombia), and Middle Eastern countries (Turkey, Iran, and Afghanistan).

Horticultural Products

The rapid emergency of Taiwan as the world's leading exporter of a number of important horticultural products during the 1960's dimmed the prospects for several U.S. export items, particularly to Western Europe. Among these items were canned asparagus and pineapple. More recently, Taiwan has suddenly emerged as an important world exporter of canned tomato products. It has already penetrated two markets in high volume, Canada and Japan--both of key importance to California canners.

Brazil is another country that has altered the export posture of U.S. horticulture. This country has displaced the United States as the

world's leading exporter of frozen concentrated orange juice, and it now appears that the gap will widen even further.

In addition to the recent competition from Taiwan, the tomato processing industry in California has experienced considerable displacement by other producers in its export markets over the past 10-15 years. In contrast to only a few producers and exporters in the Mediterranean region about 10-15 years ago, virtually every country in that area is now an exporter of some renown of canned tomato products. These countries, through lower costs and the attendant lower prices, have hurt us in such important markets as Canada and Japan.

Poultry Meat

While poultry meat exports are expanding, there are certain developing countries which are entering the export market in direct competition to our sales. Brazil, which started to export poultry meat in 1975, has expanded its production and exports each year since then and is forecasting additional growth for the coming years. Brazil's exports are supported by a tax relief.

Offals

One area where the U.S. exports of offals may be affected by exports from developing countries is to the EC. The EC is placing certain marking labeling and other requirements on offals being imported. Due to the special consideration given to exports from developing countries, these requirements could perhaps be waived for them, thus providing them a sharp advantage over U.S. products.

Tallow

Tallow has been one product that has been hurt by palm oil production in certain developing countries in Asia, Africa and Central South America. For certain products, including soaps and certain foodstuffs, palm oil can be substituted to some extent or completely for tallow.

7. WHAT POLICIES DO YOU RECOMMEND TO ENSURE THE COMPETITIVENESS OF U.S. AGRICULTURE AND INDUSTRY IN WORLD MARKETS?

Based on a worldwide free market system and the principle of comparative advantage, U.S. agriculture is competitive in the world market. Few countries have soil as rich, climate as favorable, and farmers as competent as has the United States. Furthermore, the United States has one of the best records with regard to controlling inflation and cost of any nation in the world, and the best record of those nations that are agricultural exporters in any meaningful way. Also, the decline in the foreign exchange value of the U.S. dollar during the 1970's has generally added to our competitiveness. However, the U.S. dollar has actually appreciated against the currencies of some agricultural exporters—Argentina, Mexico, South Africa, Thailand, and very recently, Canada. But, when changes in the exchange rate and the degree of inflation here and abroad are all considered, our calculations reflect a generally improved competitive position for the United States from 1970 through 1976 as a result of these factors. (Data for all countries are not yet available for 1977.) Monetary developments in South Africa represent an exception, however. This country has not controlled inflation better than we have but, through 1976, it had devalued its currency more than enough to remain competitive with us.

Unfortunately--as discussed in answering questions 1 to 6--there are many tariff and non-tariff barriers that negate the free flow of agricultural exports in the world market and these significantly negate the economic advantages possessed by U.S. farmers. These problems have been with us for a number of years now. They have been greatly analyzed and attempts have been made, and are being made, to reduce them in bilateral negotiations and in various MTN's under the aegis of the GATT. I am sure you are aware, for example, of the progress we have made in increasing Japan's import quotas on beef, oranges, and orange juice.

To offset in a general way the effect of these impediments, it has been necessary to institute a number of export promotion programs. These include (1) Public Law 480 under which we extend extremely concessional dollar credits, (2) our Export Credit Sales Program (CCC credit) under which we extend credits up to 3 years, and (3) a strong market-promotion program in cooperation with private trade associations. With the inherent competitiveness of U.S. agriculture and these programs--which have in effect offset to some extent the institutional impediments that face us--U.S. farm exports have increased from about \$7.3 billion in 1970 to \$23.7 billion in 1977. Because of inflation, some of this increase is more apparent than real. In terms of quantity, there has been about a 60 percent increase.

But as 1978 begins to unfold, U.S. agricultural exports face a relatively new set of problems. In addition to the old impediments, we now have (1) extremely high world-market prices for petroleum, (2) sluggish growth in some major nations abroad, (3) a great deal of difficulty here and abroad in reducing inflation, (4) shifting exchange rates, and (5) growing pressures for protection against imports. Underpinning the new pressures for import protection is of course the growth in exports of steel, color television sets, textiles, ships, and other manufactured products by Japan and a number of developing nations.

In general, we need to make certain that the solutions to the world's old and new economic problems are ones that lead to greater consumption and production and not less consumption and production. We must be careful not to institute new policies and programs that invite retaliation and more protectionism. We must continue our past efforts to increase the free flow of trade through international negotiations. Our export-credit and market-development programs are well accepted internationally and we must continue to adjust them as new conditions dictate.

With regard to the new set of world problems, we should continue to urge stronger growth by those industrial countries that presently have strong balance of payments positions. With stronger growth, their imports should increase and, thereby, increase the exports of countries with weak international financial positions.

The increase in exports by the weaker countries should assist them in two ways. There is the direct effect on domestic economic activity of larger exports, although this effect is not expected to be large in the opinion of some economists. In addition, larger exports will strengthen their balance of payments position and thereby permit them to undertake more expansionary fiscal and monetary policies.

With greater growth in most industrial countries, there would be less pressure within them for protection from imports. Thus, the developing nations could earn more foreign exchange which they, in turn, could use, in part, to purchase our agricultural produce. Larger U.S. agricultural exports would strengthen the dollar, and since it is the world's key currency, all nations would benefit. The world's international system of payments cannot be based very long on a weak currency.

A second step we can take is to create a much greater public awareness--here and abroad--of the need for flexibility in the allocation of resources. With higher oil prices and growing efficiency in a number of rapidly growing less developed nations, we must shift resources--both labor and capital--to reflect these new conditions. To maintain too rigidly the world's past economic structure is in effect to ignore (1) the higher cost of energy and (2) to negate the economic development and export potential that has occurred in the developing nations, and (3) possibly even negate new efficiencies in certain sectors and regions of our own nation. To overly preserve the status quo is to dampen or halt world progress.

We need obviously to make certain, for the protection of ourselves and others, that competitive export-positions by foreign nations are not artificially contrived by governmental or monopolistic actions. But where efficiencies are based on sound economic principles, nations should adjust to them--not nullify them.

Our agriculture--and the whole world in fact--stands to gain greatly by the recognition of new efficiencies. In this regard, we cannot inform the American farmer that his Government will not guarantee his income--and the U.S. Government should not--and then permit Governmental actions which dampen the demand for his commodities in foreign markets. And when we limit the importation of industrial goods, we may very well be doing exactly that. Japan, with its large foreign exchange reserves and strong currency, can import more without exporting more for a while, but few developing nations can duplicate this act and Japan cannot do it forever.

To the extent we limit industrial imports, we have been and would be adjusting to the world's economic problems by reducing industrial production and food consumption abroad, and reducing food production

here. The reduction in industrial production abroad probably would be offset mostly by increased production here. However, the price of a given item would likely be higher as a result of this shift and consumption and production on balance probably would be reduced a little.

However, food consumption abroad and food production here would likely be reduced significantly. Food production in the developing nations would no doubt increase some, but few places in the world have an agriculture as effective as ours.

The economic principle underlying this discussion is not new. Economists years ago developed the principle of comparative advantage. Nor has the U.S. Government failed to recognize the principle. Our international trade negotiations are proof of this recognition. What is new, by-and-large, is the set of economic problems thrust upon us in this decade and characterized by some economists as the economic storms of the 1970's. In the context of these storms, it is more difficult to sell the principle of comparative advantage—but no less essential. Adherence to this principle sometimes requires change and it is difficult to change positions during a storm. But we should try to calm the storm and make those changes required by economic conditions not artificially contrived.

With freer world trade and sufficient world economic growth, U.S. agriculture in the short run is competitive. With the present institutional barriers to our agricultural exports, we need to maintain and perhaps strengthen our credit programs and our market development efforts.

Given our efficient agriculture and the growth in the world's population, U.S. agriculture in the long run is not only viable, it is absolutely essential to the world's well-being.

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C., April 28, 1978.

HON. RICHARD STONE,
Chairman, Subcommittee on Foreign Agricultural Policy, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for giving me the opportunity to state my views on S. 2385, "The Agricultural Trade Expansion Act of 1977," and for including this statement in the record of the Subcommittee's hearings on his legislation.

Last December, 16 colleagues joined Hubert in sponsoring this legislation in the Senate. The bill has strong bipartisan support, and I am pleased that you are holding hearings on it. I strongly endorse the bill and its objectives. It will be a significant step toward strengthening our agricultural economy and reducing our balance of trade deficit.

The Agricultural Trade Expansion Act of 1977 would accomplish two important objectives. First, it would establish an intermediate credit program under the Commodity Credit Corporation (CCC). S. 2385 would amend the Food for Peace Act to allow the CCC to offer credit for more than three years, the current legal limit, but not in excess of 10 years. Competitor nations such as Argentina and Canada currently offer credit sales of more than 3 years, leaving the U.S. at a comparative disadvantage in international markets. I believe that because of this lack of capacity to offer comparable favorable credit terms, we are losing sales to our competitors.

This legislation would correct that situation and make the U.S. fully competitive with the principal grain exporting nations of the world. It does not change the conditions necessary before credit is extended to a prospective buyer. Commodities to be bought still must be surplus and on the CCC eligible commodities's list. The sale still must not displace normal commercial sales; it must expand foreign marketing opportunities for U.S. farm products. Finally, the foreign buyer still must supply the CCC with an irrevocable letter of credit, issued by a U.S. or foreign bank.

By writing intermediate credit terms into law, we would be creating vast new potential markets for U.S. farm products. First, we could increase sales to nations too rich to be eligible for the PL 480 program but too poor to buy at commercial rates without intermediate or long-term credit.

Second, some countries currently purchasing commodities under Title I of the Food for Peace Program might become intermediate-term credit customers. Although in the short run, the purchase of commodities by these countries would merely mean a shift from short-term credit sales to intermediate-term credit sales, past experience has shown that countries utilizing long-term credit to purchase U.S. commodities later become cash-paying customers.

I believe that we have to recognize that financing terms are an integral component of international sales agreements. Our competitors are making inroads into our potential sales because of the attractive credit terms they offer and because we are unable to match those terms. This first portion of the legislation would immediately and effectively remedy that situation.

The second objective of the bill, removing restrictions on commodity purchases by non-market economy countries, would allow the U.S. to tap a significant new agricultural export market. East-West trade has become an economic and political reality. For several years, the USDA has considered Eastern Europe a possible growth market for U.S. grains. We must build on the trade foundation which has already been established.

U.S. agriculture has been a major beneficiary of trade expansion between non-market economy countries and the West. Even with restrictions, the value of agricultural exports to non-market economy countries grew from \$210 million in 1970 to \$3 billion in 1976, a 14 fold increase. Concurrently, agriculture's share of total non-market country imports from the United States rose from 50 percent in 1970 to approximately 62 percent in 1977.

Although agricultural trade with non-market economy countries declined in 1977, it is expected to resume an upward trend in 1978. It is conceivable that by 1980, non-market economy countries could become a \$5 billion market for U.S. farm products and eventually approach the \$6 billion trade level between the U.S. and the European Community.

I realize that this is a very complex issue. I feel very strongly that we must remove food trade as an instrument of foreign policy.

It is important to understand that food is a very unique entity in international commerce. Agricultural production cannot be turned on and off to suit the particular political climate of the times. The exporting of U.S. farm products is a good business, the benefits of which are reaped by persons throughout the world, thereby creating good will and improving international relations. It is the United States which suffers a worsening balance-of-trade deficit when we put restrictions on commodity sales to nations which then turn elsewhere to meet their agricultural import needs.

I urge the Subcommittee to take favorable action on the Agricultural Trade Expansion Act of 1977. Last year the U.S. had more than a \$31 billion trade deficit, and without positive action there is little prospect that this year there will be a significant improvement in our trade deficit.

While our overall balance-of-trade position has worsened, the agricultural export market continues to strengthen and is the one place where we can do something to help our international trade position. By moving more aggressively into international marketing of our farm commodities and by removing the obstacles to expanded food trade, we can begin to reduce our trade deficit and to reverse the discouraging conditions facing our farmers. We simply cannot be satisfied with the current levels of agricultural exports. For the sake of the agricultural sector and the entire economy, we must expand into new markets.

Again, I want to thank you for convening hearings on this important legislation. I hope that the Subcommittee will move promptly on this initiative to expand U.S. exports of farm products.

Sincerely,

MURIEL HUMPHREY.

STATEMENT OF THOMAS R. HUGHES, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, I appreciate the opportunity to appear before the Subcommittee. There is no sector of the economy that has a greater stake in expanded trade than does agriculture. There is no department of government that has a greater concern than does the U.S. Department of Agriculture.

U.S. agricultural exports in fiscal 1977 were valued at a record \$24 billion. Prospects for the current year are that our exports will be large in volume and, depending on price, value may again approximate the \$24 billion level.

The Soviet Union has now purchased 13.3 million tons of corn and wheat (9.8 million corn and 3.5 million wheat) under the U.S.-USSR Grains Agreement, for delivery in the current Agreement year ending next September 30. We have discussed purchases of 15 million tons with the Soviets, and this total may still be a good estimate for the year. Meanwhile, the People's Republic of China came into the U.S. market for 1 million tons of wheat, and this figure may also be increased.

These sales have improved export prospects over what we had expected at the beginning of the fiscal year. I can think of no time when a high level of farm exports has been more important to domestic policy and our international economic position than it is today. Consider these points:

(1) With the U.S. overall trade balance falling into the red by some \$30 billion in calendar 1977, the importance of a \$24 billion contribution to the positive side is certainly evident. That contribution originates with an agriculture that employs on the farm only 4.5 percent of the total work force—yet provides a fifth of U.S. export income.

(2) A high level of farm product exports is now built into our agricultural economy. As recently as fiscal 1972, agricultural exports amounted to only \$8.2 billion, and the volume of exports was only about half what it is now. Increased trade means that almost one cropland acre in three now produces for export. One dollar in five of net re-returns from marketing can be attributed to overseas sales. As a result, farmers have become super-sensitive to their need to export at a high level.

(3) Farmers understand that a high level of exports is essential to the success of the domestic farm program, which was designed to take account of

world needs as well as the needs of our own agriculture in relation to the world. In view of the recent joint action by Congress and the Administration to oppose inflationary farm legislation, it is especially important now that every possible step be taken to make the present farm program work. This will require strong emphasis on export expansion.

From the beginning of this Administration, the President and the Department of Agriculture have strongly supported expanded efforts to increase farm exports. The record shows success, as I have just indicated. On the other hand, there is every reason to proceed with still greater energy and imagination to extend our overseas opportunities. Large world crops the past two years have replenished granaries, driven prices of many commodities to lower levels, and struck fear in the minds of many farmers who are heavily capitalized and forced to pay production costs that continue to rise.

The farmers who marched on Washington this year are a tiny fraction of those who are concerned about the viability of their farm businesses and fearful for the future of their families. The Washington demonstrations were highly publicized. Those farmers received a great deal of attention from Members of Congress, from the Secretary of Agriculture, from many of us at the Department. They deserved to be heard and they deserved that we take account of their problems and explain the programs that we have in effect.

These programs have been adjusted this year in the interest of all agriculture—within the requirement that this nation not give in to runaway inflation. Last March 29, the Administration announced nine major actions to deal with current problems, strengthen farm income, and continue the steady growth in our agriculture. Essentially, these involve expanding and liberalizing the farmer-owned reserve; adjusting 1978 wheat, feed grain, and cotton production more in line with needs; adjusting soybean loan levels and rice loan and target prices; and urging Congressional approval of an Economic Emergency Loan Program for farmers. Basically, these actions are intended to increase income protection and provide stocks to insure supply availabilities and avoid any need or demand for export embargoes.

A strong international market policy is basic to these goals. With the support of Congress we have taken a number of specific actions in the past 15 months to enhance export market development. For the most part, these actions were built on an existing structure of market development. P.L. 480, CCC credit, and other programs that have worked successfully over the years. These programs involve cooperation with private business, state agriculture and marketing organizations, and a network of some 40 cooperator organizations created especially to further export development.

They involve enhanced activity by U.S. agricultural attaches at 67 overseas posts.

Consider the following recent examples:

* We have increased program funding by about 15 percent for export market development cooperators.

* FAS and the cooperator organizations have worked to take advantage of wheat and feed grains opportunity in new market areas (developing, Communist, and OPEC countries) while at the same time paying keen attention to servicing older markets so important to U.S. farmers. A wheat sales office is being opened in Morocco and a new feed grains office in Singapore, which will bring to 20 the number of U.S. grain cooperator sales offices in overseas markets. Also, we are expanding attaché coverage in the Arab countries.

* In London, a new agricultural trade office will be opened May 25 to house in one building the cooperator organizations that work with FAS in developing foreign markets. This office, first of its kinds, will present a "one-stop approach to European importers and will give U.S. agriculture higher visibility. The staffs will work not only with the United Kingdom market but also parts of continental Europe.

* The U.S. Meat Export Federation, which is a new cooperator with FAS, is sharply expanding its activities. A sales office recently opened in Tokyo, and a second will be opened shortly in the new London agricultural trade office. The Federation will work toward lowering trade barriers in Japan and other markets. In the past year, U.S. exports of animal products exceeded imports of those products.

* The total FY78 budget for CCC credit has been more than doubled to \$1.7 billion to support exports.

* Functions within the Department FAS have been reorganized to better coordinate the work of the General Sales Manager with the market development work of FAS. The two agencies have undertaken a system of integrated export market program planning. The objective is to best fit the Sales Manager's CCC and P.L. 480 tools and the FAS market development programs into the specific needs of each major current and potential market in export growth plans of up to five years each.

* The Administration asked for and the Congress approved more funds and more flexibility for P.L. 480.

* Secretary Bergland met several times in Washington and in Brussels with European Community officials and Ambassador Strauss traveled to Brussels in a successful effort to break the deadlock over agriculture in the Multilateral Trade Negotiations in Geneva.

* Secretary Bergland traveled to European, Japanese and Southeast Asian markets—in part to promote U.S. exports and emphasize the reliability of the U.S. as a supplier. He will be in the Soviet Union and East European countries in May to discuss trade and cooperation.

An easing of Japanese restrictions against imports of high-quality beef and citrus is being negotiated.

All of these actions will help. We must continue, however, to be alert and receptive to additional tools that can help us to export more farm products.

Thank you, Mr. Chairman, for the opportunity to appear. I would be pleased to receive any questions the Subcommittee might have.

STATEMENT OF DOYLE CONNER, COMMISSIONER, FLORIDA DEPARTMENT OF AGRICULTURE

Mr. Chairman, my name is Doyle Conner and I am Commissioner of Agriculture of the State of Florida. My mission today is to speak in support of S. 2968, a bill to strengthen the economy of the United States through increased sales abroad of American farm products. I appreciate the opportunity you have provided me to speak before this committee concerning this important topic.

We are all aware of the tremendous deficit in international trade suffered by the United States due to the importation of many products; especially petroleum and manufactured consumer goods. If we are going to turn the tide in international trade to where it has a more favorable flow, we will have to rely to a large extent on agriculture. Although, our agricultural exports reached nearly \$23.7 billion in calendar year 1977 compared to imports of \$13.5 billion, there still is room for substantial expansion.

As past president of the Southern United States Trade Association, I would like to comment concerning the value of international trade to our section of the country. Exports of agricultural products from the 16 states comprising this organization is big business, amounting to almost \$8 billion in 1977. This was about one-third of that exported from the United States. Major items of export from these states are soybeans, tobacco, feed grains, cotton, rice, wheat and fruit.

Additional exports would improve the economic condition of our hard pressed farm producers. They are having a difficult time of making ends meet because of depressed prices and skyrocketing production costs. Additional exports would not only provide added income to the farm segment, but would also help the nation's general economic condition.

It is quite evident that we must place great emphasis upon increasing farm exports. This will not come about automatically. We must expand our foreign market development activities in order to raise domestic farm income, bolster the economy of the United States and reduce the Nation's trade deficit.

The provisions of the legislation under consideration at this hearing should function to substantially increase the efforts and effectiveness in developing foreign markets for American farm products. The agricultural export business is highly competitive. For this reason we must have concentrated market development programs conducted by highly qualified personnel.

The establishment of Agricultural Trade Offices abroad to promote the sale of U.S. farm commodities is a very important step in an expanded export program. The current system whereby the agricultural attachés are responsi-

ble for market development falls far short of what is needed. These attachés have many and varied responsibilities which prohibit them from applying the time and effort necessary to conduct the first rate aggressive programs necessary to expand to the fullest possible extent U.S. farm exports. Another deficiency of the current system is the fact that often the attachés do not have adequate expertise in the field of foreign market development. This could be remedied by agricultural trade offices directed and administered by Agricultural Trade Attachés who by reason of their training, experience, and attainments are well qualified for this purpose.

The location of Agricultural Trade Offices in geographic areas where trade opportunities are the greatest, would serve a number of useful purposes. Trade officers would seek new markets and provide information to U.S. exporters, create new markets through trade shows and demonstration projects, service foreign customers and work with foreign governments to achieve greater access for our exports. The simple presence of U.S. agricultural representatives in foreign markets to answer questions and bring buyers and sellers together would also show the importance that the U.S. places on its foreign agricultural customers.

The establishment of an intermediate commercial credit program to encourage increased exports to developing countries is another important feature of this bill. This program is needed to assist the lesser developed countries to go through the transitional step from long term to short term financing. Additionally, the provision for funds to finance commodity handling facilities should work to increase exports to the lesser developed countries.

Another major provision of the bill is the establishment in the Department of Agriculture of the position of Under Secretary of Agriculture for International Affairs and Commodity Programs. This recognizes the increasing importance of agriculture in this country's international trade. This action would provide a Department of Agriculture official of equal rank with State Department and Commerce Department officials with whom he deals in international trade negotiations. It is important that this change be made in order to provide agriculture with an effective spokesman and negotiator.

The last major provision of this bill is the upgrading of the title of senior U.S.D.A. representative in key countries from agricultural attaches to agricultural counselors. The relatively low rank of U.S. Agricultural representatives compared to top officers in other sections of the Embassy gives the appearance that we assign a lower priority to agriculture than to other economic and commercial activities performed by the Embassy.

In most foreign countries much more significance is attached to titles than is true in the U.S. In some cases this causes problems for attachés in gaining access to key foreign government officials. Of significant importance is the fact that another producing nation, competing with us for a market, will likely be presented by a counselor, and may therefore have an advantage in reaching key purchasing officials. Thus, it is important that we have titles commensurate with responsibilities of the job.

In closing, I would like to again express my appreciation for the opportunity to speak in support of all the major provisions of bill S. 2968. I feel that with its enactment into law a significant step will have been taken toward a more aggressive and effective program of foreign market development.

STATEMENT OF MICHAEL L. HALL, PRESIDENT, GREAT PLAINS WHEAT, INC.

Mr. Chairman and Subcommittee members: I appreciate your invitation to appear before this Subcommittee to discuss with you and your colleagues the provisions of various bills, all of which would immeasurably strengthen the foreign market development program for U.S. wheat and the American agricultural economy. In the interest of time, I will not attempt to examine in detail the various provisions of S. 2385, S. 2405, S. 2504, and S. 2968. Rather, I would like to make a few general observations about these bills in order to underscore their common salient features and provisions.

At the outset, however, I should point out that this statement is supported and endorsed by Western Wheat Associates, U.S.A. (WWA), and to identify both WWA and my organization. We are primarily interested in these bills

because Great Plains Wheat, Inc. (GPW) and WWA are foreign market development organizations supported by wheat producers through their respective state wheat commissions in Colorado, Idaho, Kansas, Minnesota, Montana, Nebraska, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Washington, and Wyoming. In addition to the central office in Washington, D.C., GPW maintains foreign regional offices for Europe, the Middle East, Africa and Central and South America, to administer on-going promotional programs to expand export markets for all five classes of U.S. wheat. Based in both Washington and Portland, WWA maintains offices in Japan, Korea, Taiwan, The Philippines, Singapore and India to compete for markets in the Pacific and Asian areas for U.S. wheat.

Our Boards of Directors, actual wheat farmers from the thirteen-member states, have long supported the concept that farmers and government should be prepared to work together to maximize U.S. wheat exports in order to improve farmer income. Consequently, our organizations are in basic agreement with the purpose of each of the four bills that this Subcommittee is considering today.

Foreign market development for wheat is an on-going process based on market intelligence, trade servicing, technical assistance, nutritional and other efforts. All of these programs carried out by Great Plains Wheat and Western Wheat are modified and geared to the varying import purchasing system, types of wheat grown, the state of economic development and the level of milling and baking in the multitude of countries in Europe, the Middle East, Africa, Central and South America and Asia. Moreover, our marketing and promotional program, designed to either develop, expand, or maintain foreign markets for wheat, must be discharged with a view toward long-term results—and not on an “on again, off again” basis because of seasonal world wheat supply-demand factors. In brief, U.S. wheat farmers have long worked to maintain the reputation of all classes, grade and quality of U.S. wheat to be reliably supplied to all foreign customers at any time in any year.

The commitment of U.S. wheat farmers to joint foreign market development with the USDA's Foreign Agricultural Service is real and genuine. Farmers in only four states organized state wheat commissions for support of the overseas promotional programs in the early 1950's. This farmer support has now been expanded to thirteen states, covering the entire breadth of the area called the Great Plains and Pacific Northwest. Moreover, direct and indirect farmer support via the state wheat commissions has increased from \$848,750 in 1971/72 to \$1,833,90 in 1977/78. This rate of farm-financed support has easily kept pace with the funding provided by the Foreign Agricultural Service, from \$1,582,400 in 1971/72 to \$2,528,400 in 1977/78.

Nevertheless, additional support and funding are required from both farmers and the government to insure the sustained success of this joint industry-government program to maximize U.S. wheat exports. Moreover, the government is only capable of creating the atmosphere and conditions necessary to realize our goals: (1) improved international agricultural trade system through international negotiations to remove foreign barriers to U.S. wheat exports; (2) augmented and more flexible credit programs to meet the needs of particularly developing countries and to meet the marketing competition and challenges from other wheat exporting countries; and (3) up-grading of U.S. agricultural representation in U.S. Embassies and Missions and to continue to reject any regressive proposals and measures that run counter to the spirit and commitment to entrepreneurship that has, and continues to make, U.S. agriculture viable through an integrated export program for wheat and other commodities.

Each of the four bills being considered today by this Subcommittee address the need for the United States to improve the conditions and terms of its overall exporting financing program. Moreover, these vary in this regard only in approach and method to insure a more competitive marketing program for U.S. wheat and other products in meeting competition from other major exporting countries. Before addressing the specificity of these bills, I would like to emphasize that past, present and future Commodity Credit Corporation export financing program does not incur any cost to the U.S. General Treasury and/or taxpayers. As a matter of fact, the interest that accrues from CCC lines of credit generates a slight revenue for the United States only to cover the operational cost of this program.

1. *CCC Credit to Non-market Economies.*—We supported the initiatives last summer by Senators Humphrey and Dole to extend Commodity Credit Corporation (CCC) financing to various socialist countries, commonly called non-market economy countries. The late Senator Humphrey, in association with Congressman Findley, best expressed our position when he stated that "international business and trade is a world of its own that can't be turned on and off just because of shifts in political views." Poland, Romania and Yugoslavia currently receive CCC export financing—all to the direct benefit of those customer-countries and to U.S. wheat farmers. There should be legislative authority to extend such financing programs to other socialist countries, particularly the Soviet Union and the People's Republic of China, in order to expand and penetrate, respectively, these growing and sizable wheat importing markets.

With respect to Senator Humphrey's observation, it is interesting to recall that the United States provided CCC credit to the Soviet Union for the 1972-75 period—and sizeable export volumes of U.S. wheat were moved to that country. The lack of export financing authority by the CCC for the Soviet Union could well have reduced potential U.S. wheat and grain sales to the U.S.S.R. Moreover, it is the opinion of most observers that the Trade Act of 1974 was really counterproductive inasmuch as the denial of U.S. tariff and credit consideration to the Soviet Union did not result in any appreciable changes in the domestic policies of the Soviet Union. One of the major objectives of the various amendments to the 1974 trade Act was to increase the number of emigrants from the Soviet Union. According to public figures available from the U.S. Department of State, the following number of Jewish emigrants had obtained exit visas during the indicated years: 1973, 33,500; 1975, 13,300; and 1977, 13,250.

It is interesting to note the sharp decline in emigration from 1973, immediately preceding the passage of the 1974 Trade Act, to 1975, the year immediately following the passage of the Act. Moreover, the Soviet Union immediately canceled the exchange of the U.S. and U.S.S.R. Trade Agreement of 1972. The 1974 Trade Act established different conditions than the United States agreed to in the 1972 Trade Agreement with the U.S.S.R. In addition, it is difficult to point out any advantages to U.S. wheat farmers in terms of increased wheat and grain sales to the Soviet Union or to improved emigrant exit status from the Soviet Union.

2. *Increased CCC Flexibility.*—Not only is more flexibility in credit repayment periods required, but we also urge that the CCC interest rates should be more competitive to attract buyers to the U.S. market. It should not be necessary to profit from the interest charged to foreign customers for the purchase of U.S. wheat. Quite the contrary! To follow the New York prime interest rate, which reflects the domestic economy, overlooks the more favorable rates available from international money markets outside the United States. A prime advantage of a U.S. credit program is that it is linked to purchases of agricultural products from the United States. Competitive credit from other commercial sources holds no such restriction; a buyer is free to purchase commodities from competitor wheat exporting countries. Therefore, to increase the funds allocated to all U.S. agricultural export financing programs and to make them available and attractive to all foreign customers, including non-market economy countries, will greatly enhance the U.S. competitive position in selling wheat to all foreign customer-countries.

3. *Intermediate Credit Facilities.*—We believe that the initiatives in this area are also appropriate and necessary to engage in the competitive international market for expanding U.S. wheat exports. We urge, therefore, the establishment of an intermediate commercial credit program of from three to ten years to finance the sale of U.S. agricultural products. The terms of a three-year CCC commercial credit program may be too rigorous for developing countries; the long-term loans under the P.L. 480 program may be inappropriate. An intermediate commercial credit program would bridge the gap between the three-year CCC commercial program and the longer-term concessional P.L. 480 program. It would also serve to permit for a transitional credit program for countries moving from the concessional P.L. 580 programs to the commercial CCC credit program.

To effectively compete against government wheat boards, which are at liberty to set sales prices and credit terms at any level, the U.S. wheat industry needs

all of the marketing tools available. An intermediate credit program could be the factor that brings a foreign customer to the U.S. market. In addition, deferred payments would permit these countries to make additional purchases from the United States. Furthermore, it is highly desirable to designate a percentage amount of these funds to the overall foreign market development program for investment back into the development of grain handling and storage infrastructure or processing industries of the recipient customer-country. This assistance would improve and enhance the insured increased consumption and greater market growth for wheat flour products.

Consequently, we would urge that the varying provisions in S. 2385, S. 2405, S. 2504 and S. 2968 be incorporated into a multi-phased commercial financial package. Such a package would include the three-year CCC program to overseas customers and the exporting trading firms and cooperatives; authority for export financing facilities to the non-market economy countries; intermediate commercial credit programs to appropriate customer-countries, along with legislative exemption from any cargo preference requirement because of its commercial nature; and a designation of repaid intermediate credit assistance for additional foreign market development program in the recipient customer-country.

4. Agricultural Trade Offices.—We believe the establishment of overseas agricultural trade offices offers a three-fold approach to enhancing the promotion of agricultural exports; providing additional assistance to the various agricultural cooperators; assisting private U.S. firms seeking export outlets for their products; and providing information about U.S. farm products to potential foreign customers. We believe that the agricultural trade office can be most effective if its efforts are directed toward supporting the smaller, non-resident cooperators, offer the overseas advantage of being able to operate from a base and establish contacts in countries where agricultural export opportunities are high. On the other hand, many cooperator organizations have already developed an efficient market development program, and are highly recognized in overseas markets for their promotional efforts and their independence in pursuing appropriate export marketing objectives. The creation of overseas agricultural trade offices would not materially enhance the programs of these well established organizations in overseas regions. Consequently, the co-location of various cooperator organizations in a central agricultural trade office can be an option for those who prefer it. But it should not be mandatory! While the sharing of office space, equipment and staff could undoubtedly contribute some economies, the savings would have to be weighed against any possible decline in the acceptance or effectiveness of each individual cooperator, particularly those who have already developed and established their program in an environment of independence. We do not believe that the agricultural trade offices can be completely separated from the agricultural attaché. They should be located away from the embassies to allow for easier access by interested individuals. Nevertheless, they should be tied directly to the office of the agricultural attaché. The trade officer should carry the title of Assistant attaché, or in the absence of an agricultural attaché at the U.S. Embassy in the country, the title of attaché.

5. U.S. Agricultural Counselor.—We continue to endorse the proposal to give counselor status to selected agricultural attachés, a position adopted and advocated by our organizations as early as 1974. Agriculture plays a very important political role in most foreign countries; far greater than it does in the United States. Experienced agricultural attachés provide insight and understanding on important issues relating to agriculture and are essential to the implementation of U.S. policies. Consequently, the designation of Counselor to U.S. agricultural representatives in selected U.S. Embassies or Missions—for example, Moscow, London, Brussels, Paris, Rome, Tokyo, Mexico City—would provide comparable status vis-a-vis his foreign counterparts. It would also insure that the role and mission of U.S. agriculture abroad is given its proper prominence within U.S. Embassies, and making the Agricultural Counselor a genuine member of the U.S. Ambassador's "country team." Where appropriate, the title of Agricultural Minister should also be considered. Such designations, continuing in the main with that of attachés, would be made by the Secretary of Agriculture in consultation with the Secretary of State.

We applaud the efforts and initiatives being made in the Congress and the Executive Branch to provide leadership and support to the joint government

and industry effort to maintain and expand foreign markets for U.S. agricultural exports. All of us realize the importance of sustained quantity and value of U.S. farm exports to the overall American economy.

In conclusion, however, we would like to emphasize that U.S. agricultural exports accounted for \$24 billion in 1977—and were a prime factor in preventing an even greater trade deficit that year because of the sharply escalating import prices paid by the United States for petroleum imports. U.S. wheat exports accounted for just under \$3 billion of this export earnings. More fundamental is the dependency of American farmers on the export market to insure a reasonable level of income on the basis of efficient production and modern farm management. Without sustained U.S. farm exports to meet the food and fiber demands of the world, U.S. Farmers are forced to look for income support from other sources, a measure that generally results in decreased production and an inefficient use of the most valuable resource in the United States.

Consequently, we must continue to attempt to expand U.S. wheat exports for many reasons, the most important of which are: (1) to assure a realistic income return to producers on the basis of efficient production and management investment; (2) to realize the return from these farm exports as a significantly positive factor in the current balance of trade situation; (3) to reaffirm that the United States is the preponderant source and a reliable supplier of every class, grade and quality of wheat at any time throughout any year; and (4) to utilize efficiently our uniquely valuable resources to meet the growing demand for the food needs of the world.

STATEMENT OF JOSEPH HALOW, EXECUTIVE DIRECTOR, NORTH AMERICAN
EXPORT GRAIN ASSOCIATION, INC.

My name is Joseph Halow, and I am Executive Director of the North American Export Grain Association. Ours is an association of private trade organizations and farmer cooperatives established for the purpose of promoting exports of U.S. grain. We very much appreciate the opportunity to present our views on this important subject before this Committee.

We feel that the first requirement for a good grain export program is a firm dedication to such a program, based on the realization that it is essential for the health and the well being of the U.S. grain economy and is the only generally acceptable form of supporting U.S. grain agriculture. There is, in fact, something for everyone in expanded grain exports: The farmers' best years are those in which agricultural exports are at the highest levels; the prospect of continued access to export markets assures the production of adequate supplies of the proper qualities of grain for the processors and consumers; and the income from grain exports helps offset the rising cost of needed imports. Had, for example, the U.S. been a more aggressive wheat exporter during the 1976/77 marketing year and the early part of this marketing year, there would probably have been no farmers' strike. There would then, of course, also not have been the resultant pressures on the Administration and the Congress and the ill will with which the farmers witnessed the defeat of legislation which they were demanding. The U.S. would, furthermore, probably not have felt the need to institute a set-aside program for the 1978 crops, a program which has all the earmarks of being a mistake. We should note that none of the other major wheat exporting countries, all of whom were aggressive exporters during the same period of time, is planning any acreage reductions. They are all, in fact, planning to increase acreage to replenish the stocks which they depleted at the same time the United States was adding to its stocks. It is these stocks which were weighing on the U.S. commodity markets, depressing farm prices and our agricultural economy.

Expanded grain exports can provide the necessary increase in farmer income without placing this burden on the back of the reluctant taxpayer, who is already expressing alarm over the cost of food.

At the present time the export outlook is very good for the United States, but we have gotten into that position almost by default. I say "default," because the United States is virtually the only exporting country with exportable supplies, in a position to accept any sizeable orders. This situation will, however, surely change, and this Committee is to be commended for taking such serious interest in a positive effort to maintain a high export level even under more competitive conditions.

Following are some key points necessary in an aggressive export expansion program:

1. *Price competitiveness.*—Until the current world supply/demand situation changes, the U.S. is not encountering pricing problems. During the past marketing year, however, the United States was constantly underbid by Canada, Australia and Argentina, all of whom captured a portion of the U.S.'s share of the world markets. Contrary to what it may have been popular to suggest, most of the world buys on the basis of price first or, at best, some combination of price and quality. The United States should have immediately available a standby export subsidy (or restitution) policy. When other nations undercut U.S. prices, the U.S. should be in a position to tell them that we are immediately prepared also to price aggressively if they continue to undercut U.S. prices. During the past marketing year the U.S. stated, on the contrary, that it would never again resort to the use of export subsidies, leaving the field completely open to the other exporting countries, which ran away with the business.

2. *Credit programs.*—The United States should use its GSM credit, which is considered commercial-term credit, on a commercial basis and not make extension of credit subject to political considerations. Making it a dual or multiple-purpose measure blunts its effectiveness in reaching its goals.

The United States should also have an intermediate-term credit program, something between its P.L. 480 program with terms of as long as 40 years and its present GSM credit with a time limit of 3 years.

3. *Timely shipment.*—The United States has an advantage over other exporting countries and that is an excellent pipeline for moving grains and ports over a large coastline in three directions. A strong effort should be made to keep that pipeline and the ports open at all times. Delays in shipment can mean lost orders and lost volume. Movement through the ports should be efficient and prompt. The industry is adjusting to a more complex inspection system which still often tends to be cumbersome. Care should be taken that qualities shipped are at least commensurate with what has been ordered and that working conditions are safe. The U.S. should, nevertheless, guard against an overreaction to the quality problems of the past and the tragic elevator explosions of a couple of months ago.

4. *Maintain as low an overhead as possible.*—The costs of handling grain and inspections are now in some instances five times what they were in the past. During periods when the United States is virtually the only supplier, these additional expenses can be charged to the buyer. When the United States must compete with other countries, however, the additional charges either make U.S. prices non-competitive or are ultimately passed back to the farmer. The U.S. grains inspection system is already costing much more than Congress had apparently ever anticipated.

5. *Better market servicing.*—This is an activity in which all participants may engage; the USDA and the cooperator groups. Frequently in the past such efforts have been concentrated on existing markets, some of which have already been overdeveloped for grains. Certainly market development efforts in, for example, Western Europe and Japan, have long passed the point of diminishing returns. All buyers, and particularly new ones, require more attention. They should receive it from the cooperator groups in the form of personal contact, more and better information on markets and grain availability as well as qualities.

6. *Trade policy.*—The U.S. should strive always for the type of trade policy which will permit it to export freely. It should guard against entering into any type of international agreement which will limit U.S. access to world markets.

Although sales to the socialist countries are also covered by the comments above, the fact that such sales are treated differently merits here also special mention. I should like to reiterate the point I made in the hearings on March 1st: The United States is at a higher level of production, from which it would be painful and uneconomic to return. At a higher level of production the United States cannot count only on its so-called "traditional customers" for the necessary amount of grain disappearance and must look to new markets. They exist, fortunately, and the most promising of these are the countries with centrally controlled economies and those in the Middle East. They all produce grains, and their needs vary each year in accordance with their own production. Production is, however, undependable, and their grain needs are growing rapidly. The United States should adopt a sales posture toward these countries which will favor the

increase in their grain consumption and permit the United States to benefit from it. This would include

1. Extension of CCC credit to these countries and consideration of an intermediate credit program (mentioned above) which would also be extended to them. Whether or not they ever avail themselves of it, it would help convince them that the United States is interested in doing business with them, letting them feel they can count on obtaining from the United States the supplies they need.

2. The United States discriminates against certain of these countries by imposing on them restrictions imposed on no other commercial customers. We refer to such restrictions as stipulation that a large portion of their grain purchases from the United States be transported on U.S. flag vessels at much higher freight rates than for other flag vessels. This discourages the expansion of their purchases from the United States, encouraging them to seek grain from all other sources before they come here. This policy has not benefited the maritime industry, in whose interests it has been established, but it has been costly to the farmer.

3. Comments above with regard to market servicing are even more important in this area than in many others, since these customers are not generally familiar with the U.S. marketing system. They are, furthermore, concerned about their continued access to the U.S. market in times of possible shortages. They should be made to feel that the United States wants their business, that the U.S. will be a dependable supplier to them and that they can continue to buy from the United States on an ongoing basis.

4. The United States cannot expect that these countries will continue to buy from the United States more than they absolutely must unless the United States is willing to import from them. Efforts should be made to remove import restrictions on a mutually acceptable basis.

We are pleased that legislative proposals now before this Committee cover many of these points.

U.S. grain exporters are very concerned about the agricultural economy, and our members continue to offer their services in an effort to help overcome current problems.

The current Administration's posture vis-a-vis the grain exporters has been, however, at least aloof and frequently hostile, in contrast to the friendly and at times even paternalistic attitude of other governments to their business firms. The U.S. posture makes the U.S. the "seller of last resort," or the "residual supplier." It is not a coincidence that those countries which work together with their exporters are performing better in the world markets.

Thank you again for the opportunity to express our views. I should be pleased to attempt to answer any questions which you may have.

STATEMENT OF JOHN C. DATT, DIRECTOR, WASHINGTON OFFICE,
AMERICAN FARM BUREAU FEDERATION

Farm Bureau has a keen interest in legislation designed to increase export sales of American farm commodities. We support S. 2385, the Agricultural Trade Expansion Act of 1977, which was coauthored by Congressman Findley and the late Senator Humphrey; S. 2504, introduced by Senator Dole; and S. 2405, introduced by Senator Lugar; and S. 2968, introduced by Senator Clark.

Export markets are vitally important to American farmers and ranchers.

In fiscal year 1977 exports of U.S. farm products totaled \$24 billion—the equivalent of about 25 percent of cash receipts from farm marketings. Commodities produced on about 28 percent of U.S. harvested acreage were exported in 1976. Crops from 96 million acres were moved to export markets.

This means that the production from better than one harvested acre in four is absorbed by export markets. For individual crops, about 60 percent of the soybeans and products, 56 percent of the rice, 52 percent of the almonds, 46 percent of the wheat, 41 percent of the cotton, 32 percent of the tobacco, and 27 percent of the coarse grains moved abroad. Significant portions of other crops were exported, including animals and animal products, dry beans and peas, prunes, citrus products and hops.

Further expansion of our export markets could make a significant contribution to the improvement of farm and ranch income.

Farm exports are also extremely beneficial for the rest of the economy. It has been estimated that, for every one dollar that is earned by the farm sector from exports, another \$1.33 is generated in the rest of the economy for such services as transportation, financing, warehousing, and supplying farmers with machinery, fertilizer, and other goods. Thus, farm exports of \$24 billion generate more than \$50 billion worth of total business activity in the United States.

It has also been estimated that some 1.2 million jobs, both on and off farm, are related to export of farm products. Of these more than 650 thousand are nonfarm jobs.

As a result of our high level of farm exports and relatively lower level of agricultural imports, the trade surplus in the agricultural sector during 1977 was in excess of \$10.5 billion. On the other hand, net nonagricultural trade has declined from a modest surplus in 1970 to extremely large deficits in the past few years. The United States greatly needs a surplus from its agricultural trade in order to pay for imported oil, which has quadrupled in price, and for other raw materials and consumer goods. We shall need an even greater agricultural trade surplus in years to come.

The growth of commercial agricultural exports and their contribution to our balance of trade has helped to keep the value of the dollar from dropping to still lower levels in the world markets.

In addition to these benefits, U.S. agricultural exports have played a very important role in our relations with other countries. During the past several years increasing ability to export agricultural commodities has helped build a firm domestic for our political and economic foreign policies.

These benefits have been achieved because we have the most efficient and productive agricultural system in the world. We submit that further expansion of agricultural exports can be achieved by:

- (1) Liberalization of restrictive trade barriers, which reduce the flow of agricultural exports through bilateral or multilateral trade negotiations, and
- (2) Aggressive market promotion and development.

Trade Liberalization: Farm Bureau actively supported the Trade Act of 1974. This legislation authorized the United States to participate in the current multilateral trade negotiations. These trade talks provide opportunities for action to expand mutually advantageous trade through reciprocal agreements among nations to reduce their trade barriers. To ensure that significant results are achieved in terms of liberalizing the barriers affecting our agricultural exports, Farm Bureau has been monitoring these negotiations closely. Farm Bureau leaders are serving on the agricultural trade advisory and agricultural policy advisory committees which advise our trade negotiators with respect to agricultural matters. In addition, Farm Bureau has assigned staff members to monitor and report on the progress of the trade negotiations, both in Geneva, Switzerland and here in Washington.

The outcome of these trade negotiations will have a significant impact on trading rules and patterns for years to come. We urge the Congress to take an active interest in these negotiations to ensure that American agriculture's current competitive position in world trade is at least preserved and is improved wherever possible.

Market Development: During the past two years, Farm Bureau has conducted numerous trade missions abroad, including trips to Western Europe, Israel, Japan, Mexico, India and Indonesia. These missions are part of the Farm Bureau's continuing effort to expand international trade and to improve relations with our trading partners.

We support legislation which is designed to increase export sales of American farm products.

Farm Bureau actively supports S. 2385, introduced by the late Senator Humphrey, to allow CCC loans to "nonmarket economy" countries such as the People's Republic of China, the Soviet Union, and Eastern European nations—which would enhance our competitive position in export markets. We also favor extension of the "most-favored-nation" principle to these nations.

We also support S. 2405, the Intermediate Term Agricultural Export Credit Act of 1978, which would authorize an intermediate CCC credit program with loan terms of five to ten years. It is envisioned that the funds

generated by this type of transaction (during the duration of the loan) would be used by purchasers to improve the marketing, storage, or distribution of food or other commodities which in turn would have the effect of increasing our markets for future shipments of agricultural commodities.

We support S. 2504, the Export Stimulation Act of 1978, which would make CCC financing available to exporters who extend deferred payment terms to foreign buyers. This proposal would facilitate the financing of U.S. exports to "nonmarket economy" countries. The CCC would extend credit to exporters who, in turn, would extend credit to such countries for up to three years at interest rates similar to the rates offered to other countries by the CCC.

Farm Bureau supports S. 2968, the Agricultural Export Expansion Act of 1978. This bill provides for the establishment of six to twenty-five U.S. agricultural trade missions, a new medium-term commercial credit program for financing exports, the appointment of an under secretary of agriculture for international affairs, and an upgrading of the role of U.S. agricultural attachés.

These bills are in keeping with Farm Bureau policy that "every means possible be used to expand the exports of agricultural commodities."

There are other areas to which the Congress could address itself, such as increased funding for export sales credit and P.L. 480 sales.

Given the proper climate, prospects for future expansion of U.S. agricultural trade look bright. We shall continue to have a strong demand in such traditional markets as Japan and Western Europe. In addition, as the nations of the third world continue to develop and to increase their participation in international commercial trade, they will become customers for more of our food and fiber. In recent years the nonmarket economies or Communist bloc nations have been a very important market for U.S. agricultural commodities, and they promise to remain so in the future.

If U.S. agricultural commodities and products maintain their competitive prices and high quality—and if we make aggressive efforts to remove impediments to trade and to market our products abroad—there is very little doubt that we shall continue to experience a continuing expansion of agricultural exports.

In conclusion, we urge prompt action on this legislation by the Congress.

STATEMENT OF ROBERT G. LEWIS, CHIEF ECONOMIST AND NATIONAL SECRETARY,
NATIONAL FARMERS UNION

Mr. Chairman, I am sure I speak for the members and leaders of the Farmers Union and millions of farmers generally in expressing warm gratitude for the concern for raising farm income to more fair and adequate levels that is expressed in the bills which are the subject of this hearing.

However, there is a distinct danger in some of the provisions of the proposed legislation that might very likely result in doing more harm than good—both to American farmers, and to the interest of the United States in gaining optimum balance-of-payments benefits from our agricultural exports and promoting an orderly, efficient, and progressive international trading system.

I will address first the proposals for extending credit for terms up to 10 years at lower-than-normal market interest rates to finance sales of agricultural commodities.

Under some circumstances, long-term and intermediate-term credit in connection with sales of agricultural commodities makes good sense. Sales of breeding stock having a productive life of five or more years can with economic justification be financed for terms of several years, because earnings from the product sold can be expected to be received throughout the term of the loan. In some special markets, particularly to non-market economies, three-year credit terms has become an established and accepted practice in international trade and the United States should continue to enable exporters of American-produced commodities to match the competition. Certain long-term economic development projects, particularly labor-intensive construction work, can justifiably use long-term financing of the food component as well as other capital components, as is now authorized under P.L. 480.

But for most sales of perishable food commodities, the real effect of long-term credit would be to cut the selling price. This would be accomplished by

tying-in the sale of wheat or soybeans, etc., to the provision of another thing of value—in this case cheap credit. The beneficiaries of the government assistance in the program, who are most likely to be the trading companies that are the sellers of the agricultural commodities, would then acquire two things to sell for the price of one: (1) farm products, and (2) cheap credit. They can make enough profit on re-sale of the cheap credit received from Uncle Sam to enable them to shave the selling price of the agricultural commodity. That is where the "increased competitiveness" comes in.

Here is how it works:

No one in his right mind will take a mortgage on a steak dinner as security for a loan for a term any longer than half an hour. Food is not a suitable security for credit on terms any longer than the food is likely to survive being eaten up. The real security for any long-term loan on food is the credit-worthiness, if any, of the borrower. Thus long-term credit financing of transactions in food are almost unheard of in normal business practice.

If the government should offer long-term credit (or credit guarantees, which are essentially the same thing) to finance sales of food, it is not the consumer of the food who would get the credit. When the food is sold in the importing countries, the people who eat it would have to pay for it on the spot, and in cash. The cash taken in by the sellers, however, would not need to be paid back to the U.S. Government for up to 10 years. Interest rates in the importing countries usually are much higher than the rate charged to the seller of the food by the Commodity Credit Corporation, so the seller would be able to lend out the money received from sale of the food at higher interest rates for up to 10 years and to make a profit on the business. Most of such credit, wherever it has been extended, is used for purposes having nothing whatsoever to do with either the use or the user of the food.

As farmers, our concern is whether this procedure really does help to improve our income. Farmers' gross income is the product of the volume sold times the selling prices. With minor qualifications, farmers each year produce as much as nature allows. This means that the significant element in the multiplication of price times volume is price.

The last thing that American farmers need is a new technique of price-cutting in the international market.

The present policy of the United States government is to keep international trading prices of grains down to the lowest level, in real terms, in all history excepting for 1931 and 1932. Even after the government incurs billions of dollars a year in obligations to make deficiency payments to farmers, the returns to American farmers are below their cost of production, even farther below a fair rate of return on their labor and investment. Every country that imports our grain raises the price two or three hundred percent or more above the price our farmers get before it is re-sold to consumers, with the foreign governments raking off these grotesque mark-ups for the benefit of their treasuries and their taxpayers.

This senseless policy is ruining our farmers, contributes to wrecking the standing of the U.S. dollar in the world economy, and deprives the U.S. economy of huge balance of payments benefits. And it does not even work to increase our volume of sales. The other main grain exporting countries, all of them relatively small and economically much weaker than the United States, have no choice but to sell their grain at whatever level our policy forces the price to sink. Their national grain marketing boards, not surprisingly, are more efficient in guessing price and supply trends than our individual farmers, and they managed to sell their entire available supply from the 1977 crop. Most of their sales were made before prices sank all the way to the U.S. price support loan rate, which controls the world trading price so long as there is or seems to be a slight surplus. American farmers are left holding the bag. The other exporting countries reduced their "surpluses" by 77 percent in Argentina, 71 percent in Australia, and 4 percent in Canada, while ours *increased* 4 percent.

There is no doubt in my mind that the enhanced opportunity for price-cutting that tying-in sales of cheap credit with agricultural commodities from the United States will be matched immediately by competing exporting countries. Perhaps they are already ahead of us. The result will be to erode the selling price some more. This is a practice that can benefit only the multinational trading companies who are enabled to make two profits on each sale—

one when they sell the farm commodities, and a second when they retail the cheap credit from Uncle Sam.

What ought to be done, instead of further eroding of the world trading prices of agricultural commodities, is for the United States to come to its senses and quit giving away our grain so cheaply.

There is no rational justification for maintaining U.S. price support loan rates and thereby pegging the world price floor at the lowest level in real terms since the Depression. Only a quarter or less of the total world supply of grains is sold at the world trading price. The world could not be fed if such prices were to be imposed world-wide. The world cannot be fed in the future, when there will be billions more of us on earth, and when many more than today will have money to pay for more and better food, unless farmers can recover their costs of production plus an adequate incentive to increase production.

And there is no need whatsoever to blunder along giving away America's economic trump to the Soviet Union and our primary economic rivals at less than cost. I have talked with top-ranking officials in the government of Canada, Australia, and Argentina, and all of them declare that their governments and marketing systems would, in the first place, raise their selling prices for grains to match an increase in the U.S. price support loan rates; and secondly, hold off the market and store their share of a world "surplus" or "reserve" when and if it exists so as to maintain world trading prices at that price level. I believe the European community also would participate in an international agreement among both importing countries and exporting countries to achieve such a rationalization of world trade in grains.

My recommendation, therefore, is that Congress reject this move toward further profiteering by the traders and further price-cutting in international farm commodity prices; and instead call upon the Executive Branch to increase price support loan rates to realistic levels, and to negotiate with other countries for an international agreement to maintain stable and fair prices and assure supplies to consumers.

2. *One of the bills (S.2968) would authorize the creation of up to 25 new government offices in various countries to promote sales of farm commodities from the United States.*

We favor this measure, but believe that it does not adequately respond to the opportunity that exists to expand sales of food. We believe additional sales promotion work should be combined with more fundamental economic and trade development efforts.

The overwhelmingly dominant factor limiting purchases of food by literally billions of people who want and need it *is lack of money*. The real problem in selling more food is to enable hungry people to earn money so they can pay what it costs to produce it. The United States should seek to create new and expanded two-way flows of trade between the United States and other countries. Only those who are able to *earn dollars* are able to *pay dollars for our farm commodities*. If we can help the hungry to find ways to *earn dollars*, their own appetites will be far more effective than all the salesmen in the world could be to persuade them to buy our food.

STATEMENT OF HANS BLOCKLIN, VICE PRESIDENT, LYKES BROTHERS STEAMSHIP CO., ACCOMPANIED BY: HERBERT BRAND, PRESIDENT, TRANSPORTATION INSTITUTE; EARL CLARK, CO-DIRECTOR, LABOR-MANAGEMENT MARITIME COMMITTEE; BEN MAN, EXECUTIVE DIRECTOR, JOINT MARITIME CONGRESS; ALFRED MASKIN, EXECUTIVE DIRECTOR, AMERICAN MARITIME ASSOCIATION; AND W. H. WILLIAMS, VICE PRESIDENT, AMERICAN LINES

Mr. Chairman, members of the Committee, I am Hans Blocklin, Vice President of Lykes Brothers Steamship Co. I am appearing today on behalf of the Council of American-Flag Ship Operators. I am accompanied today by Mr. W. H. Williams, Vice President of American President Lines; Mr. Herbert Brand, President of the Transportation Institute; Mr. Alfred Maskin, Executive Director of the American Maritime Association; Mr. Ben J. Man, Executive Director of the Joint Maritime Congress; and Mr. Earl W. Clark, Co-Director of the Labor-Management Maritime Committee.

We collectively represent every segment of the ocean-going U.S.-flag Merchant Marine—liner vessels operating on regular schedules and trade routes; tankers and dry bulk carriers operating as tramps or contract carriers; subsidized and unsubsidized operators; labor and management groups. Together, our organizations represent 278 U.S.-flag vessels built in U.S. shipyards and manned by American citizens. Approximately 24,000 U.S. seamen are employed in an on-board capacity, and an additional 250,000 maritime related jobs are supported by the U.S. Merchant Marine.

These various segments of our merchant fleet frequently have diverse interests. Yet, all are united with respect to our views on the legislation the Committee is considering today.

Your Committee has before it today three bills; S. 2385, S. 2405, and S. 2968. Common to each of these is that they would improve the terms, conditions and availability of credit for the export sale of United States agricultural products. The present Commodity Credit Corporation/GSM-5 program finances the sale for export of agricultural commodities on credit terms not exceeding three years, at current interest rates of from seven to nine percent. Current exports under the CCC/GSM-5 program are about ten million metric tons annually. The legislation before you now would extend the CCC credit terms from three to ten years, with interest at or slightly above the average cost of funds borrowed by the CCC from the United States treasury.

Mr. Chairman, we strongly support any legislation that would create new and expanded markets for American products. We recognize the significant and continuing contribution of our agricultural community to the economy of the United States. The bills before you today can strengthen that community and we urge that they be considered favorably, with modification which we shall discuss.

The American Merchant Marine has proudly established a history of supporting the U.S. agricultural community and will continue to supply the logistical link between the U.S. farmer and foreign consumers. This effort assures the regularity and frequency of shipping services that are so vital to the exporter of our farm products. Without the dependable contribution of the American Merchant Marine, the exporter would be left to the mercy of foreign maritime interests with no guaranteed assurance of rate stability or dependable services. The United States-flag merchant marine is a vital component in the economic and defense posture of our nation.

Vessels flying the U.S. flag provide employment for seamen, shipbuilders, and those working in related industries which provide supporting services to the fleet. These people, as well as the companies that employ them, pay U.S. taxes and procure goods and services in the United States which contribute to our continued economic growth. It has been estimated that U.S. shipping companies return \$0.71 of every freight dollar to the U.S. economy. It is axiomatic that payment of ocean freight to foreign operators in U.S. dollars would constitute a loss of dollar reserves—definitely counter productive to the position of the U.S. in international balance of payments.

We believe that if the carriage of our international trade were abandoned to foreign operators, we would quickly relearn the lessons of the past—that the foreign operators place the economic welfare of the United States well behind that of their own. Without the presence of U.S.-flag vessels in ports throughout the world, the image of our great trading nation would be lost, and our voice in international maritime matters muted. What does it benefit us if United States agricultural commodities, exported on what must be considered concessionary terms, are delivered to our friends overseas in foreign flag vessels? Who gets the credit? More importantly, who gets the dollars which are paid for the transportation of those commodities? Should they go to a United States company paying U.S. taxes, employing U.S. seamen and building its ships in U.S. yards, thus returning a significant portion of every freight dollar to the United States economy? Or should they go to a foreign company, owing no allegiance to the United States, contributing virtually nothing to our economy, contributing only to our worsening balance of payments situation? Obviously we feel that economic and political considerations dictate participation in these programs by the American Merchant Marine.

In addition, U.S.-flag vessels provide the nucleus mobilization capability to respond to our defense requirements in times of emergency. In every conflict which this nation has faced, the U.S. merchant marine has played a vital

role. In Vietnam, U.S. vessels delivered 98% of the materials used by our forces—the balance moved by air.

Mr. Chairman, as you may know the Department of Agriculture has maintained in the past that the current CCC/GSM-5 program does not come under the provisions of Section 901(b) of the Merchant Marine Act of 1936 (hereafter referred to as P.L. 664). P.L. 664 provides, in pertinent part, that "Whenever the United States shall . . . advance funds or credits . . . in connection with the furnishing of . . . commodities, the appropriate agency or agencies shall take such steps as may be necessary and practicable to assure that at least 50 per centum of the gross tonnage of such . . . commodities . . . be transported on privately owned United States flag commercial vessels..." The stated purpose of P.L. 664 is to assure a fair and reasonable participation by United States flag commercial vessels in cargo movements which are made possible by United States government participation.

S. 2405 provides for financing by the CCC of ocean freight charges incurred pursuant to its terms to the extent that such charges are higher (than would otherwise be the case) by reason of a requirement that the commodities be transported in United States-flag vessels. This is an apparent recognition of the fact that P.L. 664 would and should apply to these programs and we would strongly support this bill, with a clarifying amendment which we are submitting today.

S. 2385 and S. 2968 specifically state that P.L. 664 shall not apply where CCC credit terms are extended. This, in our view, would totally contravene the intent of the Congress, as expressed in P.L. 664, to preserve United States Government-aided cargoes, or a substantial portion of them, for the American Merchant Marine.

The position of the Department of Agriculture that P.L. 664 does not apply to the current CCC/GSM-5 program was upheld by an opinion of the Attorney General, dated August 29, 1963. That opinion, which examined at length the legislative history of P.L. 664, made it very clear that a determination must be based on whether or not the particular transaction was, in fact, purely commercial in nature. It went on to say that if the United States advances credit in connection with a sale, the terms of which are more favorable to the purchaser than they would be in a normal business transaction, the transaction cannot be regarded as purely commercial and the commodities involved would come within the scope of P.L. 664.

We submit that in no case where credit terms of up to ten years are granted for the purchase of a consumable commodity can the transaction be considered purely commercial in nature. It is highly unusual for a commercial exporter of agricultural products in this country or any other to grant credit for an extended period of time to a foreign importer without a government guarantee of the funds. If he does grant credit without such guarantee the terms do not exceed eighteen months.

We believe that the enactment of these bills providing extended credit terms would result in a shift from the Title I P.L. 480 program to this intermediate credit program by certain countries. Furthermore, we believe that the Department of Agriculture may exert pressure on countries to utilize this program. This would result in a loss of a major portion of the 2½ million metric tons of cargo now annually moving on U.S.-flag vessels.

In addition, the exclusion of the intermediate term Export Credit Sales Program from the purview of P.L. 664 thwarts the intent of Congress and the stated policy of the President. As the House report on P.L. 664 clearly outlined, the legislation was designed to "establish . . . on a permanent basis . . . that at least half of the shipments of government aided cargoes be made in American-flag ships." Today, the House Merchant Marine and Fisheries Committee and the President have acknowledged the need for the development of a rational, coordinated shipping policy. In fact, an interagency Task Force is being formed under the auspices of the White House to examine and reaffirm this cargo policy. We urge this Committee to bear in mind that exclusion of cargo preference provisions from these bills would be contrary to the policy this administration in trying to develop.

We strongly urge that the pending legislation be amended to reflect the intent of the Congress as it was expressed in P.L. 664. That is, that at least 50% of U.S. commodities exported under a government program such as this should be carried on U.S. vessels when they are available and at fair and

reasonable rates. These objectives can be achieved by the adoption of the simple amendments annexed herein.

Mr. Chairman, this concludes my prepared remarks. We appreciate the opportunity to appear before you today and this panel will be happy to answer any questions you or other members of the Committee may have.

AMENDMENT TO BE OFFERED TO S. 2405

On page four, lines five and six, delete the words "a requirement that the commodities be transported in United States-flag vessels." After the word "of" on line five add the following: "application of the provisions of Public Law 664, Eighty-third Congress, as amended (68 Stat. 832, 46 U.S.C. 1241(b))."

AMENDMENT TO BE OFFERED TO S. 2385

On page two, line eight, delete "not."

AMENDMENT TO BE OFFERED TO S. 2968

On page nine, line twenty-one, delete "not".

STATEMENT OF HORACE DAVIS, FORMER ATTACHÉ AND FORMER ASSISTANT ADMINISTRATOR FOR AGRICULTURAL ATTACHÉS

Mr. Chairman, my name is Horace Davis. I am a retiree from the Foreign Agricultural Service. I spent more than 12 years overseas as an Agricultural Officer and also more than seven years in FAS Washington as Assistant Administrator in charge of Agricultural Attaches. I welcome the opportunity to meet with this Committee and to comment specifically on Title IV of S. 2968. Title IV proposes the upgrading of the title of senior USDA representatives in Key Countries from Agricultural Attache to Agricultural Counselor.

The question of obtaining diplomatic titles for overseas representatives of USDA that are commensurate with their responsibilities and the importance of their work has been raised several times since Agricultural Attaches were transferred from the Department of State back to USDA in 1954. In each case, efforts to correct this problem through administrative channels have been ineffective. Objections raised by the Department of State have prevailed.

In the ranking of diplomatic personnel in an Embassy, the Ambassador and the Deputy Chief of Mission occupy the two top positions. In most large Embassies, officers with the title of Minister are in charge of the larger sections of the Embassy such as Economic Affairs and Political Affairs. Next in line, in terms of diplomatic rank, are Counselors and finally Attaches. In U.S. Embassies there has been a sharp increase in the use of Counselor titles since the mid-fifties but this title has not been available to USDA representatives. While Agricultural Attaches were in the Department of State—from 1939 until 1954—a few of the top representatives in our larger Embassies were given the title of Agricultural Counselor but this practice was discontinued when Congress transferred the Service back to USDA in 1954.

The fact that USDA representatives in our larger Embassies can not rise above the rank of Attaches does create problems. In each of our Embassies a group of higher ranking Embassy Officers is selected to meet with the Ambassador on a regular basis. This group is usually referred to as the Country Team or sometimes as the Executive Staff. When this selection is based on rank such as Counselor and above, as sometimes happens, the Attache is not privileged to participate in top level discussion of problems and policies in the host country, some of which may be of particular interest to Agriculture.

In most foreign countries much more significance is attached to titles than is true, for example, here in Washington. In some instances this has created problems for Attaches in gaining access to key foreign government officials, especially top officials outside of the Agricultural Ministry. The relatively low rank of U.S. agricultural representatives compared with top officers in other sections of the U.S. Embassy gives the appearance that we assign a lower priority to Agriculture than to other economic and commercial activities performed by the Embassy. Officials in host country ministries have been known to express great curiosity that the largest exporter of farm products in the

world does not make the rank of Counselors available to any of its agricultural representatives.

The point is that another producing nation, competing with us for a market, will more than likely be represented by a Counselor, and may therefore have an advantage in reaching key purchasing officials.

It can easily be demonstrated that many other countries do use Counselor titles for their senior agricultural representatives in important countries. For example, in Washington, D.C., the November 1977 Diplomatic List shows that 16 of the senior agricultural representatives carry the title of Counselor¹ and seven carry the title of Attache. This does not, of course, include all officers in the Washington Embassies assigned to agricultural duties. Many of the Embassies do not list a functional title for all of their personnel, listing them only as Counselors, Secretaries or Attaches.

In the decades ahead, the race between world population growth and world food production will continue, perhaps at a diminished rate. Food no doubt will play a more important role in world affairs in future decades than has been true in the past. The United States has the capability of increasing substantially its agricultural output and should continue to be the world's largest exporter of agricultural commodities. We should take such steps now as are necessary to better cope with this challenge and this opportunity. Upgrading the titles of senior USDA overseas personnel would be a constructive move in that direction.

STATEMENT OF E. CLINTON STOKES, DIRECTOR, FOOD AND AGRICULTURE,
CHAMBER OF COMMERCE OF THE UNITED STATES

I appreciate the opportunity to express the National Chamber's support for S. 2504, S. 2385, S. 2968 and, with the exception of one provision, S. 2405—bills which would expand exports of U.S. agricultural products. The National Chamber is the largest business federation in this country. Its membership consists of more than 69,000 businesses, 2,600 Chambers of Commerce in the United States and abroad, and 1,200 trade and professional associations.

The National Chamber shares with Congress and the Administration concern over the problem of inadequate net farm income. Higher production costs, low prices for a number of commodities, and a decline in the volume of agricultural exports all have contributed to this problem. Recent legislative efforts have focused on measures to further reduce production and raise the level of support loans and target price deficiency payments to achieve more acceptable levels of farm income. The emergency farm credit legislation, currently being considered in Congress, will provide needed temporary relief for producers who are suffering from a serious cash flow problem. But, neither of these approaches focus on measures to increase the demand for farm products.

The Chamber believe that the greatest potential for improving farm income is through expansion of agricultural exports. The United States Department of Agriculture reports that the U.S. share of the export market for soybeans, wheat and cotton has declined in recent years. This need not be the case. With greater emphasis on market development and increased efficiency in the production and marketing of American products, the U.S. has the opportunity to retain its comparative advantage in world markets and increase exports for these and many other agricultural products. An expanded market demand will also lead to improved farm income.

The legislation being considered before this committee provides the necessary enabling authority to accomplish the desired export market potential. S. 2504 would authorize the Commodity Credit Corporation (CCC) to finance beyond the present three-year limit exporters who will extend deferred payments where their sales to foreign buyers would be in excess of the level of exports without the credit assistance. The interest rates would be high enough to result in no cost to the government.

S. 2405 would extend CCC credit for five to ten years on commodity stocks from private sources or owned by CCC to promote additional sales in excess of expected exports for cash. The authority would be applicable to the sale and

¹ The senior agricultural representatives in Washington who have the title of Counselor are from the following countries: Argentina, Australia, Belgium, Bulgaria, Denmark, Egypt, Federal Republic of Germany, Iran, Japan, Netherlands, Pakistan, South Africa, Sweden, Turkey, USSR, and Venezuela.

export of livestock for breeding purposes and for marketing, storage, handling and distribution facilities as well as for commodities. These items would help encourage future markets for U.S. products. It would also finance ocean freight charges on the credit sales to the extent that such charges are higher (than would otherwise be the case) by reason of a requirement that the commodities be transported in United States flag vessels, as authorized under Public Law 664.

S. 2385 would extend CCC credit on private stocks for three to ten years and would make the same credit terms available to nonmarket economy countries. It would exempt intermediate term credit from subsidizing transportation costs on U.S. flag vessels as authorized under Public Law 664.

S. 2968 would: (1) also authorize CCC credit on sales from private stock for three to ten years to countries currently eligible for credit sales up to three years, but exempt the credit program from the provisions of Public Law 664; (2) authorize the establishment of up to 25 overseas agricultural trade offices; (3) upgrade certain positions of U.S. diplomatic missions from their current rank of agricultural attache to agricultural counselors; and (4) establish a new position of Under Secretary of Agriculture in the U.S. Department of Agriculture.

The National Chamber supports those provisions which would authorize the extension up to ten years of CCC credit financing for additional commodity sales and for market development facilities in all countries on a nondiscriminatory basis. Of course, we do not favor the indiscriminate use of credit sales. Such sales should be limited to the development of additional exports, which would not otherwise be made without such credit. We think this can be done without contributing to an international credit war. We understand that our major agricultural competitors, such as Canada and Australia, already have such authority.

It should also be emphasized that an important purpose of the intermediate term credit sales would be the use of government credit for marketing, processing, storage and handling facilities. Many countries have expressed a need for longer term credit for such market development projects. The development of these facilities would enable other countries to maintain larger grain reserves, thus reducing U.S. grain storage costs, and would increase consumption, thus expanding export opportunities for U.S. products.

Finally, the intermediate term CCC credit (three to ten years) program would provide a transition from long term concessionary sales under Public Law 480 financing to commercial sales for cash dollars.

The extension of credit financing to communist countries, which is currently denied under Title IV of the Trade Act of 1974, would enable them to increase imports from this country in excess of the amount they purchased for cash. Except for countries excluded under the Trading With The Enemy Act, the United States should abide by the most-favored nation principle as advocated under the articles of GATT. Our experience with exports to Poland has been substantial. Provisions of authority for similar terms with Hungary are reportedly in process. Additional export expansion may be expected if the credit terms are made available to Eastern European nonmarket countries. Failure to take advantage of such opportunities will mean the loss of these and other potential markets to competing nations, leaving the U.S. as a residual supplier.

The National Chamber is opposed, however, to Section 6 of S. 2405, which would require CCC to subsidize the shipping charges on U.S. flag vessels to the extent that they are higher than competitive rates as authorized in Public Law 664. This subsidy payment was authorized under Public Law 664 to accommodate a Public Law 480 requirement that at least 50% of all commodities sold under government financing to friendly countries must be shipped on U.S. flag vessels. This transportation subsidy should not be extended to CCC intermediate credit sales, which are not intended to provide special concessions to selected countries. Therefore, such sales should be financed on a self-sustaining commercial basis without additional costs to the Federal Government. We are opposed to broadening the application of the Cargo Preference laws which serve as disincentives to increasing the competitive efficiency of the U.S. maritime industry. The Chamber supports the exemption to Public Law 664 as provided in S. 2385 and S. 2698.

The greatest potential for expanding U.S. agricultural exports probably lies within the area of merchandising and salesmanship. S. 2968 will strengthen the trade promotion capabilities of the U.S. Department of Agriculture. The National Chamber endorses the authority to establish trade offices in other countries,

similar to the one recently opened in London. An adequately staffed trade promotion office could provide much needed information for both our potential customers and U.S. suppliers to identify sales opportunities, host sales promotion meetings, and offer numerous facilities and services needed by both exporters and importers. Many of our competitors provide much more assistance and information for their agricultural clients than do the existing offices, some of which are operated on a part-time basis at the U.S. embassies.

Another provision of S.2968 would upgrade the position of many of our agricultural "attaches" to "counselors." Experience has shown that the rank of attache is too low to permit this representative access to many important trade meetings—both within the U.S. embassy and in conference with foreign representatives. The title of counselor commands a position of authority and respect from the host government, particularly in areas of trade policy problems. If the senior agricultural representative is to function with maximum effectiveness in promoting agricultural exports, his status in the U.S. embassy and with the host country should reflect the importance of his position.

The National Chamber has no position on the provision to elevate the position of Assistant Secretary for International Affairs and Commodity Programs to the status of Under Secretary, except to urge that the administration of international programs and domestic commodity programs continue to be coordinated under one official.

In summary, the Chamber supports:

1. Authority for CCC to finance deferred payments as provided in S. 2504;
2. Authority to extend intermediate term credit to finance the export of additional commodities and marketing facilities as provided in S.2405, S.2385 and S.2968, with the exemption from the provision of Public Law 664 as provided in S.2405 and S.2385;
3. Authority to extend credit terms to nonmarket countries on a nondiscriminatory basis, as provided in S.2385; and
4. Authority to (a) upgrade agricultural attaches to the rank of counselors in key market areas and (b) establish up to 25 agricultural trade offices to promote the sale of U.S. agricultural products and services.

The Chamber opposes Section 6 of S.2405, which excludes the exemption of the Cargo Preference application to concessional sales.

The National Chamber commends the sponsors of these bills and urges this Subcommittee to recommend favorably to the Full Committee the desirable features as outlined above. Such legislation will provide the needed authority for the Administration, in cooperation with industry, to promote aggressively increased exports of U.S. agricultural commodities and establish market development facilities throughout the world. It will:

1. Improve farm income in the near and distant future;
2. Decrease dependence on U.S. government subsidies to limit agricultural production and support farm income;
3. Increase international trade with an expanding number of countries;
4. Result in greater awareness of the nondiscriminatory intent of U.S. foreign economic policy;
5. Increase dependence on U.S. producers and agribusiness as reliable suppliers of agricultural products and services;
6. Increase world food security; and
7. Improve the U.S. balance of payments position.

SEALD-SWEET GROWERS, INC.,

April 25, 1978.

I appreciate the opportunity to comment on proposed legislation to expand U.S. agricultural exports.

The specific legislative proposals set forth in the material you sent me do not address what we consider to be our primary problem areas for export expansion. We do, however, believe there is merit in the concepts contained in the proposals.

We would agree with the upgrading of the agricultural attache in foreign countries so as to place him in a stronger position to treat with the foreign government on trade matters. We also agree that the Assistant Secretary of Agriculture for international affairs should be upgraded to the rank of Under Secretary. We are not sure of the necessity for the establishment of separate trade offices.

The Commodity Credit Act amendments do not have immediate application to our current activities, but as we attempt to find new ways to expand our export program we can see that there could be possibilities where this type financial assistance might be very helpful.

Our major problem in expanding exports of Florida citrus has to do with trade barriers imposed by foreign governments on our products. The five major Florida citrus organizations put together a position paper on the subject in March of 1977, a copy of which is enclosed.

We presently participate with the Foreign Agricultural Service market development programs as a cooperator under the Export Incentive Program in Japan, and also through the Florida Department of Citrus 3-Party Program in Europe where they are the cooperator and we are but one of the exporter participants. Both of these FAS programs are very helpful to us. Further expansion of this type market development aid would be of substantial assistance to us. More liberalized guidelines for each of the programs would also be helpful.

Another area of U.S. government assistance that could be of great benefit is the establishment of a U.S.D.A. laboratory in Japan similar to the one now in Rotterdam. Technical assistance of the type available from a facility such as this can be of great help to our export program.

Again, many thanks for giving us an opportunity to share our views with you. I understand that Tom Osborne of Florida Citrus Mutual will be in Washington this week to discuss these matters with you and others. He has an excellent background on this subject and I am sure will do a fine job in presenting the Florida citrus industry position.

Best regards,

MARVIN A. MCNAYR,
Administrative Assistant.

THE FLORIDA CITRUS INDUSTRY POSITION PAPER RELATING TO CITRUS TRADE BARRIERS IN INTERNATIONAL MARKETS

INTRODUCTION

This document represents a summary of the Florida citrus industry position relating to citrus trade barriers in international markets. Included in the paper is a description of the Florida citrus industry trade barriers confronted by the U.S. industry in various areas of the world, subsidies and assistance provided to foreign citrus producers by their government and the U.S. government and U.S. citrus trade barriers.

THE FLORIDA CITRUS INDUSTRY

The United States is the world's largest producer of citrus, producing approximately 30% of the world's oranges and approximately 70% of the world's grapefruit. Of this, Florida is the major contributor, producing approximately 75% of the total U.S. citrus. Thus, Florida alone is responsible for approximately 22% of the world's production of oranges, 60% of the world's production of grapefruit and 25% of the world's total production of citrus.

Florida provides practically all of the frozen concentrated and chilled orange and grapefruit juices produced in the United States.

With normal crops, prices for Florida citrus have remained at reasonable levels. The Market Research Corporation of America indicates that retail prices of FCOJ to the U.S. consumer did not increase at all during the three seasons of 1972 through 1974, increased only 6% during the 1975 season and increased only 3% during 1976. Thus, during the past five-year period, which was a period of extremely high inflation of all other food products, FCOJ increased at an average rate of only 2% a year, even though the industry's operating costs (production, harvesting, processing) increased approximately 10% a year. The obvious result has been a decrease in average industry returns during recent seasons.

TRADE BARRIERS CONFRONTED

European Economic Community

(1) The European Economic Community (EEC) grants preferential duty reductions on fresh citrus and citrus juices to various Mediterranean coun-

tries that nullify tariff bindings to the United States and are also contrary to the principles of the General Agreement on Tariffs and Trade (GATT). For example, the current import duties for citrus juices entering the EEC for which Florida pays the full amount, are:

- (a) 19% ad-valorem on orange juices
- (b) 15% ad-valorem on grapefruit juices.

The EEC, however, has granted a 70% preferential duty reduction on the above rates to Israel, Tunisia, Morocco and Algeria. The import duties on fresh citrus entering the EEC are:

(a) oranges 4-16-20% ad-valorem with 16% and 20% applying during Florida's shipping season.

(b) grapefruit 4% ad-valorem year around.

However, the EEC has granted preferential duty reductions to at least 11 other citrus producing countries on oranges, tangerines, lemons and grapefruit, ranging from a low of 40% to as high as 100%.

(2) The EEC has also adopted a procedure which states that if the market for certain processed fruits and vegetables, including orange and grapefruit juices, "experiences or is threatened with serious disturbances," authorization is given for (a) the total or partial suspension of imports, and (b) the establishment of minimum import prices.

These illegal tariff preferences and EEC regulations authorizing minimum import prices and restrictions should be removed, and concessions should not be made for their removal, since the U.S. has already paid for the level of the common external tariff of the European Community.

The Tariff preferences will, in time, encourage increased Mediterranean production and the EEC regulations will tend to divert the increased world supplies towards the only remaining major world markets which permit unrestricted imports—Scandinavia, Canada and the United States.

(3) Various EEC countries also impose a value-added tax on citrus juices that is much higher than on other food products. Also, because this tax is on an ad-valorem basis, it discriminates against the higher priced, but higher quality Florida citrus products. The other two major factors which contribute to the higher prices for Florida product are the preferential duty reductions which were previously mentioned, and government subsidies granted to other citrus industries, some of which are also receiving the preferential duty reductions. Specifically, value-added taxes are imposed by a number of countries in varying amounts. Examples are as follows:

[In percent]

Country	Orange juice	Other food
Belgium.....	14.0	6.0
France.....	17.6	7.5
United Kingdom.....	8.0	0
Netherlands.....	18.0	4.0
Austria.....	17.0	8.0
Germany.....	11.0	4.5

Since European consumers are increasingly recognizing that citrus juices are foods rather than refreshment drinks, the governments should be urged to remove the discriminatory aspects of these taxes.

Japan

(1) Japan is the only major nation that does not accept tolerances for fungicides such as OPP and TBZ, which have been approved by the World Health Organization and FAO of the United Nations. (Experiments are currently under way which may lead to acceptance of these fungicides by Japan). Efforts to persuade the Japanese to accept OPP and TBZ should be continued and increased.

(2) Import quotas on citrus juices are of such small volume that for all practical purposes, they represent a virtual embargo. Such quotas exist even though Japanese business men acknowledge that juice from Japan's mandarin oranges must be blended with juice from other areas, such as the U.S., to provide the consumer a desirable product.

(3) Import quotas are maintained on fresh oranges even though Japan produces essentially no oranges of the type restricted and has no oranges of any type available for six months of the year.

These quotas are illegal under GATT, so there is no reason for the U.S. to compensate the Japanese for their removal.

(4) Japan also maintains an import duty on fresh grapefruit which varies from 20% to 40% ad-valorem (the 40% applies during the Florida shipping season), even though Japan produces no grapefruit.

The U.S. should seek to negotiate a Japanese import duty of 20 percent ad-valorem for the entire year. The current duty structure provides an unreasonable hardship to U.S. gulf coast grapefruit exporters.

SUBSIDIES AND ASSISTANCE TO FOREIGN PRODUCERS

(1) Governments of many other citrus-producing countries subsidize production and/or marketing activities for their citrus industries. For example, Brazil—the world's largest exporter of processed orange products—provides various fiscal credits which permit individuals or corporations to eliminate portions of their income tax, provided they participate in various industrial and agricultural projects, one of which is planting additional citrus groves. Also, citrus exports from Brazil benefit from fiscal incentives which include exemptions from corporate income taxes on export profits, manufacturing taxes, and the state value-added taxes.

Israel, one of the world's largest exporters of orange and grapefruit products, provides exporters with government incentives for product exported, loans at preferred terms and tax concessions. Even the EEC authorizes Italy to subsidize shipments to markets within the EEC and also exports to other countries.

(2) The U.S. has contributed many dollars and much technical knowledge towards increasing citrus production in other countries and developing international markets which are shared by other citrus producing areas. The International Bank for Reconstruction and Development, a branch of the World Bank, recently announced loans of \$55 million to Egypt and \$40 million to Turkey to increase production of their fruits and vegetables, most of which will be devoted to citrus. In addition, various public institutions and private firms have provided production and processing technology to various foreign countries.

The Florida citrus industry questions whether it is appropriate for Congress to provide U.S. tax dollars to the International Bank for Reconstruction and Development for the purpose of encouraging citrus production in other parts of the world.

U.S. CITRUS TRADE BARRIERS

(1) The U.S. imports fresh oranges from Mexico and Israel, with minor quantities from Japan and elsewhere. Small quantities of fresh grapefruit are imported from Mexico and other sources. Significant quantities of frozen concentrated orange juice are imported, mostly from Brazil and Mexico.

There are no restrictions to imports into the U.S. although the fruit must meet plant protection measures and also minimum standards of quality and maturity imposed on domestic shipments of Florida fruit.

(2) U.S. import duties are specific rather than ad-valorem. They are 35¢ per equivalent single-strength gallon for FCOJ, 1¢ per pound for fresh oranges and from .8 to 1.3¢ per pound for fresh grapefruit, depending on the month of the years.

(3) The import duties on fresh citrus fruit and also single-strength citrus juices are low, ranging from the equivalent of 5 to 11 percent ad-valorem in 1975. True, some non-citrus producers such as Canada and Sweden import fresh citrus duty-free, but the EEC (20 percent ad-valorem during Italy's shipping season for oranges), Japan (40 percent for oranges and grapefruit during the winter season), Mexico (about 300 percent) and Israel (about 30 percent ad-valorem), all have much higher duties. Besides, some of these countries may limit imports through non-tariff barriers. With world citrus production increasing, the international trade will become even more competitive in the years ahead. And with the major markets of the EEC and Japan capable of effectively limiting imports, there will be greater pressures to ship fresh citrus to the U.S. and Canadian markets.

The U.S. import duties on fresh citrus are now unfairly low in relation to those of other citrus supplying countries. They should not be changed from present levels.

(4) The import duty on frozen concentrated orange juice appears relatively high—about 100 percent equivalent ad-valorem in 1975. Even so, the import duties of the U.S. major supplying countries, Brazil (185 percent ad-valorem) and Mexico (equivalent to about 130 percent ad-valorem) were higher.

The current U.S. import duty on FCOJ is necessary to prevent imports from seriously undermining the producer price structure for oranges in Florida. If the current U.S. import duty were to be reduced to the level authorized under the Trade Act of 1974, Brazilian FCOJ could be imported at prices below the equivalent Florida producer price level in the 1974-75 season.

Brazil is the world's largest (and cheapest) exporter of FCOJ. Its exports are subsidized. Its production is growing. The restrictive import systems of the EEC and Japan will tend to divert a larger share of Brazil's exports to the U.S. and Canada in future years. Maintenance of the current U.S. import duty is essential to assure stability and growth to the Florida producing industry.

Also, as previously discussed in this paper, the U.S. industry has not used the tariff to set unrealistically high prices to the U.S. consumer.

CONCLUSIONS

The Florida citrus industry does not expect its government to match the subsidies granted by other citrus producing countries, nor does Florida expect the U.S. government to develop for it additional trade restrictions. The Florida citrus industry does, however, expect recognition by U.S. Government officials that:

(1) Tariff barriers do exist in non-citrus producing countries that are contrary to the provisions of GATT.

(2) Various EEC countries, in addition to illegal trade barriers, impose value-added taxes on citrus juices that are much higher than on other food products. In our opinion, orange juice, either in fresh or processed form, is a basic food item and should not be taxed at any higher level than other basic food items.

(3) The U.S. citrus industry has contributed money and knowledge to help develop production and markets for other citrus producing countries.

(4) The combination of preferential treatment granted certain citrus producing countries by the EEC, the value-added taxes confronted in various EEC countries, the import quotas maintained by Japan for citrus products they do not produce, the exporting of knowledge and dollars to other citrus producing areas by the U.S. citrus industry, and the competition with industries which are backed by their respective governments is an undesirable combination of circumstances to confront and the Florida citrus industry requests that the U.S. government should attempt to rectify these items which are contrary to the provisions of GATT, but should not feel inclined to trade away the current U.S. import duties on citrus.

STATEMENT OF ROBERT WAGER, PRESIDENT, AMERICAN BAKERS ASSOCIATION

Mr. Chairman and members of the Subcommittee, my name is Robert Wager, President of the American Bakers Association. I appreciate this opportunity to present our views on S. 2968, the Agricultural Export Expansion Act of 1978.

This bill would authorize the establishment of up to 25 agricultural trade missions, establish a new medium term commercial credit program for financing exports, create a new Under Secretary of Agriculture for International Affairs and upgrade the position of U.S. Agricultural attachés in our embassies. On both economic and humanitarian grounds we support this legislation and urge its speedy enactment. It is part of the American tradition to help those who are less fortunate than we, and our agricultural exports help build up our balance of trade.

We all know there are many places throughout the world where hunger and malnutrition could be alleviated by American food. Providing this food to those who need it is in our own interest as well as that of the recipients. In 1977, our agricultural exports totaled more than \$24 billion. We have a large surplus in our agricultural trade. Every additional dollar's worth of commodities we export helps us pay for the foreign oil which our economy must have.

To complement these efforts to expand exports, the Committee should require commodity exporters to provide more accurate, timely information to the government and the public on export sales. Such information would help farmers to increase their profits, assist government in developing future export policy and enable business to plan its activities on a more rational basis.

The amendment to Section 812 in the 1977 Farm Bill, Section 1005 of PL 95-113, did not expand the amount of information reported by the exporters. It simply provided that when the Secretary requires daily reports on export sales, such reports should be compiled and released daily.

Over the past few years the General Accounting Office has made an extensive review of the export sales reporting program. In an interim report to the Senate Agriculture Committee 18 months ago, the GAO testified that the export sales reporting system "falls short of providing timely, accurate, reliable and complete agricultural export data." In particular, GAO found that during 1974 and 1975, "the data provided on export contracts appeared to foster considerable uncertainty over actual export levels, rather than to provide the element of certainty for which it had been created." We know now that during these years the USDA procedure exaggerated the amount of grain actually exported.

The GAO completed its study and reaffirmed these conclusions in a well-documented two volume report entitled "Issues Surrounding the Management of Agricultural Exports," May 2, 1977. Chapter four of the report provides a lengthy and detailed history and evaluation of the export sales reporting program. We will not repeat the major findings and conclusions here. They are well set forth in the report. We commend them to the Subcommittee and hope the members and staff will give them close study.

Experience since the export sales reporting requirements were adopted in 1973 has shown that the system tends to overreport sales in times of shortage, and underreport them in times of surplus. This is due, in part, to the way the law was written. It did not include sales by the foreign subsidiaries, affiliates and agents of the American exporter, it required an actual contract for sale, when in fact most transactions are made by oral commitment and the allowance for an "unknown destination" added further uncertainty. Finally, the optional origin category established by the regulations has not proven to be an accurate indication of the grain to be shipped from the United States.

This amendment is intended to remedy those defects. It provides a definition of "exporter" which includes the controlled foreign subsidiary, affiliate or agent and requires that any relationship between the buyer and the seller be reported. It is well within the Constitutional power of Congress to require reporting of such information by these entities. The accompanying memorandum of law makes this clear.

The amendment also provides that export "commitments" must be reported. Third, it requires the disclosure of any intermediate and ultimate destination of the commodity. And fourth, it provides that unless another country is reported as the origin of the shipment, the sale must be reported as one which may be met by exports from this country. This will make the optional origin category a more accurate gauge of potential shipments from the United States.

The amendment revises the penalties for violating the law. It deletes the prison term and adds instead, denial of grain inspection services for up to one year, as determined by the Secretary of Agriculture. This seems a more appropriate penalty.

Mr. Chairman, this is a finely honed, well balanced amendment. It does only what is necessary to assure that export sales information will be reported to the USDA and the American people on a timely and accurate basis. It will not be unduly burdensome to the exporters, since they already possess all of this information, and it will not interfere with the export of any agricultural commodity. There will be no reduction in our vital agricultural exports as a result of this amendment.

Subsequent developments to the GAO Report have reaffirmed the need for changes in the export reporting system. During the fall of 1977, it was common knowledge in the grain trade that the Soviet Union had purchased far more grain from American sources than the reporting system was showing. Here, the USDA procedure was clearly underreporting the amount of grain actually sold to the Russians.

As a result of all this, the export reporting system is in greater disrepute today than ever before. If it is to provide more information than misinformation in the years ahead, Congress must act.

Mr. Chairman, when the export reporting system fails to function effectively, everyone loses, but the speculator, who seeks to exploit the market. The farmer loses because he is misled about the best time to sell his crops, so as to maximize his return. We all know this has hurt the farmer in recent years.

The businessman loses because the market is misled about the demand and supply situation, and hence he cannot efficiently plan his commodity purchases. The government loses because it cannot properly develop and execute export policy and the consumer loses because the resulting uncertainty in the market tends to generate higher prices than are necessary.

We believe the adoption of our amendment will benefit the farmer, the businessman, the government and the consumer. The only loser will be the speculator.

A copy of our proposed amendment is attached with a memorandum of law from our attorneys. We hope it will be included as an amendment to this bill at the time it is reported to the full committee.

PROPOSED AMENDMENT TO THE 1977 HOUSE FARM BILL AMENDING SECTION 812 OF THE AGRICULTURAL ACT OF 1970, AS ADDED BY THE AGRICULTURE AND CONSUMER PROTECTION ACT OF 1973 (P.L. 93-86)

Section 812 of the Agricultural Act of 1970, as added by Pub. L. No. 93-86, is amended to read as follows:

"EXPORT SALES REPORTING"

"Sec. 812. All exporters of wheat and wheat flour, feed grains, oil seeds, cotton and products thereof, and other commodities the Secretary may designate shall report to the Secretary of Agriculture, on a weekly basis, the following information regarding any commitment, entered into or modified in any manner during the reporting period, which may result in the export sale of any such commodity produced in the United States: (a) type, class, and quantity of the commodity which may be exported from the United States, (b) the marketing year of shipment, (c) intermediate and ultimate destinations, if known, (d) the identity of the buyer, and the buyer's relationship, if any, to the exporter. Any commitment which does not identify a country other than the United States as the source of the commodity to be sold may result in the export of such commodity from the United States and must be reported. Individual reports shall remain confidential but shall be compiled by the Secretary and published in compilation form each week following the week of reporting. All exporters of agricultural commodities produced in the United States shall upon request of the Secretary of Agriculture immediately report to the Secretary any information with respect to export sales of agricultural commodities and at such times as he may request. When the Secretary requires that such information be reported by exporters on a daily basis, the information compiled from individual reports shall be made available to the public daily. Any person who knowingly fails to report export sales pursuant to the requirements of this section shall be fined not more than \$25,000 or, in the case of persons making export sales of commodities which are required to be inspected pursuant to the provisions of the United States Grain Standards Act of 1976 (P.L. 94-582), as amended by the Food and Agriculture Act of 1977 (P.L. 93-113), shall be denied inspection services thereunder for such periods as the Secretary may determine, not to exceed one year, or both. The Secretary may, with respect to any commodity or type or class thereof during any period in which he determines that there is a domestic supply of such commodity substantially in excess of the quantity needed to meet domestic requirements, and that total supplies of such commodity in the exporting countries are estimated to be in surplus, and that anticipated exports will not result in excessive drain on domestic supplies, and that to require the reports to be made will unduly hamper export sales, provide for such reports by exporters and publishing of such data to be on a monthly basis rather than on a weekly basis. As used in this section: (1) the term "exporter" means any United States person who, as part of his normal business or otherwise, enters into any commitment for the export sale of an agricultural commodity; (2) the term "person" includes any individual, partnership, corporation, or other form of association; (3) the term "United States person" means any United States resident or national, any domestic concern (including any permanent domestic establishment of any foreign concern), any foreign subsidiary or affiliate (including any permanent foreign establishment) of any domestic concern which is controlled by, controlling, or under common control with such domestic concern, and any foreign agent of any such domestic concern

in a transaction for the export sale of an agricultural commodity; and (4) the term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, directly or indirectly, the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise. It shall be the responsibility of a domestic concern to ensure that the reports required of its foreign subsidiaries, affiliates and agents are filed. The Secretary of Agriculture is authorized to issue such rules and regulations as may be necessary to implement this section."

PROPOSED AMENDMENT TO THE 1977 HOUSE FARM BILL AMENDING SECTION 812 OF THE AGRICULTURAL ACT OF 1970, AS ADDED BY THE AGRICULTURE AND CONSUMER PROTECTION ACT OF 1973 (P.L. 93-86)

Section 812 of the Agricultural Act of 1970, as added by Pub. L. No. 93-86, is amended to read as follows (all additions to the existing statute are emphasized and all deletions crossed through):

"EXPORT SALES REPORTING"

"Sec. 812. All exporters of wheat and wheat flour, feed grains, oil seeds, cotton and products thereof, and other commodities the Secretary may designate produced in the United States shall report to the Secretary of Agriculture, on a weekly basis, the following information regarding any ~~contract for export sales commitment~~, entered into or ~~subsequently~~ modified in any manner during the reporting period, ~~which may result in the export sale of any such commodity produced in the United States:~~ (a) type, class, and quantity of the commodity sought ~~to which may be exported from the United States~~, (b) the marketing year of shipment, (c) ~~intermediate and ultimate destinations, if known~~, (d) ~~the identity of the buyer, and the buyer's relationship, if any, to the exporter. Any commitment which does not identify a country other than the United States as the source of the commodity to be sold may result in the export of such commodity from the United States and must be reported.~~ Individual reports shall remain confidential but shall be compiled by the Secretary and published in compilation form each week following the week of reporting. All exporters of agricultural commodities produced in the United States shall upon request of the Secretary of Agriculture immediately report to the Secretary any information with respect to export sales of agricultural commodities and at such times as he may request. When the Secretary requires that such information be reported by exporters on a daily basis, the information compiled from individual reports shall be made available to the public daily. Any person (or corporation) who knowingly fails to report export sales pursuant to the requirements of this section shall be fined not more than \$25,000 or ~~imprisoned not more than one year~~, in the case of persons making export sales of commodities which are required to be inspected pursuant to the provisions of the United States Grain Standards Act of 1976 (P.L. 94-582), as amended by the Food and Agricultural Act of 1977 (P.L. 95-113), shall be denied inspection services thereunder for such periods as the Secretary may determine, not to exceed one year, or both. The Secretary may, with respect to any commodity or type or class thereof during any period in which he determines that there is a domestic supply of such commodity substantially in excess of the quantity needed to meet domestic requirements, and that total supplies of such commodity in the exporting countries are estimated to be in surplus, and that anticipated exports will not result in excessive drain on domestic supplies, and that to require the reports to be made will unduly hamper export sales, provide for such reports by exporters and publishing of such data to be on a monthly basis rather than on a weekly basis. As used in this section: (1) the term "exporter" means any United States person who, as part of his normal business or otherwise, enters into any commitment for the export sale of an agricultural commodity; (2) the term "person" includes any individual, partnership, corporation, or other form of association; (3) the term "United States person" means any United States resident or national, any domestic concern (including any permanent domestic establishment of any foreign concern), any foreign subsidiary or affiliate (including any permanent foreign establishment) of any domestic concern which is controlled by, controlling, or under common control with such domestic concern, and any foreign agent of any such domestic concern in a transaction for the export sale of an agricultural commodity; and (4) the term "control" (including the terms "controlling," "controlled by" and "under common control

with") means the Possession, directly or indirectly, or the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise. It shall be the responsibility of a domestic concern to ensure that the reports required of its foreign subsidiaries, affiliates and agents are filed. The Secretary of Agriculture is authorized to issue such rules and regulations as may be necessary to implement this section."

ARNOLD & PORTER,
Washington, D.C., March 13, 1978.

Mr. ROBERT J. WAGER,
President, American Bakers Association,
Washington, D.C.

DEAR MR. WAGER: You have asked us to examine whether Congress has the power under the Constitution to require reports of commitments entered into by foreign subsidiaries of United States firms for the sale of United States-produced commodities. If Congress has that power, you would propose that it amend Section 812 of the Agricultural Act of 1970 to require such reports in the future. Based on our review of the relevant case law and of recent enactments by Congress requiring reports of the activities of foreign-based United States subsidiaries, we believe Congress has that power.

1. PURPOSE OF THE PROPOSED AMENDMENT

Section 812 was added to the Agricultural Act by the Agriculture and Consumer Protection Act of 1973 (Pub. L. No. 93-86). The primary purpose of that section was to provide the Secretary of Agriculture, and the American public, with accurate and timely information on commitments for the export of agricultural commodities produced in the United States.

Prior to the enactment of this section in 1973, there was no mandatory requirement that such commitments be reported to the Department of Agriculture. The absence of a reporting requirement seriously handicapped the Department of Agriculture and the public in determining and planning the availability and price of essential commodities.

Section 812 was enacted in part in response to several large export commodity sales in the early 1970s, such as the 1972 sale of grain to the Soviet Union. Those sales demonstrated the need for an early warning system that would provide the Department of Agriculture, and the public, with export sales information on a timely basis and thus with the lead time necessary to determine and adequately plan the needs of our country. As the House Report stated:

"During past investigations into the committee into large export commodity sales, such as the 1972 sale of grain to the Soviet Union, it was brought to the committee's attention that the Department of Agriculture had no official knowledge of the relative magnitude of the sale until private trading companies handling the sale subsequently made application for export subsidy. With devaluation, climate, local weather patterns, and increased foreign and domestic demand for protein having a significant effect on the domestic supply of commodities, to continue a situation where the Department of Agriculture—and the public—are predicated their decisions on relative unknowns, is contradictory to the public interest." H.R. Rep. No. 93-337, 93rd Cong., 1st Sess. 35 (1973).

We understand that it is your view, as well as the view of the General Accounting Office, that the export sales reporting system established by section 812 has fallen "short of providing timely, accurate, reliable and complete agricultural export data." [Statement of J. K. Fasick, Director, International Division of the General Accounting Office. Before the Subcommittee on Foreign Agricultural Policy and the Subcommittee on Agricultural Production, Marketing Stabilization of Price of the Senate Committee on Agriculture and Forestry at 12 (June 24, 1976)]. Most importantly, a number of United States exporters have been able to avoid timely reporting of commitments for the sale of agricultural commodities when the commitments are negotiated outside the United States by their foreign subsidiaries. These foreign subsidiaries do not report to the Department of Agriculture, and the commitments for the export of United States commodities negotiated by those subsidiaries become known only after the commitments are formally transferred to the U.S.-based parent companies.

We note in this regard that the present law makes no exception for sales commitments entered into by foreign-based subsidiaries or affiliates of United

States firms. By its terms the Act applies to "all exporters" of agricultural commodities "produced in the United States." A strong argument could therefore be made that reports of sales negotiated by foreign-based subsidiaries or affiliates, or by other foreign-based agents, of United States firms are required under the present law. In the past, however, apparently with official blessing, commitments entered into by these foreign subsidiaries and affiliates and by other intermediaries have been regarded as exempt from the law.

You have asked us whether Congress has the power under the Constitution to close the loophole in the present law by explicitly requiring reports of commitments entered into by foreign-based subsidiaries and affiliates for the sale of agricultural commodities produced in this country. We believe Congress has this power. We base that view on our review both of the relevant case law and of several recent enactments by Congress requiring reports on the activities of foreign subsidiaries and affiliates of United States firms.

2. CONGRESS' POWER TO REGULATE COMMERCE

Congress has plenary power under the Constitution "to regulate Commerce with foreign Nations, and among the several States." (United States Constitution, Article I, Section 8.) The courts have always given these words a broad interpretation. As Chief Justice Marshall stated in *Gibbons v. Ogden*, 9 Wheat. 1, 193-4 (1824):

"It has, we believe, been universally admitted, that these words comprehend every species of commercial intercourse between the United States and foreign nations. No sort of trade can be carried on between this country and any other, to which this power does not extend."

The Chief Justice went on in that case to point out that the power to regulate commerce with foreign nations certainly carried with it the power to regulate conduct outside the United States:

"In regulating commerce with foreign nations, the power of Congress does not stop at the jurisdictional lines of the several States. It would be a very useless power, if it could not pass those lines." *Id.* at 195.

And in *Welton v. Missouri*, 91 U.S. 275, 280 (1875), the Supreme Court stated: "Commerce is a term of the largest import. It comprehends intercourse for the purpose of trade in any and all its forms, including the transportation, purchase, sale and exchange of commodities between the citizens of our country and the citizens or subjects of other countries, and between the citizens of different states. The power to regulate it embraces all the instruments by which such commerce may be conducted."

In reviewing Congress' power under the Commerce Clause, the courts have long recognized that acts taken outside the United States may affect commerce within the United States and, thus, be a proper subject of regulation. In summarizing a line of antitrust decisions interpreting the reach of the Sherman Act, the Court of Appeals for the Second Circuit described the broad power that Congress possesses over foreign commerce:

"While Congress has no power to regulate commerce in [a foreign country], it does have power to regulate commerce 'with foreign Nations or among the several States.' This power is now generally interpreted to extend to all commerce, even intrastate and entirely foreign commerce, which has a substantial effect on commerce between the states or between the United States and foreign countries." *Vanity Fair Mills, Inc. v. T. Eaton Co., Ltd.*, 234 F.2d 633, 641 (2d Cir. 1956).

The broad reach of Congressional power under the Commerce Clause is illustrated by Judge Learned Hand's decision in *United States v. Aluminum Co. of America*, 148 F.2d 416 (2d Cir. 1945). In that case Judge Hand confronted the question whether the United States antitrust laws applied to an agreement among wholly foreign corporations made outside the United States which purported to operate only in foreign jurisdictions. Judge Hand found that agreement affected the foreign commerce of the United States and was thus properly within the jurisdiction of the United States courts in an antitrust case. As Judge Hand stated:

"[W]e are concerned only with whether Congress chose to attach liability to the conduct outside the United States of persons not in allegiance to it. That being so, the only question open is whether . . . our Constitution permitted it to do so . . . [I]t is settled law . . . that any state may impose liabilities, even

upon persons not within its allegiance, for conduct outside its borders that has consequences within its borders . . ." *Id.* at 443.

Based on those cases, the power of Congress to require reports of commitments entered into by foreign subsidiaries or affiliates of United States firms for the sale of United States commodities appears clear. There can be little doubt that commitments for the sale of United States commodities—wherever negotiated—have consequences within the borders of the United States and affect United States commerce.

Indeed, the precise purpose of the proposed amendment would be to enable Congress more effectively to regulate commerce in the United States. Obtaining timely information on the foreign sales of United States commodities is critical for the government, and the public, to be able to plan the needs of the market in this country. The purpose of the amendment, therefore, would be not to regulate commerce in a foreign country, but to more effectively regulate commerce in this country.

The proposed amendment would require reports only of commitments made for the sale of commodities produced in the United States or which hold the potential for being filled with United States-produced commodities. We believe there is little doubt that Congress has the power under the Commerce Clause to require such reports.

3. RECENT PRECEDENTS IN WHICH CONGRESS HAS REQUIRED REPORTS OF THE ACTIVITIES OF FOREIGN SUBSIDIARIES AND AFFILIATES OF UNITED STATES FIRMS.

There are several recent precedents for requiring reports of the activities of foreign-based subsidiaries and affiliates of domestic firms. We shall briefly review two of those precedents here. Both involve the recent reaction by Congress to international boycotts.¹

A. The Export Administration Amendments of 1977

Congress amended the Export Administration Act last year to strengthen United States opposition to international boycotts. (Pub. L. No. 95-52.) The act now prohibits any United States person from complying with certain requests made by boycotting nations. It also requires United States persons to report to the Department of Commerce the requests they receive from boycotting nations and the actions they take in response to those requests. Most importantly, Congress defined the term "United States person" to include foreign subsidiaries and affiliates of United States firms, as well as United States affiliates and subsidiaries of foreign firms:

"the term 'United States person' means any United States resident or national (other than an individual resident outside the United States and employed by other than a United States person), any domestic concern (including any permanent domestic establishment of any foreign concern) and any foreign subsidiary or affiliate (including any permanent foreign establishment) of any domestic concern which is controlled in fact by such domestic concern, as determined under regulations of the President." Export Administration Act of 1969, as amended, Section 11(2).

The Senate Committee on Banking, Housing, and Urban Affairs explained the importance of this definition in preventing evasions of the purpose of the Act:

"[The] new definition of U.S. persons for purposes of the Export Administration Act removes any doubt that the law applies to all . . . export intermediaries. . . . In the past, with official blessing, U.S. banks, shipping companies, and other intermediaries have regarded themselves as exempt from the law. As a result, the public has been deprived of essential information regarding the workings of the boycott. The exemption of export intermediaries from the requirements of the Act would leave a significant section of the

¹ Although we deal in the text only with the two Congressional enactments directed at international boycotts, there are other recent precedents for requiring reports on the activities of foreign affiliates or subsidiaries of domestic firms. For example, Pub. L. 94-435 amended to Clayton Act to require companies to file reports notifying the Anti-Trust Division of the Department of Justice and the Federal Trade Commission of any contemplated mergers or acquisitions. The act requires such notification to be filed with respect to any acquisition by a U.S. company, or its foreign subsidiaries, of the stock or assets of even foreign companies. See FTC's Proposed Final Rules Governing Pre-Merger Notification Under Hart-Scott-Rodino Antitrust Improvements Act of 1976 §§ 801.1(e), 801.3 (February 16, 1978).

economy free from U.S. antiboycott law." S. Rep. No. 95-104, 95th Cong., 1st Sess., 26 (1977).²

The Committee went on to give examples of activities performed outside the United States which affected United States commerce and were a proper subject for regulation under the Act:

"By limiting the reach of the law to activities of U.S. persons in the interstate or foreign commerce of the United States, S. 69 would avoid unwarranted intrusions into the affairs of foreign countries. . . . U.S. restrictions on [a foreign subsidiary's] ability to trade or do business . . . would be deeply resented, as were more recently ended U.S. efforts to prohibit Canadian subsidiaries of U.S. firms from trading with Cuba.

"Such restrictions can be justified where U.S. commerce is involved, for example where a U.S. company's Canadian subsidiary purchases goods or services from the United States in connection with its . . . trade. There a direct U.S. interest is involved." *Id.* at 26-27.

As the Committee pointed out, the Export Administration Amendments, by requiring foreign subsidiaries not only to report information, but also to refrain from taking certain actions, did place direct restrictions on the ability of the subsidiaries to conduct business in their home jurisdictions. In that regard, the Export Administration Act went well beyond, and was far more intrusive than, the type of amendment you are proposing to the Agricultural Act. It could be strongly argued that, when only reporting is being required, even a lesser nexus between the United States company and the foreign subsidiary is required.

B. International Boycott Provisions of the Tax Reform Act of 1976.

The Tax Reform Act of 1976 dealt with international boycotts (Pub. L. 94-455, Title X, § 1064(a)). Section 999 of the Internal Revenue Code, which contains the International Boycott Provisions of this act, imposes penalties on taxpayers who comply with certain boycott requests. In addition, it requires taxpayers to report their operations in or related to any boycotting nation, and to report any boycott requests they receive as well as the actions they take in response to those requests. Again, Congress required the activities of foreign subsidiaries and affiliates to be reported.

Indeed, the Tax Reform Act went even further than the Export Administration Act in requiring reports.

First, the Tax Act requires taxpayers to report on the activities of foreign corporations in which they are shareholders, even if they do not have effective control over the activities of those corporations. Section 999(a) of the Code requires a United States shareholder of a foreign corporation to report any operation by the foreign corporation in or related to a boycotting country, and any request received by the foreign corporation to participate in the boycott as well as the action taken in response to that request. A shareholder, for purposes of the act, is a person who owns ten percent or more of the voting power of the foreign corporation.

As the Treasury Department has recently stated in its guidelines interpreting the act:

"The reporting requirements applies even if the U.S. shareholder is a minority shareholder and even if the foreign corporation is not a controlled foreign corporation. . . ." Treasury Department Guidelines, A-2 (January, 1978).

Second, the act requires taxpayers to report on activities of certain foreign corporations, even if they are not directly shareholders in those corporations. Section 999(a) of the Code requires a taxpayer, if he is either a member of a commonly controlled group of corporations or a shareholder of a foreign corporation which is a member of a commonly controlled group of corporations, to report the boycott-related operations and boycott requests received by each member of that group. See Treasury Department Guidelines, A-13, A-18 (January, 1978).

²In addition to prohibiting activities by United States firms or their subsidiaries directly, Congress added another provision to ensure against any evasion of the Act by structuring transactions to take place technically outside the commerce of the United States. In section 4(a)(6) of the act, Congress provided that: "This Act shall apply to any transaction or activity undertaken by or through a United States or other person, with intent to evade the provisions of this Act * * *." [emphasis added].

Those reporting requirements certainly go beyond the requirements that would be contained in the amendments you intend to propose to the Agricultural Act of 1970.

4. CONCLUSION.

Based on the cases discussed above, and the recent precedents in which Congress has required reports on the activities of foreign subsidiaries and affiliates of United States firms, we believe that no serious question can be raised with respect to Congress' power to amend the Agricultural Act of 1970 to require reports of the commitments made by foreign subsidiaries and affiliates of United States firms for the sale of commodities produced in the United States.

Very truly yours,

Thomas B. Wilner.

DNE SALES, INC.,
Ft. Pierce, Fla., April 25, 1978.

Senator RICHARD B. STONE,
Chairman, Foreign Agriculture Policy Subcommittee,
Washington, D.C.

DEAR SENATOR STONE: We have been advised of the hearing before your subcommittee dealing with various aspects of agricultural exports, and would like to comment thereon.

One of the most serious barriers to foreign trade are the non-tariff barriers that various countries impose on us. These cover a very wide range of activities and are spelled out in position paper that the Florida Citrus Industry cooperated in last year. A copy of the paper is on the record.

Another point that we feel is extremely important is the establishment of a U.S.D.A. Quality Laboratory in Japan similar to the facility that is doing such an excellent job located at Rotterdam in the Netherlands. This experience has shown that such an office in Japan would render a great service to the Agricultural interest of the United States and go a long way in improving the trade Relations between our country and Japan.

We would like to go on record in support of the provisions of Senate Bill Number 2968 that provide for the upgrading of the assistant Secretary to Under Secretary of Agriculture for International Affairs and Commodity Programs and for the upgrading of the position of Agricultural Attaché to Agricultural Counsellor for those attached to our diplomatic missions. It is our opinion that this additional emphasis and impact as to the importance of our agricultural activities is badly needed. The work of the Agricultural offices at our various diplomatic missions has been very effective and the upgrading of the position would most certainly enhance their activities.

The same logic applies to the present position of Assistant Secretary and the need to change this position to Under Secretary. All indications are that additional emphasis will have to be made to increase our Agricultural Exports and this will put additional burdens on this office and whatever can be done to help will be most beneficial.

It is encouraging to those of us active in Agricultural exports that the Senate is interested in improving an already efficient Agricultural service and we appreciate the opportunity to make these comments.

Very truly yours,

HOWARD J. CONNOLLY,
International Sales & Marketing.

NATIONAL GRANGE,
Washington, D.C., May 8, 1978.

Hon. RICHARD B. STONE,
Chairman, Subcommittee on Foreign Agricultural Policy, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The National Grange has a keen interest in legislation designed to increase sales abroad of American farm commodities. Many of our members belong to market development organizations such as Great Plains

Wheat and the Beef Export Council which are involved in cooperator programs with the Department of Agriculture to increase the overseas demand for U.S. agricultural products.

The National Grange, at our last Annual Session, adopted the resolution on page 4 which sets forth Grange policy on Foreign Sales of Farm Products.

In keeping with this policy, the National Grange supports S. 2385, to establish an intermediate credit program under the Commodity Credit Corporation and to lift existing restrictions on the ability of the CCC to extend participation of its programs to nonmarket economy countries.

At the present time, there is a noticeable gap between the 3-year credit terms of the CCC and the concessional credit terms of Title I of P.L. 480 which extends credit over a period of 20 to 40 years. Financing of farm commodity exports is an integral and important part of international trade and the credit arrangements available in many cases determine which country makes the sale. There is ample evidence to indicate that because of the availability of intermediate credit from our competition, the U.S. farmers have lost out on millions of dollars in foreign exports.

Two other bills pending before the Committee address the same intermediate credit problem, S. 2405 and S. 2968. S. 2405, by Senator Lugar (R-Ind.) sets up under Sec. 5 certain criteria regarding the use of the funds generated by the credit terms to be used for market development in the importing country. The National Grange endorses this market development concept and strongly recommends that this provision be made a part of the CCC intermediate credit authority. S. 2968, by Sen. Clark (D-Iowa) contains similar provisions regarding CCC intermediate credit and has Grange support.

The Grange also supports S. 2504 by Sen. Dole (R-Kan.) which would amend the Commodity Credit Corporation Act to direct the Secretary of Agriculture to establish a program for expanding exports of farm commodities by making available CCC financing to exporters who extend deferred payment terms to foreign buyers. S. 2385, introduced by Sen. Robert C. Byrd of West Virginia for himself, for the late Sen. Hubert Humphrey and for 16 other Senators, provides a similar provision but in a more direct manner.

The primary reason for these two provisions is to permit CCC to extend its programs to nonmarket economies, primarily the U.S.S.R. and the P.R.C. The Grange supports the extension of the CCC programs to nonmarket economies and urges the Committee to determine the method by which the CCC can extend its programs to such countries.

The Grange supports the other provisions of S. 2968, introduced by Sen. Clark and others to establish United States agricultural trade offices in foreign countries. In addition to supporting Titles I and II of S. 2968, we also support Titles III and IV. Title III upgrades the Assistant Secretary of Agriculture for International Affairs and Commodity Programs to the level of Under Secretary. While we are not opposed to the Secretary dealing with reorganization within the Department of Agriculture, we do not have a strong feeling that such a reorganization will greatly enhance agricultural exports. We believe the Secretary of Agriculture, with his present authority, can bring the needed emphasis on international affairs through his Assistant Secretary. It is more important in our judgment to upgrade the agricultural attachés to counselors, as provided in Title IV. of S. 2968.

The establishment of U. S. agricultural trade offices, as provided for under Title I of S. 2968 would be extremely helpful to cooperating organizations that are engaged in promotion and market development of U.S. farm products, especially in certain areas of the world, such as the Mid-East and Eastern Europe. At the present time it would be very difficult for such cooperator groups to establish trade offices or missions in these areas.

However, we caution against the establishment of trade missions or offices in the highly industrialized countries. In these areas, such as Japan and Europe, the cooperators already have set up an effective office and have established a good working relationship with the agricultural attaché and the U.S. Embassy. This is not to say that the already-established trade missions set up by cooperating organizations should not be given additional assistance; they should, and we urge you to consider making additional assistance available to the already-established trade missions.

We urge prompt action on this and similar legislation. Given the proper climate, prospects for future expansion of U.S. agricultural trade look bright.

The outcome of the Multilateral Trade Negotiations will have a significant impact on trading rules and patterns for years to come. While we are optimistic about the trade package to be brought back from Geneva, we cannot share the thinking in some quarters that great gains will be made; it simply is not in the cards. Therefore, we do urge this Committee and Congress to take an active interest in these negotiations to ensure that American agriculture's current competitive position in world trade is at least preserved and is improved whenever possible.

Thank you for allowing the Grange to comment on this important aspect of agricultural marketing. Please make this letter a part of the hearing record. Thank you.

Sincerely,

JOHN D. SCOTT, *Master*.

FOREIGN SALES OF FARM PRODUCTS

Whereas, with wheat stocks on October 1 totaling a record 2,397 million bushels, feed grain stocks totaling 30 million metric tons, and with butter, cheese and nonfat dry milk in storage almost double that of last year, and

Whereas, the abundance is more than adequate to meet domestic and foreign demand and has led to depressed prices for grain farmers, and

Whereas, thousands and thousands of the world's population are starving or are on the verge of starvation and are in need of the U.S. farm abundance, and

Whereas, P.L. 480, Food for Peace, is the federal program used for shipping food products to needy nations and this program is underfunded to meet the objectives of the act, now therefore, be it

RESOLVED, That the National Grange support supplemental appropriations that would increase the funds available under Title I and Title II of P.L. 480, Agricultural Trade Development and Assistance Act of 1954 (Food for Peace), be it further

RESOLVED, That the National Grange initiate and/or support legislation that leads to the extension of Commodity Credit Corporation (CCC) credit authority to state-controlled economies such as the U.S.S.R. and the People's Republic of China; and be it further

RESOLVED, That the National Grange urge the Departments of Agriculture and Commerce to expand existing programs and fund new programs to increase commercial sales of agricultural products abroad.

STATEMENT OF HERBERT BRAND, PRESIDENT, TRANSPORTATION INSTITUTE

Mr. Chairman: The Transportation Institute, a research organization whose membership consists of 160 U.S.-flag deepsea and domestic shipping companies, wishes to express the support of the U.S. maritime industry for the increased development of programs designed to promote export sales of U.S. agricultural commodities.

The Subcommittee on Foreign Agricultural Policy has held hearings on numerous bills that would improve the terms, conditions, and availability of credit for the export sale of United States agricultural products. By extending the duration of the Commodity Credit Corporation/GSM-5 program loans to a three-to-ten-year period, this legislation would create new and expanded markets for American products. Increased sales abroad will help decrease America's large balance of payments deficit, aid the beleaguered American farmer and strengthen the United States economy. The Transportation Institute supports the objectives of this legislation.

An expanded export credit sales program will strengthen America's trading position, increase agricultural exports, decrease the balance of payments deficits, and bolster America's foreign policy considerations. The inclusion of a provision designating that at least 50 percent of the export cargo be transported in U.S.-flag vessels will guarantee that these goals are met by providing additional benefits and strength to America's agricultural export program.

The American merchant marine has an established history of supporting the U.S. agricultural community and will continue to supply the logistical link

between the U.S. farmer and foreign consumers. This effort assures the regularity and frequency of shipping services that are vital to the export of our farm products. Without the dependable contribution of the American merchant marine, the exporter would be left to the mercy of foreign maritime interests with no guarantee of rate stability or dependable services. The United States-flag merchant marine is a vital component in the economic and defense posture of our nation.

Vessels flying the U.S. flag provide employment for seamen, shipbuilders, and workers in related support industries. These people, as well as the companies that employ them, pay U.S. taxes and procure goods and services in the United States which contribute to our continued economic growth. It has been estimated that U.S. shipping companies return \$.71 of every freight dollar to the U.S. economy. It is axiomatic that payment of ocean freight to foreign operators in U.S. dollars would constitute a loss of dollar reserves—definitely counterproductive to the position of the U.S. in international balance of payments.

The U.S. merchant marine is an important arm of America's foreign policy, representing our interests and flying our flag in every port. It is antithetical to the aims of America's foreign aid policy to have our agricultural commodities delivered in a foreign port by a foreign vessel, the symbol of another foreign nation.

Notwithstanding the above considerations, the law (Section 901, (b) of the Merchant Marine Act of 1936, hereinafter referred to as Public Law 664) mandates that "whenever the United States shall . . . advance funds or credits . . . in connection with the furnishing of . . . commodities, the appropriate agency or agencies shall take such steps as may be necessary and practicable to assure that at least 50 per centum of the gross tonnage of such . . . commodities . . . be transported on privately owned United States-flag commercial vessels . . ." Congress intended that U.S.-flag commercial vessels be assured a fair and reasonable participation in cargo movements which are made possible by United States government participation.

A number of the bills being considered by the Committee providing for expansion of the Export Credit Sales Program mandate that Public Law 664 shall not apply to the intermediate credit program, by virtue of the fact that it is a "commercial" transaction program. Based on the statements made by members of the financial community, we believe this proposed credit program is actually "concessional" rather than commercial. Today, institutions generally do not offer credit for agricultural commodities for extended periods of time without government guarantees. As the intermediate credit program is thus concessional in nature, dependent upon government participation, the shipment of cargo falls under the purview of the provisions of Public Law 664.

The exclusion of the intermediate term Export Credit Card Sales Program from the purview of Public Law 664 would undermine the intent of Congress in seeking to maximize the economic benefits of concessional agriculture aid programs.

The pending legislation should be amended to reflect the intent of the Congress as it was expressed in P.L. 664. At least 50 percent of U.S. commodities exported under a government aid program should be carried on U.S. vessels when they are available and at fair and reasonable rates. An extended export sales credit program will benefit farmers, American taxpayers, and the United States overall international economic position. The use of the U.S.-flag merchant marine for the carriage of agricultural exports will serve only to multiply these benefits and to strengthen the United States.

The Transportation Institute respectfully requests that this letter be included as part of the hearing record on the export credit sales legislation.

STATEMENT OF C. W. McMILLAN, VICE PRESIDENT GOVERNMENT AFFAIRS,
NATIONAL CATTLEMEN'S ASSOCIATION

Senator Stone: The National Cattlemen's Association (NCA) supports S. 2968, the Agricultural Export Expansion Act of 1978. The bill is a sincere effort to assist all of agriculture in the matter of foreign trade. There are, however, some suggestions we have for the bill.

Our interpretation of the function of Agricultural Trade Offices, as written in this bill, is to house various U.S. Cooperator Organizations under one roof. Al-

though we are not totally opposed to this concept, we feel that, under certain circumstances, this should be left up to the individual cooperator organization's discretion and not be mandated by law.

The economics of operating in other countries will eventually necessitate cooperators co-locating in the same facility, to share operating expenses. One reason for co-operators' effectiveness in other countries is their ability to operate as private sector organizations. They have not been identified as "government".

We feel if a Trade Office were perceived as being under the umbrella of government, and the programs of the cooperators were viewed as being under the "watchful eye" of an on-site Trade Officer, their effectiveness would be greatly impaired. Cooperators should be allowed to located in common facilities at their discretion and not at the mandate of government.

If such trade offices are established, any government official named to coordinate office affairs should be a person who is assigned to that position by the Agricultural Attaché of the particular country. The attaché should be the only senior agricultural official responsible to the Administrator of the Foreign Agricultural Service.

The NCA wholeheartedly supports this portion of the bill and feels it is most appropriate that our agricultural representatives in foreign embassies be given the status of Counselor.

Although not totally familiar with the organizational structure of U.S. Embassies abroad, we are aware that the title of Attaché does not carry with it the prestige and responsibility of Counselor. The status of Counselor would be particularly useful in the area of trade policy problems. If the Agricultural Attaché is to function with maximum effectiveness in the international community, his status in the embassy and among the people he is trying to influence should reflect the importance of his position.

The NCA supports Title II of this bill. Increases in credit should be offered by the Commodity Credit Corporation to finance exports of farm products and infrastructure for receiving and distributing farm products. In many markets, export trade from the U.S. is restricted by certain impediments, one of which is limitations in the facilities of the importing countries needed to handle the receiving and distribution of bulk commodities.

The NCA agrees with the philosophy expressed in Section 301 of Title III of this bill. However, we do not see a need or justification at this time for the creation of an Under Secretary of Agriculture for International Affairs as proposed in Section 302. The industry is already sensitive to the growing number of government employees and increasing layers of bureaucracy we must deal with. We would hate to see this bill, with all of its good points, be looked upon as one that just created more bureaucracy with more jobs and added costs to the taxpayer.

The NCA hopes, as mentioned before, that this Committee will look upon these comments as constructive suggestions, with two major points to keep in mind:

1. We must have access to world markets for our products. A good example for meat might be the principles of access found in the U.S. Meat Import Act of 1964. The NCA would like to see each importing country grant access for imported beef in the amount of five pounds per capita or five percent of domestic production, whichever is the most, with this access obtained over a five-year period. We call this the "Principle of Fives". We feel that the principles relating to international trade should also include:

- (a) Orientation of food prices to the private market place.
- (b) Elimination of government schemes that control supplies, prices and purchases that result in artificially restricted per capita supplies and higher prices for consumers.
- (c) Encouragement of marketing food/feed grain surplus stocks through the vehicle of larger per capita red/white meat consumption.

2. And, finally, we feel that the private sector must preserve its identity and individuality in the market place in foreign countries in order to be the most effective and to realize the greatest potential for sales of U.S. agricultural products.

We respectfully request this letter be included as a part of the hearing record. Thank you.

THE LIBRARY OF CONGRESS,
CONGRESSIONAL RESEARCH SERVICE,
Washington, D.C., May 8, 1978.

Hon. RICHARD STONE,
Chairman, Subcommittee on Foreign Agricultural Policy,
Committee on Agriculture, Nutrition and Forestry,
U.S. Senate, Washington, D.C.

DEAR MR. STONE: I am pleased to submit a report to you, entitled "Potential for U.S. Agricultural Trade Expansion." This report was prepared by Janice E. Baker and A. Ellen Terpstra, Analysts; A. Barry Carr, Specialist in the Environment and Natural Resources Policy Division.

The study evaluates various methods by which agricultural trade may be expanded through existing programs and explores possible new programs for consideration. The importance of agricultural trade to the U.S. economy is also discussed.

I hope this report will be useful to you and your committee in the consideration of agricultural trade legislation.

Sincerely,

GILBERT GUDE,
Director.

Enclosure.

POTENTIAL FOR U.S. AGRICULTURAL TRADE EXPANSION

IMPORTANCE OF U.S. AGRICULTURAL EXPORTS

Exports of U.S. farm products are of major importance both to the Nation's trade balance with other countries and to the profitability of our farm sector. The U.S. share of world agricultural trade increased from 14 percent in 1970 to 19 percent in 1976.

Exports have been more important for the agricultural sector than for most other sectors of the Nation's economy. Agricultural exports account for about one-fifth of all farm production (Table 1), although for some commodities the proportion is one-half or more (Figure 1). For producers of these commodities, export markets are essential.

The 1977 export volume of agricultural commodities fell to 99 million tons from 104 million tons the previous year. Large world harvests of wheat and feedgrains resulted in reduced U.S. exports of these commodities. Wheat exports declined 8 percent in 1977 to the lowest level since 1972. Feedgrain exports, although 6 percent below the 1976 level, were the second largest on record. Export volume of most other agricultural commodities was up in 1977. Rice exports rose 11 percent to a new calendar year high. Exports of soybeans and soybean meal also reached a new record of 21.5 million tons (Table 2).

Because of higher prices the value of U.S. agricultural exports reached a record high of \$23.7 billion in calendar year 1977, nearly triple the level of only 5 years earlier (Table 3). Although the export values of most commodities showed increases in 1977, lower prices and lower volumes caused substantial decline in the value of wheat and feedgrain exports. The largest value gains were made by cotton, soybeans, animal fats and vegetable oil.

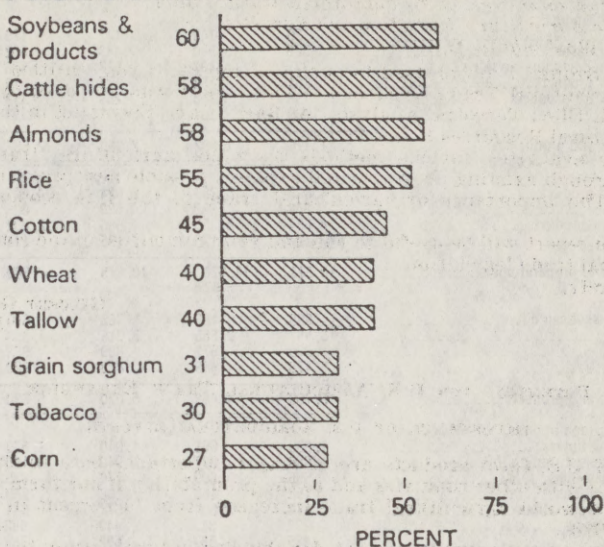
TABLE 1.—FARM PRODUCTION AND EXPORTS, 1946-76

	In billions of dollars		Farm export proportion (percent)
	Farm marketings	Farm exports	
1946.....	24.8	3.1	12.7
1956.....	31.1	4.2	13.4
1966.....	47.1	6.9	14.6
1971.....	56.6	7.7	13.6
1976.....	96.4	23.0	23.8

Note: These proportions may be slightly overstated due to valuation of agricultural exports at port of loading.

Source: U.S. Department of Agriculture.

10 U.S. AGRICULTURAL EXPORTS AS PERCENTAGE OF FARM PRODUCTION, 1977*



* YEAR ENDING SEPTEMBER 30. PARTIALLY ESTIMATED.

FIGURE 1

Source: 1977 Handbook of Agricultural Charts, U.S. Department of Agriculture.

TABLE 2.—U.S. AGRICULTURAL EXPORTS: VOLUME BY COMMODITY, CALENDAR 1974-77

Commodity	In thousand metric tons				1975/76 change percent
	1974	1975	1976	1977	
Wheat and products.....	26,242	32,053	27,772	25,525	-8
Feed grains and products.....	37,472	40,383	51,568	48,490	-6
Rice.....	1,725	2,138	2,106	2,181	+4
Soybeans.....	13,940	12,496	15,332	16,196	+6
Oilmeal.....	5,157	3,950	5,043	4,366	-13
Vegetable oils.....	963	858	1,028	1,337	+30
Cotton, excluding liners.....	1,171	870	778	1,016	+31
Tobacco.....	313	263	269	290	+8
Total.....	86,983	93,011	103,835	99,490	-4

Source: Foreign Agriculture, USDA, Feb. 20, 1978, p. 11.

TABLE 3.—U.S. AGRICULTURAL EXPORTS: VALUE BY COMMODITY, CALENDAR 1974-77

Commodity	In millions of dollars				1975/76 change (percent)
	1974	1975	1976	1977	
Animals and animal products:					
Dairy products.....	76	148	142	176	+24
Fats, oils, and greases.....	585	360	443	592	+34
Hides and skins, excluding furskins.....	337	407	518	578	+12
Meats and meat products.....	301	432	617	610	-1
Poultry and poultry products.....	138	158	263	312	+19
Other.....	339	187	397	399	+1
Total animals and products.....	1,776	1,692	2,380	2,667	+12
Grains and preparations:					
Feed grains and products.....	4,698	5,283	6,024	4,907	-19
Rice.....	852	858	629	698	+11
Wheat and major products.....	4,634	5,353	4,086	2,932	-28
Other.....	127	126	136	143	+5
Total grains and preparations.....	10,311	11,620	10,875	8,680	-20
Oilseeds and products:					
Cottonseed and soybean oil.....	695	466	368	640	+74
Soybeans.....	3,537	2,865	3,315	4,393	+33
Protein meal.....	999	672	899	968	+8
Other.....	478	449	488	629	+29
Total oilseeds and products.....	5,709	4,452	5,070	6,630	+31
Other products and preparations:					
Cotton, excluding linters.....	1,335	991	1,049	1,529	+46
Tobacco, unmanufactured.....	886	877	940	1,109	+18
Fruits and preparations.....	596	699	770	835	+8
Nuts and preparations.....	156	169	198	240	+21
Vegetables and preparations.....	473	504	674	631	-6
Feed and fodders.....	272	313	449	592	+32
Other.....	485	567	592	758	+28
Total products and preparations.....	4,203	4,120	4,672	5,694	+22
Total.....	21,999	21,884	22,997	23,671	+3

Source: Foreign Agriculture, USDA, Feb. 20, 1978, p. 11.

Balance of trade

Significant as U.S. farm exports are, they account for only about one-fifth of the total foreign trade of the nation. However the U.S. agricultural trade surplus (agricultural exports minus agricultural imports) contributed \$10.6 billion to the Nation's balance of payments in fiscal year 1977 (Table 4).

The agricultural trade balance slipped by \$1.6 billion in 1977 due to a sharp rise in the value of imported agricultural products. Most of the increase was the result of higher prices for tropical products—cocoa, tea, spices and coffee.

U.S. exports by country of destination and imports by country of origin are shown in Table 5 and Table 6. The U.S. net agricultural trade balance with major trading partners can be calculated from these tables.

State export shares

All States had a share in U.S. agricultural exports, but the 10 largest producers accounted for about 60 percent of the total value in fiscal year 1977. The leading States, in descending order, were Illinois, Iowa, California, Texas, Indiana, Kansas, Nebraska, North Carolina, Ohio and Minnesota (Table 7).¹

Illinois is the largest single exporter of farm products accounting for \$2,539 million, more than a tenth of the total in 1977. Illinois contributed an estimated 19 percent of the feedgrains, soybeans, protein meal and soybean oil exporter. Illinois is also an important exporter of meat products and wheat.

TABLE 4.—TRADE BALANCE

[In billions of dollars]

Item	Fiscal year—	
	1976	1977
Agricultural exports.....	22.8	24.0
Nonagricultural exports.....	90.0	96.4
Total exports.....	112.8	120.4
Agricultural imports.....	10.5	13.4
Nonagricultural imports.....	104.0	130.1
Total imports.....	114.5	143.5
Agricultural trade balance.....	12.2	10.6
Nonagricultural trade balance.....	-14.0	-33.7
Total trade balance.....	-1.7	-23.1

Source: Agricultural Outlook, USDA, December 1977, p. 35.

¹ The values for U.S. agricultural exports shown for States should not be interpreted as actual measurements of State origins of national exports. It is difficult to accurately identify State origins for exported commodities. The statistics on exports by States were based on domestic shares for commodities according to each State's share of the total national production.

TABLE 5.—AGRICULTURAL EXPORTS: VALUE BY COUNTRY OF DESTINATION, TOTAL AND SPECIFIED GOVERNMENT PROGRAMS, YEARS ENDING JUNE 30, 1974-76

[In millions of dollars]

Country ¹	1974			1975			1976		
	Total agri- cultural exports	Under specified Govern- ment- financed pro- grams ²	Outside specified Govern- ment- financed pro- grams ³	Total agri- cultural exports	Under specified Govern- ment- financed pro- grams ²	Outside specified Govern- ment- financed pro- grams ³	Total agri- cultural exports	Under specified Govern- ment- financed pro- grams ²	Outside specified Govern- ment- financed pro- grams ³
Japan.....	3,352.8	0	3,352.8	3,184.7	0	3,184.7	3,300.5	0	3,300.5
U.S.S.R.....	509.4	0	509.4	396.5	0	396.5	1,863.5	0	1,863.5
Netherlands.....	1,469.6	0	1,469.6	1,631.1	0	1,631.1	1,755.1	0	1,755.1
Germany, West.....	1,535.9	0	1,535.9	1,447.8	0	1,447.8	1,618.1	0	1,618.1
Canada.....	1,194.8	0	1,194.8	1,284.5	0	1,284.5	1,400.2	0	1,400.2
Italy.....	754.3	0	754.3	804.1	0	804.1	799.8	0	799.8
India.....	311.6	67.0	244.6	758.5	214.7	543.8	739.6	106.7	632.9
Korea, Republic of.....	661.4	24.3	637.1	885.0	78.2	806.8	722.4	63.0	659.4
Spain.....	644.1	0	644.1	790.2	0	790.2	655.0	0	655.0
United Kingdom.....	683.6	0	683.6	583.3	0	583.3	647.1	0	647.1
China, Republic of.....	518.3	0	518.3	410.5	0	410.5	562.0	0	562.0
Poland.....	306.2	0	306.2	249.7	0	249.6	447.3	0	447.3
Brazil.....	369.4	5.5	363.9	137.5	7.5	130.0	430.0	5	429.5
France.....	442.9	0	442.9	448.0	0	448.0	408.1	0	408.1
Egypt.....	263.9	3.2	260.7	387.8	88.8	299.0	404.7	185.7	219.0
Mexico.....	610.3	0	610.3	851.5	0	852.5	403.7	0	403.7
Belgium.....									
Luxembourg.....	255.2	0	255.2	282.9	0	282.9	375.0	0	375.0
Israel.....	252.6	31.0	221.6	268.7	95.9	172.8	291.2	182.4	108.8
Venezuela.....	247.5	0	247.5	295.8	0	295.8	271.2	0	271.2
Portugal.....	150.4	10.0	140.4	278.0	0	278.0	232.9	12.4	220.5
Bangladesh.....	166.6	43.7	122.9	279.5	211.1	68.4	215.9	158.2	57.7
Philippines.....	164.1	39.0	125.1	150.3	10.4	119.9	188.6	47.3	171.3
Indonesia.....	155.6	20.6	135.0	71.8	12.7	59.1	175.5	18.8	126.7
Algeria.....	148.1	0	148.1	165.3	4.0	161.3	175.2	4.0	171.2
Hong Kong.....	203.4	0	203.4	138.4	0	138.4	155.9	0	155.9
Saudi Arabia.....	91.7	0	91.7	123.6	0	123.6	149.9	0	149.9
Iran.....	182.6	0	182.6	757.2	0	777.2	148.3	0	148.3
Pakistan.....	170.1	42.4	127.7	163.9	100.4	63.5	146.7	106.4	40.3
Peru.....	154.8	3.4	151.4	200.3	5.7	194.6	144.1	6.3	137.8
Switzerland.....	186.4	0	186.4	163.8	0	163.8	138.3	0	138.3
Denmark.....	133.1	0	133.1	88.0	.1	87.9	135.2	0	135.2
Greece.....	184.9	0	184.9	122.0	0	122.0	121.1	0	121.1
Dominican Republic.....	107.6	4.2	103.4	90.3	5.8	84.5	115.7	9.7	106.0
Nigeria.....	70.2	1.9	68.3	78.6	1.4	77.2	112.4	.3	112.1
Norway.....	124.4	0	124.4	108.9	0	108.9	101.9	0	101.9
Sweden.....	85.9	0	85.9	88.5	0	88.5	96.6	0	96.6
Chile.....	155.0	3.2	151.8	118.9	52.2	66.7	87.1	53.2	27.9
Colombia.....	154.0	13.7	140.3	106.1	11.3	94.8	86.1	9.2	76.9
Romania.....	109.0	0	109.0	156.7	0	156.7	80.7	0	80.7
Morocco.....	123.1	25.7	97.4	107.7	16.6	91.1	79.8	14.2	65.6
Jamaica.....	81.4	1.4	80.0	75.6	.2	75.4	75.0	1.3	73.7
Iraq.....	63.3	0	63.3	124.1	0	124.1	70.9	0	70.9
Thailand.....	91.9	9.8	82.1	81.6	0	81.6	70.8	0	70.8
Australia.....	90.8	0	90.8	82.3	0	82.3	70.0	0	70.0
Czechoslovakia.....	48.4	0	48.4	33.2	0	33.2	69.1	0	69.1
Ecuador.....	53.7	4.2	49.5	53.7	3.4	50.3	66.7	1.8	64.9
South Africa.....	80.5	0	80.5	62.6	0	62.6	58.9	0	58.9
Trinidad-Tobago.....	40.7	0	40.7	51.5	0	51.5	50.3	0	50.3
Singapore.....	64.7	0	64.7	37.0	.1	36.9	48.2	0.1	48.1
Bahamas.....	42.6	0	42.6	45.0	0	45.0	46.0	0	46.0
Other countries.....	3,220.9	589.1	2,640.7	2,295.8	303.0	1,992.8	1,538.6	134.7	1,403.9
Total.....	21,292.7	943.3	20,349.3	21,578.3	1,223.5	20,354.8	22,146.9	1,122.2	21,024.7

¹ Not adjusted for transshipments through Canada and Western Europe.² Includes sales for foreign currency donations for disaster relief and economic aid, donations through voluntary relief agencies, and long-term credit sales, under Public Law 83-480 (the Agricultural Trade Development and Assistance Act of 1954, as amended), and other legislation. Also includes the Foreign Assistance Act of 1961, as amended.³ "Agricultural exports outside specified Government-financed programs" (sales for dollars) include in addition to unassisted commercial transactions, shipments of some commodities with governmental assistance in the form of (1) barter of overseas procurement for U.S. agencies, (2) extension of credit and credit guarantees for relatively short periods, (3) sales of Government-owned commodities at less than domestic market prices, and (4) export payments in cash.

Source: Agricultural Statistics, USDA, 1977, p. 582. Economic Research Service

TABLE 6.—AGRICULTURAL IMPORTS FOR CONSUMPTION: VALUE BY COUNTRY OF ORIGIN, UNITED STATES, YEARS ENDING JUNE 30, 1974-76

[In millions of dollars]

Country	1974			1975			1976		
	Total	Complementary ¹	Supplementary ¹	Total	Complementary ¹	Supplementary ¹	Total	Complementary ¹	Supplementary ¹
Brazil.....	820.4	521.8	298.6	923.3	408.3	515.0	801.3	593.1	208.2
Mexico.....	728.5	128.6	600.0	583.6	112.8	470.8	633.0	262.3	370.6
Australia.....	709.2	1.2	708.0	568.2	1.2	567.1	600.0	1.1	563.9
Canada.....	544.0	29.3	514.7	469.0	31.9	437.1	579.4	35.7	548.6
Colombia.....	380.7	335.1	45.6	331.6	242.5	89.1	472.7	388.0	84.9
Philippines.....	573.3	16.3	557.0	814.1	28.0	786.1	393.2	8.0	385.3
Dominican Republic.....	330.0	81.4	248.7	506.0	62.5	443.5	369.6	114.3	255.2
Malaysia.....	226.0	179.5	46.5	294.5	137.9	156.6	333.3	153.3	180.0
Indonesia.....	316.8	290.3	26.5	287.6	249.8	37.8	332.7	315.7	17.0
Netherlands.....	251.9	25.0	226.9	234.1	29.1	205.0	258.5	32.9	225.6
Denmark.....	266.2	3.9	262.3	192.4	6.5	185.9	250.4	14.2	236.1
New Zealand.....	395.9	24.1	371.8	231.1	9.7	221.4	248.3	12.7	236.0
France.....	234.5	38.2	196.4	191.3	35.7	155.6	222.7	45.2	177.5
India.....	106.2	47.1	59.1	112.2	41.1	71.1	218.0	53.8	164.2
Guatemala.....	160.4	105.8	54.6	170.3	97.8	72.5	211.4	102.0	109.5
Costa Rica.....	121.8	67.7	54.1	163.6	81.8	81.8	188.6	117.1	71.5
Ivory Coast.....	98.4	98.2	.2	81.3	88.5	2.8	186.6	183.9	2.7
Argentina.....	174.9	4.3	170.6	164.3	3.6	160.7	176.8	4.5	172.3
Ecuador.....	114.7	99.0	15.7	165.4	124.1	41.3	176.5	150.5	26.0
Italy.....	123.4	4.3	119.1	146.5	5.9	140.6	169.1	4.7	164.4
Peru.....	130.5	29.8	100.7	175.6	32.9	142.7	166.3	39.2	127.1
Spain.....	164.4	10.9	153.6	156.9	12.0	144.9	161.7	10.1	154.6
El Salvador.....	105.6	75.7	29.9	137.5	79.3	58.3	141.3	93.0	48.7
Honduras.....	116.1	82.2	33.9	79.7	54.6	25.1	139.8	98.1	41.6
Poland.....	97.5	1.2	96.4	94.1	.8	93.3	136.3	.7	135.3
Germany, West.....	134.3	21.9	112.4	125.7	18.3	108.4	128.6	22.0	106.6
Nicaragua.....	75.0	15.1	59.9	75.7	20.8	54.9	120.9	36.9	84.4
Turkey.....	88.9	2.1	86.9	83.4	3.8	84.6	113.1	3.6	109.6
China, Republic of.....	82.2	5.0	77.2	163.6	6.5	157.1	109.8	4.4	105.0
Angola.....	176.4	176.1	.3	80.7	80.4	.3	101.4	101.4	(²)
Thailand.....	41.3	21.9	19.4	47.5	17.6	29.9	99.5	29.2	70.3
United Kingdom.....	95.8	29.7	66.1	99.6	29.2	70.4	96.2	25.9	70.3
Ethiopia.....	85.4	68.6	16.8	32.0	23.5	8.5	82.7	79.7	3.0
Uganda.....	64.6	64.4	(²)	60.8	60.8	(²)	74.9	74.9	0
Iran.....	55.5	5.1	50.5	50.9	5.9	45.0	74.6	6.5	68.1
Yugoslavia.....	50.0	1.7	48.3	49.6	2.2	47.4	72.1	2.3	69.8
Japan.....	60.1	4.4	55.7	66.4	4.5	61.9	72.0	7.1	64.9
South Africa.....	23.5	1.1	22.4	51.8	.8	51.0	67.2	1.6	65.6
Ghana.....	78.1	78.1	(²)	62.1	62.0	(²)	64.9	64.8	(²)
Madagascar.....	41.4	41.1	.3	45.1	28.4	6.6	55.1	43.5	11.5
Venezuela.....	37.3	31.2	6.2	22.0	15.4	6.6	53.9	49.9	4.0
Nigeria.....	46.3	42.9	3.4	39.1	32.9	6.3	52.6	49.2	3.4
Liberia.....	49.4	47.7	1.6	51.5	48.1	3.4	48.9	48.6	.4
Panama.....	33.0	11.7	21.3	70.8	13.8	57.0	48.9	12.1	36.8
Greece.....	33.6	1.6	32.0	41.6	2.2	39.5	39.5	1.8	37.7
China, People's Republic of.....	23.6	7.6	16.0	25.0	9.2	15.8	38.4	13.1	25.3
Switzerland.....	32.2	7.7	24.5	31.8	6.0	25.8	37.6	6.9	30.7
Norway.....	21.0	.1	20.9	25.0	(²)	24.9	37.0	(²)	37.0
Kenya.....	24.3	22.4	1.8	32.1	30.0	2.1	36.2	34.8	1.4
Guyana.....	25.7	.1	25.6	43.7	.2	43.6	35.0	(²)	35.0
Other countries.....	778.6	266.4	511.6	811.1	247.5	563.4	774.8	263.4	511.8
Total ³	9,548.6	3,276.6	6,272.0	9,578.8	2,758.3	6,820.5	10,106.8	3,817.7	6,289.1

¹ Supplementary agricultural imports products consist of all products similar to agricultural commodities produced commercially in the United States, together with all other agricultural products interchangeable to any significant extent with such U.S. commodities. Complementary agricultural products include all others, about 98 percent of which consist of rubber, coffee, raw silk, cacao beans, wool for carpets, bananas, tea, and vegetable fibers.

² Less than \$50,000.

³ Totals may not add due to rounding.

Source: Agricultural Statistics, USDA, 1977, p. 583. Economic Research Service. Compiled from reports of the U.S. Department of Commerce.

TABLE 7.—LEADING STATES FOR AGRICULTURAL EXPORT SHARES, CLASSIFIED BY ALL COMMODITIES AND LEADING EXPORT COMMODITIES, FISCAL YEAR 1977
[In millions of dollars]

Commodity	United States	Leading 10 States by rank										10 high States	All others
		1	2	3	4	5	6	7	8	9	10		
All commodities.....	24, 013. 4	Illinois	Iowa	California	Texas	Indiana	Kansas	Nebraska	North Carolina	Ohio	Minnesota	14, 260. 5	9, 752. 9
		2, 539. 3	2, 042. 0	1, 774. 5	1, 760. 7	1, 319. 3	998. 5	988. 3	963. 8	956. 6	917. 5		
Feed grains.....	5, 345. 3	Illinois	Iowa	Indiana	Nebraska	Texas	Ohio	Kansas	Minnesota	North Carolina	Missouri	4, 314. 7	1, 030. 6
		1, 016. 5	712. 7	563. 0	547. 7	470. 2	285. 9	274. 0	205. 2	124. 5	115. 0		
Soybeans.....	4, 306. 6	Illinois	Iowa	Indiana	Ohio	Missouri	Arkansas	Mississippi	Minnesota	Louisiana	Tennessee	3, 542. 0	764. 6
		823. 7	695. 5	368. 5	318. 7	286. 0	264. 7	243. 4	215. 9	187. 7	137. 9		
Wheat and flour.....	3, 003. 1	Kansas	North Dakota	Montana	Oklahoma	Washington	Minnesota	Texas	Nebraska	Illinois	Idaho	2, 179. 2	823. 9
		474. 1	402. 5	234. 0	211. 5	201. 5	182. 5	144. 6	132. 0	100. 9	95. 6		
Cotton, including linters.....	1, 538. 2	Texas	California	Mississippi	Arizona	Arkansas	Louisiana	Alabama	Tennessee	Georgia	Oklahoma	1, 469. 0	69. 2
		474. 7	368. 7	166. 8	125. 3	113. 7	80. 9	51. 0	32. 8	29. 1	26. 0		
Tobacco.....	1, 084. 7	North Carolina	Kentucky	South Carolina	Virginia	Georgia	Tennessee	Florida	Maryland	Connecticut	Ohio	1, 070. 0	14. 7
		550. 3	147. 6	94. 8	89. 3	76. 5	51. 7	20. 2	17. 0	16. 7	5. 9		
Protein meal.....	955. 3	Illinois	Iowa	Indiana	Ohio	Missouri	Arkansas	Mississippi	Minnesota	Louisiana	Tennessee	774. 9	180. 4
		179. 3	151. 7	79. 9	69. 3	61. 8	57. 6	53. 8	49. 8	41. 7	30. 0		
Fruits and preparations.....	803. 9	California	Florida	Hawaii	Washington	Texas	Arkansas	Oregon	Michigan	New York	Pennsylvania	765. 9	38. 0
		417. 3	178. 5	49. 9	30. 1	28. 9	20. 1	15. 8	9. 7	9. 2	6. 4		

Iowa's estimated share of farm exports included 16 percent of soybeans, protein meal, and meat products, 13 percent of feedgrains, 10 percent of soybean oil, tallow and lard, and 9 percent of dairy products.

California and Texas, ranking third and fourth, were nearly equal in exports. California's exports of \$1,774 million included over one-half of the total U.S. exports of fruits and nuts, a fourth of the vegetables and cotton, and a fifth of the rice. Texas, with exports valued at \$1,761 million, contributed a third of the cotton and cottonseed oil, a fourth of the rice and about a tenth of the hides and skins, and tallow and lard.

TRADE EXPANSION THROUGH THE MULTILATERAL TRADE NEGOTIATIONS

Multilateral trade negotiations (MTNs) have been conducted under the auspices of the General Agreement on Tariffs and Trade (GATT) since it was agreed to in 1947. Currently, 97 nations are participating in the seventh such session, being held in Geneva. Participants are listed in Table I. This session is called the Tokyo Round, since it was formally begun by a declaration delivered in September 1973 by the ministers of 105 countries in Tokyo, Japan. The purpose of this session is to reduce tariffs and nontariff barriers to trade in both agricultural and industrial products. The leading participants in this round are the U.S., Japan, and the European Economic Community.

Historical background

The congressionally mandated intent of previous U.S. authorizations for negotiations has been for such diverse purposes as improving the global economic situation in the 1930s; to open up selected markets abroad and in the U.S.; to improve aggregate U.S. export opportunities; to serve as a means of dealing with the emergence of the European Economic Community (EC); to aid the U.S. balance of payments deficit; and to counter the spread of international communism.²

The most recent negotiating session, held from 1963 to 1967, was known as the Kennedy Round. As a result of that round, some countries reduced tariffs by 50 percent, but the average reduction in the tariffs of developed countries was 35 percent. This reduction was to be achieved over the next five years and would result in reducing tariffs on trade valued at about \$40 billion.

Table I.—Countries Participating in "Tokyo Round" Trade Negotiations

(Membership of Trade Negotiations Committee, September 1976)

*Algeria	*Ethiopia	Iceland
Argentina	European Communities	India
Australia	and member States:	Indonesia
Austria	Belgium	*Iran
Bangladesh	Denmark	*Iraq
Benin	France	Israel
*Bolivia	Germany, Fed. Rep.	Ivory Coast
*Botswana	of	Jamaica
Brazil	Ireland	Japan
*Bulgaria	Italy	Kenya
Burma	Luxembourg	Korea, Rep. of
Burundi	Netherlands	Madagascar
Cameroon	United Kingdom of	Malawi
Canada	Great Britain and	Malaysia
Chile	Northern Ireland	*Mali
**Colombia	Finland	Mauritius
Congo	Gabon	*Mexico
*Costa Rica	Ghana	New Zealand
Cuba	Greece	Nicaragua
Czechoslovakia	*Guatemala	Nigeria
Dominican Republic	Haiti	Norway
*Ecuador	*Honduras	Pakistan
Egypt	Hungary	*Panama
*El Salvador		

See footnotes at end of table.

² "The U.S. Mandate for Trade Negotiations," Virginia Journal of International Law, Spring 1976. Vol. 16:3, p. 522.

Table I.—Countries Participating in "Tokyo Round" Trade Negotiations—Con.

(Membership of Trade Negotiations Committee, September 1976)—Con.

*Paqua New Guinea	Sri Lanka	Uganda
*Paraguay	*Sudan	United Kingdom (on
Peru	*Swaziland	behalf of dependent
**Philippines	Sweden	territories)
Poland	Switzerland	United States of
Portugal	Tanzania	America
Romania	*Thailand	Uruguay
Senegal	Togo	*Venezuela
Singapore	*Tonga	*Viet-Nam
*Somalia	Trinidad and Tolago	Yugoslavia
South Africa	**Tunisia	Zaire
Spain	Turkey	*Zambia

*Not Contracting Parties to GATT.

**Acceded provisionally to GATT.

Source: USDA/GATT.

In general, two groups believed that their interests had been neglected during the Kennedy Round: the developing countries and U.S. farmers. The focus of this paper is on U.S. agricultural interests. As the Tokyo Round got underway, both interests took actions to assure better gains from this session.

Current negotiating authority

In 1973, the Nixon Administration introduced the Trade Reform Act to provide the negotiating authority for the U.S. in the Tokyo Round. During discussion of the bill, one of the major issues was whether or not concessions relating to agriculture would be negotiated together or separately from industry. As introduced, the bill authorized the two to be negotiated separately. During hearings in the House Committee on Ways and Means, only the American Farm Bureau Federation voiced objection to the bill and asked that the negotiations be done jointly. As reported out of committee, the bill stated that overall negotiations and the negotiation of non-tariff barriers were to be conducted on a product sector basis.

It was not until the Senate Finance Committee hearings in the spring of 1974 that the concept of joint negotiations became widely supported. The Farm Bureau, tobacco industry and citrus associations also called for joint negotiations. During the floor debate, Senators pointed out that little would be gained for U.S. agriculture if concessions were made only on the basis of agricultural imports. Thus, as enacted, the Trade Act of 1974 (P.L. 93-618) instructed the Office of the Special Trade Representative to negotiate industrial and agricultural issues "in conjunction" with each other. The negotiating authority of the Act is valid for five years.

Early negotiation actions

Since 1973, preliminary negotiating sessions had been underway. In January 1975 the Trade Act of 1974 became law and raised hopes that substantive negotiations could begin now that the U.S. had received negotiating authority.

According to the Tokyo declaration, the objectives of the negotiating session were to include "further reductions in tariff rates; fairer access to supplies and raw materials; an improved framework for the conduct of world trade; the securing of additional benefits of international trade for developing countries; and the elimination, reduction or harmonization of many non-tariff barriers."³

At the February 1975 meeting, MTN participants established seven groups to examine the following subjects: non-tariff measures, tariffs, agriculture, tropical products, safeguards, the sector approach, and improvement in the framework for the conduct of world trade. The agriculture group was formed to analyze and consider liberalization and stabilization of trade in agricultural products and has three subgroups: meat, grains, and dairy products.

One of the differences in the topics under consideration in this negotiating session is the emphasis on reducing non-tariff barriers. While tariffs are no

³ "Commerce America," U.S. Department of Commerce, January 5, 1976, p. 6.

longer as large a barrier to trade as they had been before previous MTNs, many duties still limit trade. More governments have been imposing subsidies and many give preference to domestic suppliers in various ways. Early in the negotiations, it was established that work in reducing non-tariff barriers would concentrate on quantitative restrictions, standards, subsidies and countervailing duties, customs matters, and government procurement. In the standards area, work was to be done to establish procedures for determining if a standard is a legitimate barrier to trade. Similarly, discussion on safeguards was to focus on the conditions under which a country would be permitted to protect a domestic industry from sudden foreign competition, even if it were fair. While the U.S. was especially interested in reducing subsidies, other countries were interested in limiting the use of countermeasures, such as the U.S. countervailing duty law.

In 1975, then-Special Trade Representative, Ambassador Dent, outlined a program of work for 1976 so that the negotiations could be concluded in 1977. Dent suggested the goals to achieve be:

1. Agreements on tropical products;
2. A tariff formula as a starting point for achieving a substantial reduction in tariffs;
3. A framework for dealing with subsidies and countervailing duties;
4. A draft standards code;
5. An agreed procedure for achieving meaningful liberalization of quantitative restrictions;
6. Agreement on the basic concepts that should be covered by improved safeguard provisions;
7. A review and selection of sectors where complementary negotiations are feasible and will contribute to the goal of maximum achievable liberalization;
8. Parallel progress in achieving special and differential treatment for the developing countries in the various elements of the negotiations; and
9. Negotiation of approaches to a number of issues which have not yet received adequate attention in the deliberations.⁴

Despite these goals and activities, it soon became apparent that the issues of agricultural trade and treatment of the export positions of the developing countries would hinder progress.

During the early stages of the Tokyo Round, the developing countries (LDCs) felt that the developed countries had not adequately responded to their call for more favorable treatment of LDC products. Ambassador Dent emphasized the need to negotiate on tropical products as a first step. As a result, many developed countries offered most-favored-nation or duty reductions under the Generalized System of Preferences (GSP). This is a system which allows developed countries to unilaterally grant lower tariffs and, in general, grant duty free status to imports from LDCs. The U.S. took the position that GSP concessions were not appropriate for negotiation under the MTN. USDA noted, "The United States, in fact, has already made more agricultural concessions to developing countries on a most-favored-nation basis than many other developed countries have made. Roughly 45 percent of U.S. agricultural imports are already duty-free, including imports of coffee, cocoa beans, bananas, and tea. In contrast, the developing countries face duties on all or some of these in the European Community, Canada, and Japan."⁵ At that time, \$3.4 billion out of a total value of \$6.1 billion of U.S. most-favored-nation agricultural imports were from IDCs.

The U.S.-EC disagreement

A major obstacle to progress in the talks was the continuing substantive disagreement between the EC and U.S. At the beginning of the Tokyo Round, the EC's representative at the MTN made the following comments about their approach to agriculture in the negotiations:

1. First, in order to facilitate an orientation of resources of production which could be adequate to the foreseeable evolution in consumption, the EEC considers it essential that we engage in systematic and regular exchange of information, on the basis of which a periodical analysis of the situation could be undertaken in common, so that each government can draw for itself the necessary indications for the conduct of its own policy.

⁴ "Commerce America," U.S. Department of Commerce, January 5, 1976, p. 6.

⁵ "Developing Countries Seek Special Treatment in MTN's," Foreign Agriculture, USDA, December 27, 1976, p. 11.

The World Food Conference has recognized the need to reinforce the existing mechanism. The EEC considers that all participants to these negotiations should commit themselves to collaborate in the implementation of these resolutions.

2. Secondly, for the main products which are essential for human food consumption and which are determining factors in maintaining a balance in the agricultural sector—such as cereals, rice, sugar and the most homogeneous dairy products—we believe that international agreements should be negotiated. Their mechanisms, which would have to be adapted to the characteristics of the market for each product, should be geared to prevent the inevitable imbalances of the market due to the inherent fluctuations in production.

These mechanisms should, in appropriate cases, cover a concerted stockpiling policy which, while facilitating the implementation of food aid programs, would aim at absorbing quantities in excess or, in case of shortage, at maintaining an adequate supply of the market.

These mechanisms should be accompanied by a price provision, the stabilizing function of which would be strengthened by the stockpiling policy. On the other hand, the price provisions would, in certain respects, play a role in triggering stockpiling or destocking actions.

3. For other important products which do not seem likely to become the subject of international agreements, we believe concerted disciplines should be negotiated between exporters and importers, so as to ensure that the operations on the world market are conducted in an orderly manner.

4. Finally, for products which are protected by tariffs, we think reciprocal tariff reductions will have to be negotiated.⁶

The following table shows the results of the Kennedy Round between the U.S. and EC in millions of U.S. dollars.

RESULTS OF THE KENNEDY ROUND BETWEEN THE UNITED STATES¹ AND THE EEC

[In million U.S. dollars]

	Total		Agricultural Sector ²		Nonagricultural sector	
	United States from EEC	from United States	United States from EEC	from United States	United States from EEC	from United States
Imports and tariff concessions						
A. Imports, total (1964).....	2,948	4,616	220	992	2,728	3,624
Exemption from duty.....	271	1,466	17	550	254	917
Subject to duty.....	2,677	3,150	202	443	2,475	2,707
B. Available for tariff concessions.....	2,689	3,465	203	465	2,486	3,000
C. Tariff reductions.....	2,170	2,724	94	220	2,076	2,504
Over 50 percent.....	24	46	2	32	23	14
50 percent.....	1,780	1,301	17	20	1,763	1,281
25 to 49 percent.....	119	373	46	51	73	321
1 to 24 percent.....	247	1,005	30	117	217	888
D. Consolidated duties.....	34	1	28	-----	7	1
E. Nonconsolidated duties.....	11	304	-----	18	11	287
F. Total tariff concessions (C+D+E).....	2,215	3,029	122	238	2,094	2,791

¹ The U.S. imports have been increased by 10 percent to allow for the f.o.b. to c.i.f. adjustment.

² Excluding cereals.

Source: "IMF Survey," Mar. 10, 1975, p. 72.

Data: "Report on United Negotiations," 1964-67 Trade Conference, Office of the Special Representative for Trade Negotiations, Washington, 1967.

The EC viewed the Agriculture Group of the Tokyo Round as being the only group responsible for negotiating all issues affecting agriculture. Solutions developed by other groups would not be applicable. In sum, the Department of Commerce noted, "By precluding discussion of agricultural issues in any forum other than the Agriculture Group, the Community is seeking to minimize the impact which general solutions or codes in the tariff or nontariff measures areas would have on its Common Agricultural Policy (CAP)."⁷

CAP had been one of the initial and more successful of the EC's efforts at integration. By January 1, 1978, agricultural price policies became uniform among the nine members of the EC except for a few minor cases. According to USDA, "... the CAP is essentially a complex, comprehensive system of price supports,

⁶ "IMF Survey," Mar. 10, 1975, p. 73.

⁷ Ibid, "Commerce America," p. 6.

minimum import prices, stockpiling and export subsidies— all designed to keep internal farm prices high by insulating them from foreign competition.”⁸ Thus, in an effort to sustain the internal EC farm sector, the EC has imposed extensive subsidies on internally produced agricultural products, has few internal production disincentives and gives a preference to internally produced rather than imported products through a system of minimum import prices, a variable levy system, and export subsidies. While supporting the internal farm economy, prices are insulated from world price levels and fluctuations, and competition from foreign products is affected.

Thus, at the Tokyo Round, the EC had declared that the CAP and variable levy system were non-negotiable. Additionally, the EC had enunciated a preference for commodity agreements. Both the Nixon and Ford Administrations objected to commodity agreements but because of EC pressure as well as the ongoing discussions under the U.N. Conference on Trade and Development (which called for the negotiation of commodity agreements on eighteen commodities), the U.S. agreed to consider negotiating international commodity agreements on a case-by-case basis.

Early in the negotiations, the U.S. made it clear that any reduction or elimination of trade barriers in agricultural products had to proceed in conjunction with similar efforts in the industry sector. The U.S. wanted the Agriculture Group to meet regularly with the other groups so that the negotiation of solutions could be applicable to both sectors.

A compromise was worked out so that a notification system would be implemented for the Agriculture Group on measures affecting agricultural products other than those represented in the subgroups.

Despite this, progress in the negotiations was limited to procedural and technical issues. With the global economy worsening, many countries were implementing protectionist measures and blaming domestic ills on international problems. In addition, many of the participants in the negotiations—including the U.S. and EC commissioners—were faced with elections in the upcoming year, which could result in a change of trade policy. All of these events dampened prospects for an early conclusion of the talks.

Actions under the Carter administration

Following the U.S. election, President Carter was concerned about the lack of progress in the MTN and gave the issue some priority. At the May 1977 economic summit meeting in London, it was one topic of discussion among the meeting leaders from the U.S., West Germany, France, the United Kingdom, Italy, Canada, and Japan. At the meeting, the following specific goals for the MTN were set for 1977:

1. A tariff reduction plan of broadest possible application designed to achieve a substantial cut and harmonization and in certain cases the elimination of tariffs;
2. Codes, agreements and other measures that will facilitate a significant reduction of nontariff barriers to trade and the avoidance of new barriers in the future, and that will take into account the structural changes which have taken place in the world economy; and
3. A mutually acceptable approach to agriculture that will achieve increased expansion and stabilization of trade, and greater assurance of world food supplies.⁹

Following this, the U.S. and EC held negotiations to arrive at a compromise so that progress could be made at the MTN. The U.S. stated it was willing to proceed separately with the industry and agriculture negotiations as long as the negotiations were brought together at the time of final settlement. The current chief negotiator, Ambassador Strauss, said that both would be assessed in parallel, as one package. The EC noted that if the MTN were to succeed, meaningful negotiations on agriculture would have to be accomplished. A four-step plan was then announced.

By October 1, 1977, agreement on a general tariff plan had to be reached including an across-the-board tariff-cutting formula and treatment of imports from developing countries as well as those developed countries not using the tariff reduction formula. Secondly, by November 1st, requests for agricultural tariff and non-tariff concessions as well as industrial non-tariff concessions had to be

⁸ “The EC’s CAP: How It Works.” *Foreign Agriculture*, USDA, January 9, 1978, p. 2.

⁹ “MTN News,” U.S. Department of Commerce, June 1977, p. 1.

presented. The third phase required that by December 15th, draft texts for multilateral codes of conduct had to be presented. The final phase required that by January 15, 1978, the exchange of offers of specific reductions in tariffs and non-tariff measures had to be made.

Agreement was reached in the fall on a working hypothesis for the formula to be used in tariff reduction computations; the U.S. did file requests for concessions on non-tariff barriers and on tariff barriers of countries not applying the tariff reduction formula; working papers for international codes of conduct in customs valuation, product standards, subsidies/countervailing duties, import licensing procedures, government procurement and safeguards were offered; and proposals were presented in the agriculture area for dairy and meat products.¹⁰

The U.S. additionally indicated it would be willing to discuss commodity agreements in the agricultural subgroups, although it would not be bound by subgroup action. The U.S. also sought modifications in such non-tariff areas as variable levies, import quotas, licensing and deposits.

Agriculture Department officials commented on the lead the U.S. had taken on some of the other issues. In the area of subsidies and countervailing duties, the U.S. proposed a code to strengthen and clarify GATT rules on the use of subsidies on traded products and the use of countervailing duties against unfair competition. Agricultural interests in this stem from rules on competition from subsidized exports in foreign markets and conditions under which injury might have to be shown before invoking countervailing duties.

The U.S. also has proposed a new code regarding GATT conditions under which countries can restrict imports if they are increasing enough to cause serious injury to domestic producers. In the area of technical barriers to trade, a code is being considered which would establish principles and multilateral review procedures to insure that labeling, health, sanitary, and other technical regulations do not constitute unjustified barriers to trade. Other efforts are continuing in the area of customs issues—a universal product classification system—and in considering rules applying to import quotas and restrictive licensing. The U.S. stance in the framework group, in which the LDCs are trying to have a system of special treatment for them accepted, is to assure that any changes do not result in a major expansion of preferences and special treatment that would undercut the GATT most-favored-nation rule.

Specific concessions offered

While details of the U.S. and other MTN participants' offerings of concessions are classified information and therefore unavailable for analysis, some general information has become available from newspaper articles.

As part of the January 1978 exchange of offerings, the U.S. offer affects about 4,700 tariff lines which entails about \$44.7 billion in overall U.S. trade. Of this amount, about one-quarter is reported to be agricultural. If all were accepted, the overall U.S. rate of dutiable trade would be reduced by 45 percent, from 8 to 4.5 percent. This offer serves as a basis of negotiation and is conditional on the receipt of adequate reciprocity from other nations in terms of expanded access to foreign markets for U.S. products. The U.S. is especially interested in the liberalization of non-tariff measures, and satisfactory results in the areas of international codes on safeguards, government subsidies, government procurement practices and standards.¹¹

The U.S. made between 1,300 and 1,500 requests to 90 countries on approximately 1,000 commodities. Most of these were reportedly agricultural. In addition to requests for tariff reductions and increases in import quotas, it was reported that liberalized import licensing and documentation procedures, and an end to port and other discriminatory taxes were asked for. While the value of tariff concessions can be estimated, it is difficult to make such estimates for whatever changes are proposed in non-tariff barriers.

In this request, the EC was asked to allow more imports of U.S. grains, tobacco, and citrus commodities. Japan was requested to ease quotas on foreign beef and citrus imports.¹²

It is generally hoped that by the end of July 1978, tariff cuts averaging 40 percent will be agreed on and that final agreements will be signed by the end of

¹⁰ "MTN News," U.S. Department of Commerce, January 1978, p. 1.

¹¹ "MTN," U.S. Department of Commerce, March 1978, p. 1.

¹² "U.S. Requests Easing Bans on Trading," The Washington Post, November 2, 1977, and "U.S. Lists Goals For Trade Talks," The Journal of Commerce, November 2, 1977.

the year. Reaching agreements on non-tariff barriers is expected to be more difficult and take longer.

The International Wheat Agreement negotiations and the MTN

Negotiations for a new International Wheat Agreement (IWA) have been going on since 1975 at the International Wheat Council. Despite substantial progress in negotiating an acceptable agreement, some disagreement persists between the EC and U.S. The ramifications of this disagreement could be important in the MTN.

The EC insists that a wheat agreement will first of all include minimum and maximum fixed prices and secondly, that it be tied to a similar agreement for coarse grains. The U.S. and other nations are supporting an agreement which would stabilize wheat prices within a price range and contend that coarse grains should be dealt with separately, for example, in the MTN.

In March 1978, Finn Gundelach, the EC agricultural commissioner, stated that only a cereals agreement, including coarse grains and wheat, would be acceptable. He also commented that while agriculture was essential to any agreement at the MTN, coarse grains were essential for agreement on agriculture.¹³ This announcement strongly reiterates the EC's position that agricultural commodities such as grains, meat and dairy products must be handled through individual multilateral agreements.

Concluding comments

In commenting on the EC's attitude toward the MTN, USDA's Foreign Agricultural Service Administrator stated, "The list of EC requests for trade concessions from the United States in the request-offer procedure is insignificant. This reflects, in part, its insistence on separate agreements in grains, meat, and dairy, but there is also the disappointing implication that the Community has little interest in negotiations in agriculture."¹⁴

Both Gundelach and Strauss still believe that some agreement can be reached by the end of July 1978. Since the EC-U.S. disagreements have hindered the progress of the MTN in the past, their opinion that progress on tariff issues will be made this year is encouraging.

From the information that is publicly available, it is impossible to provide better estimates on the extent to which and the value that the final trade concessions under consideration will have on U.S. agricultural exports.

TRADE EXPANSION THROUGH BILATERAL AGREEMENTS

In addition to multinational discussions, the United States has negotiated several long-term trade agreements with individual nations.

Long-term agreements have the effect of assuring U.S. exports to a given market, even when the purchaser has harvested an adequate crop and would not need such imports if not previously committed to the purchase.

Bilateral agreements of cooperation and of exchange of agricultural data also have been negotiated by the U.S. These agreements assure adequate knowledge of supply and demand situations abroad, and the size of possible markets for U.S. products.

In August 1975, the U.S. and Japan agreed on an informal three-year trade plan for grains and soybeans. The Japanese agreed to annually purchase approximately 3 million tons of wheat, 8 million tons of feed grains, and 3 million tons of

¹³ "No Wheat Agreement Without Coarse Grains," *The Journal of Commerce*, March 10, 1978.

¹⁴ "In Trade Negotiations: Momentous Weeks Ahead?" *Foreign Agriculture*, USDA, January 16, 1978, p. 3.

soybeans. The U.S. agreed to make these commodities available, regardless of other buyers in the market.

In October 1975, the U.S. negotiated five-year trade agreements with Poland and the Soviet Union. The Poles agreed to buy 2.5 million tons of U.S. wheat and corn each year, with the possibility of a 20 percent fluctuation. The Soviet Union agreed to purchase annually 6 to 8 million metric tons of U.S. wheat and corn, in approximately equal amounts. Purchases in excess of 8 million tons require government-to-government negotiations.

Recently, the U.S. has signed bilateral agreements with Mexico and Japan. The U.S.-Mexican Trade Agreement was signed December 2, 1977 and is the first agreement of this type to be made between the two countries since 1942. The negotiations for the agreement began as part of the MTN Tropical Products discussions. It is the first agreement the U.S. has entered into as a result of such negotiations and under the provisions of the U.S. Trade Act of 1974.

Tariff concessions were made on U.S. imports from Mexico totalling a value of \$63 million (1974 figures). Duties were reduced on such items as dried chickpeas, watermelons, mangoes, pineapple, and cantaloupes.

In return for U.S. concessions, Mexico allowed concessions on \$50 million worth of U.S. exports to that country. Such concessions were on a variety of agricultural products, poultry troughs or feeders, and agricultural machinery and tools. The specific concessions by both countries are shown in Table I which follows.¹⁵

TABLE I.—U.S. AGRICULTURAL CONCESSIONS

Item	Current MFN ¹ duty rate	1976 ad valorem equivalent (percent)	Concessional MFN ¹ duty rate ²	In thousands	
				1976 U.S. imports	1976 U.S. imports from Mexico
Dried chickpeas, split.....	1.2¢/lb.....	4.8	0.5¢/lb.....	\$69	0
Dried chickpeas, other.....	1.4¢/lb.....	6.4	0.5¢/lb.....	1,631	\$1,070
Cashew apples, soursaps, sweetsaps, etc. 7 percent.....	7 percent.....	7.0	2.8 percent.....	77	1
Mangoes, fresh (December to March).....	3.75¢/lb.....	17.1	1.5¢/lb.....	515	411
Mangoes, prepared or preserved ³	3.75¢/lb.....	7.9	1.5¢/lb.....	397	35
Cantaloupes, fresh (December to March).....	35 percent.....	35.0	14 percent.....	2,708	2,626
Watermelons, fresh (December to March).....	20 percent.....	20.0	8 percent.....	1,892	1,824
Pineapple paste and pulp.....	15 percent.....	15.0	6 percent.....	(⁴)	(⁴)
Quince paste and pulp.....	15 percent.....	15.0	6 percent.....	(⁴)	(⁴)
Candied pineapple.....	8.5 percent.....	8.5	3.4 percent.....	2,101	1,121
Inedible molasses.....	0.012¢/lb.....	.3	Free.....	111,119	23,883
Spirits of turpentine.....	5 percent.....	5.0	Free.....	1,601	889
Broomcorn.....	\$10/ton.....	1.0	8 percent.....	13,012	12,938
Istle, processed.....	20 percent ⁵	0	Free.....	4,034	4,032
Straw, processed.....	5 percent.....	5.0	Free.....	3,570	2,612
Total agricultural.....				142,726	51,442

¹ Most-favored-nation.

² These duties will be phased in over the next 1 to 7 yrs, in accordance with the maximum staging authority provided in the 1974 Trade Act.

³ The concession on prepared mangoes will be implemented only after the principal supplier, India, makes a concession to the United States.

⁴ Exact value of imports is unknown; however, it is not more than \$50,000.

⁵ Minimal.

⁶ Currently suspended.

¹⁵ "U.S. Mexico Sign First Trade Agreement in 35 Years," Foreign Agriculture, USDA, p. 7-9.

MEXICAN AGRICULTURAL CONCESSIONS

Item	In percent			Minimum specified level of unrestricted imports ⁴ (thousand pounds)	1976 U.S. exports to Mexico	
	Original duty rate ¹	Concession- al duty rate ²	Current temporary rate ³		Thousand pounds	Thousand dollars
Evaporated milk.....	50	25.0	10	\$ 29,218	40,273	10,962
Baby formula, powdered.....	50	25.0	10	\$ 7	14	58
Shell eggs, except for hatching.....	50	25.0	10	\$ 65	1,687	636
Lard.....	35	25.0	10	\$ 4,423	\$ 61,239	12,981
Tallow.....	25	25.0	10	\$ 102,638	56,628	9,549
Canned fruit cocktail.....	100	50.0	20	\$ 2,250	545	138
Essential lemon oil.....	75	37.5	35	\$ 50	11	9
Lecithin.....	25	25.0	10	\$ 2,898	539	179
Soy flour or meal, nondefatted.....	50	50.0	Free	Unrestricted	4,192	594
Cottonseed and peanut flour, nondefatted.....	50	50.0	Free	Unrestricted	1,313	132
Soybean, cottenseed, and peanut oilcakes and other residues, defatted.....	10	10.0	Free	Unrestricted	22,268	1,581
Vegetable protein and products:					267	127
Soy protein concentrates, soy protein hydrolysates, and textured soy proteins.....	35	35.0	10	Unrestricted		
Pure vegetable proteins, hydrolyzed.....	35	25.0	35	Unrestricted		
Vegetable protein isolates.....	25	20.0	10	Unrestricted		
Total agricultural.....						36,946

¹ Duty rate in effect at the time of the U.S. request—spring, 1976.

² Rate at which duties are bound by current agreement.

³ Put into effect in September 1976, following the devaluation of the Mexican peso.

⁴ Initial licensing level based on total trade in base year, 1974. The agreement provides for a growth factor to be added to these levels each year.

⁵ Destined for the free zone.

⁶ Destined for the interior.

⁷ Powder equivalent of 30,000 kg of liquid baby formula.

⁸ Destined for the free zone and the interior.

⁹ This figure is overstated, as U.S. export classifications apparently include fats not included in the Mexican import category.

¹⁰ Represents 50,000 cases (45 lb. each).

Source: Foreign Agriculture, Mar. 13, 1978, p. 8.

The U.S. reportedly expects this agreement to serve as a precedent for negotiations with other developing countries in concessions on agricultural products.

The \$8 billion trade imbalance between the U.S. and Japan prompted the negotiation of a trade agreement. The agreement was signed January 13, 1978. Table II shows the value of trade between the U.S. and Japan.

Table II, Data for 1977—Major Commodities in U.S.-Japan Trade

(In billions of U.S. dollars)

U.S. exports:		Japanese exports:	
Food and live animals	2.2	Cars, trucks and motorcycles	5.4
Soybeans	.9	TV's, stereos, and radios	3.1
Logs and lumber	.9	Steel	2.8
Coal	.9	Machinery, nonelectric	5.0
Chemicals	1.0	Other	2.3
Other	4.5		
Totals	10.4	Totals	18.6

Source: CRS Issue Brief 78025.

Japan has announced certain tariff reductions that will be effective immediately in advance of the MTN conclusion. These average a 23 percent reduction on 318 items, which represents \$2.6 billion in 1976 Japanese imports, of which \$724 million is from the U.S.¹⁰

¹⁰ United States/Japanese Trade Relations and the Status of the Multilateral Trade Negotiations. Hearing. Committee on Finance. Subcommittee on International Trade United States Senate. February 1, 1978, p. 11.

In order to increase access to Japanese markets, the specific concessions Japan will make in agriculture include:

1. On imports of high quality beef, measures will be taken to increase yearly quotas by 10,000 tons beginning with the next fiscal year.
2. On orange imports, a three-fold increase in the quota to 45,000 tons is planned.
3. On the citrus juice quota, there will be a four-fold increase to 4,000 tons.
4. An inter-industry citrus group will be formed, to study current and future developments and report to their governments by next November 1.
5. A forest products study group will be sent to the U.S. Northwest to upgrade and expand this trade.¹⁷

In addition, quotas were removed on 12 agricultural products, credit was expanded for imports, and sales opportunities for foreign suppliers under the government procurement system were improved. The U.S. feels this is a step in opening Japanese markets to U.S. agricultural exports but notes that rigorous implementation of the agreement will be necessary in order to improve the U.S.-Japanese agricultural trade imbalance.

TRADE EXPANSION THROUGH EXISTING PROGRAMS

The United States Government maintains a variety of programs to promote agricultural exports. The programs include such activities as guaranteed credit sales, trade fairs, supplying market information, food aid shipments, and multilateral negotiations on trade barriers.

Commodity Credit Corporation export credit sales

The Export Credit Sales Program was established in 1956 under the legal authority of the Commodity Credit Corporation Charter Act. The program was designed to help the United States maintain its share of traditional markets and establish new outlets for U.S. farm products.

Each month the Department of Agriculture announces the commodities eligible for the credit program, and the current interest rate. Financing may be granted for exports on a deferred payment basis for periods from 6 months to 3 years, though financing is generally limited to 1 year. Commodities are exported from private stocks rather than Government-held supplies. Eligible commodities may include grains, tobacco, cotton, vegetable oils, tallow, breeding cattle and swine, dry edible beans, and dairy products.

U.S. private exporters may apply to the Department for approval to export an eligible commodity. After receiving approval and after shipping the approved commodities, the exporter is paid by the CCC, and he assigns his account receivable to the CCC. The foreign buyer must supply the CCC with an irrevocable letter of credit, issued by a U.S. or foreign bank. As payments fall due, the CCC draws under the letter of credit for the amount financed plus accrued interest. Financing is limited to the f.o.b. value, which excludes freight costs.

Exports financed under the Export Credit Sales program in fiscal year 1977 totalled \$755.3 million, a near record. The peak year of financing was fiscal year 1973, at \$1,029 million. Financing declined sharply in fiscal year 1974 (\$298 million) and fiscal year 1975 (\$249 million). In fiscal year 1976 the budget authorization was set at \$900 million to assist lagging export demand. The budget for fiscal year 1977 was set at \$1 billion and for fiscal year 1978 the figure is \$1.7 billion of credit available to foreign buyers.

The CCC sales program has been helpful in expanding U.S. farm markets in Eastern Europe, North America, and other areas and has been useful in meeting competition from other suppliers who also provide credit terms. In fiscal year 1976 and the transitional quarter, for example, the CCC made available approximately \$250 million of short-term credit to Eastern Europe. Most of the funds were used to purchase U.S. feedgrains, wheat and soybeans. The use of CCC credit is limited to Poland, Yugoslavia, and Romania. East Germany, Czechoslovakia, Hungary, and the USSR are not eligible, because they lack "most favored nation" status. Section 402 of the Trade Act of 1974 limits the use of Government credit to nations with most favored nation tariff privileges.

Department of Commerce activities

The export promotion programs of the U.S. Department of Commerce are designed to overcome gaps in U.S. exporters' knowledge of foreign sales op-

¹⁷ "MTN News," U.S. Department of Commerce, February 1978, p. 2.

portunities. The Department alerts U.S. firms to trade possibilities abroad, assists firms to identify and contact potential agents and buyers, and assists firms in competing for specific contracts. The Department provides more general information as well, such as trade statistics and regulations, and upon request will provide advice on where and how to export. The Department also alerts foreign firms to the range of products available from the United States, and helps foreign firms identify potential U.S. suppliers.

Foreign agricultural service activities

The Foreign Agricultural Service, established in March 1953 within the Department of Agriculture, performs a variety of service functions to promote agricultural exports. Its primary mission is to help farmers, agribusiness, and traders develop export markets in countries throughout the world. To that end, the FAS performs five basic activities.

(1) The FAS maintains a worldwide agricultural intelligence and reporting service covering 114 countries, which provides the U.S. agricultural industry with data on supply and demand situations, government trade policies, and market opportunities.

(2) The FAS analyzes the data collected and makes forecasts of export potential for individual commodities.

(3) The FAS provides detailed country/commodity analyses, including price reviews, trade policies, and supply and demand situations. More than 130 countries and over 70 commodities are covered.

(4) The FAS cooperates with private trade groups in market promotion activities abroad.

(5) The FAS coordinates and directs Department of Agriculture participation in the formulation of trade programs and agreements which will expand and stabilize world trade in U.S. products. The purpose of the international trade program is to reduce restrictive trade practices of foreign nations which have the effect of discouraging imports of U.S. farm products. This is accomplished through bilateral and multilateral consultations and negotiations.

The market development program promotes commercial export sales of farm products. The program is carried out in cooperation with more than 60 agricultural trade and producer groups and state departments of agriculture. Virtually every U.S. farm product entering world trade is represented. Activities jointly financed with cooperators include educational programs, demonstrations, trade missions, advertising, and merchandising. The FAS also holds its own trade fairs, operates a trade operations referral service, and puts potential buyers in contact with U.S. cooperators. Analysis of commodity trade patterns, projections of short-term fluctuations, and the effect on American exports are less direct but important parts of the export promotion program.

Recent promotional activities have included: (1) an exhibit of fruits, nuts, vegetables and wines in Tokyo, (2) food shows in Amsterdam, Brussels, and Abidjan, (3) visit to Lagos by a food industry and trade team, (4) demonstrations of feedlots in Poland, (5) a soy protein seminar in Singapore, (6) a year-long market test in Great Britain for U.S. peanut butter, and (7) a new wheat promotion office in Morocco.

Concessional exports and food aid

In 1954 the United States enacted Public Law 83-480, commonly called the Food for Peace Act, to promote farm exports and to provide assistance to needy nations. In the early years of the program, farm commodities sent abroad were surplus products owned by the Commodity Credit Corporation. Since 1966, the commodities have not necessarily been in surplus, and in recent years the Government has purchased the commodities on the open market.

The concessional sales program under Title I provides U.S. farm products to friendly nations at longterm, low-interest rates. As amended in 1977, Title I requires that not less than 75 percent of the commodities go to nations that meet the GNP poverty level requirement of the International Development Association. Title II of the Food for Peace program provides for donations through humanitarian relief efforts. As amended in 1977, the legislation provides for a minimum of 1.6 million metric tons to be shipped annually.

The programming level for P.L. 480 in 1978 is \$1.2 billion. During the 23 years of the program, the annual value of commodities shipped has varied from \$0.9 billion in 1974 to \$1.6 billion in 1965.

The Food for Peace programs have promoted trade directly through the export of surplus commodities and by Government purchases for export. But the programs have promoted trade indirectly as well. Many nations which entered the program originally as aid recipients have become commercial markets for U.S. goods. Foreign customers accustomed to U.S. products and trade procedures tended to maintain trade ties as their economic status improved. Also, part of the proceeds derived from Title I sales are earmarked for commercial market development by the Department of Agriculture. The aid programs under Title II have given rise to the development of blended foods, such as corn-soya-milk, which may be able to enter the commercial market, or may be sold under Title I.

Through private trade agreements, concessional commodities may also encourage the development of local industries which will eventually open a new commercial market for U.S. products. For example, a Jamaican firm imported U.S. corn on credit, sold the corn in the local market, and used the proceeds to construct a cornmeal plant. The plant, in turn, imported U.S. corn on a commercial basis.

Export-Import Bank

The Export-Import Bank was established in 1934 by executive order, for the purpose of extending emergency credit to finance exports, including agricultural exports. The Bank was continued by acts of Congress in 1935, 1937, 1939, and 1940. The Export-Import Act of 1945 established the Bank as an independent agency of the Government. The most recent amendment to the law extended the Bank's operation through June 30, 1978.

The Bank is directed by legislation to assist in financing export transactions for which financing otherwise would not be available but which have a good chance of repayment. The Bank may use direct loans, may guarantee loans already made, may purchase existing loans, or may offer insurance against loan default.

Under the direct loan program, a U.S. bank may apply for Export-Import Bank participation in an export loan, usually a multimillion dollar loan. If the Bank deems participation appropriate, it may provide a portion (usually 30 to 55 percent) of the contract value. The foreign buyer provides a down payment of approximately 10 percent. The interest rate charged by the Bank is less than the commercial bank rate and the "blend rate" offered to the buyer makes the U.S. contract attractive.

Under the loan guarantee program, a commercial bank provides the full amount of the loan and the Export-Import Bank guarantees a high percentage of the loan against loss. The Bank usually requires a down payment by the buyer. To encourage U.S. banks to finance exports in periods of tight money, the Export-Import Bank will guarantee loans, in advance, to be discounted over the year.

Smaller-size loans may be handled through a program of cooperative financing with banks of other countries. The Bank will lend up to 50 percent of the value of a loan to be made by a foreign banking institution that will then loan the full amount to the buyer. The foreign bank assumes the full credit risk.

The Export-Import Bank also assists exports indirectly through the Private Export Funding Corporation (PEFCO), established in 1971. PEFCO is owned by a group of commercial banks, industrial companies, and an investment banking firm. All export loans financed by PEFCO are unconditionally guaranteed by the Export-Import Bank.

Overseas Private Investment Corporation

Under the general legislative authority of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) and the Foreign Assistance Act of 1969, the Overseas Private Investment Corporation was authorized as an independent agency in 1969. OPIC encourages private U.S. investment in friendly developing nations by insuring investments against political risks. OPIC encourages only those investments considered beneficial for both the United States and the host country. Loan guarantees are not made for projects that would produce products to be exported to the United States in competition with U.S. products. In some cases OPIC-insured investments directly stimulate U.S. farm exports. Other projects indirectly stimulate U.S. exports by helping developing nations increase their purchasing power.

In February 1978 the U.S. Department of Agriculture and OPIC announced a joint program to increase market demand for U.S. feedgrains and to improve diets

in developing countries. The program encourages U.S. companies and cooperatives with recognized capabilities in agricultural management and marketing to help expand and improve the livestock and processing industries of developing nations which cannot efficiently produce feedgrains or soybeans. Some of the countries are potentially large markets for U.S. feedgrains, wheat, soybeans, and rice. A meat industry would improve diets of the local populace and would assure demand of basic commodities produced by American farmers. The OPIC program announced in February will focus on livestock production, milling facilities, and storage. As with all OPIC programs, they must be compatible with the host country's economic development and nutritional policies.

CURRENTLY INACTIVE PROGRAMS

Export subsidies

Although the export payment program is currently inactive, it remains within the authority of the Commodity Credit Corporation. Under the program, when operative, the CCC provided direct subsidy payments or payments-in-kind to exporters of specified farm commodities. The subsidies provided the differential between the world market price and the higher U.S. price, making it economically feasible to export U.S. goods. Major commodities covered by the program have been wheat, wheat flour, rice, and tobacco.

The wheat export subsidy program began in 1949 to help the United States meet its obligation to export wheat at prices agreed to under the International Wheat Agreement, to ensure that U.S. wheat was competitive in world markets, and to reduce Government inventories. The Secretary of Agriculture had the responsibility for deciding whether or not a subsidy would be paid, and at what rate. Subsidy rates were announced daily. Because of rising commodity prices, the wheat export subsidy was reduced to zero on September 22, 1972.

From 1964 to 1973 almost 30 percent of all U.S. agricultural exports moved under the export subsidy program. Annual percentages varied from 23 to 35 percent. The payments were suspended for individual commodities when payments were considered no longer necessary to promote foreign purchases.

Barter

The barter program was temporarily suspended on July 1, 1973. To fulfill transactions made prior to that date, some exports occurred in fiscal year 1974 (\$293.8 million) and fiscal year 1975 (\$4.6 million). From 1964 through 1974 the barter program accounted for 5 percent of U.S. agricultural exports. The program moved into world markets quantities of U.S. farm products that could not have been exported for dollars. Some products received by barter could not have been obtained otherwise. The exchange also generated purchasing power abroad and kept U.S. dollars at home.

Under the barter program, the CCC exchanged surplus commodities it held or controlled for strategic materials or needed goods and services. Barter contracts specified the materials to be delivered, the origin of the material, the agricultural commodity to be exported and the country of destination. In a typical transaction, an American firm would buy a material abroad, sell it to the CCC at or below the world price, take payment in a surplus agricultural commodity, and sell the commodity on the world market. The funds generated abroad were used by the Agency for International Development or the Defense Department to obtain needed goods and services.

POSSIBLE WAYS TO EXPAND EXISTING PROGRAMS

Several alternatives to expand U.S. farm exports through existing programs are possible, though one must remember that policies which assist one segment of the U.S. agricultural industry are not always beneficial or acceptable to other segments. For example, as the Flanigan report¹⁸ pointed out several years ago, the U.S. policy toward freer trade with the European Community would probably help grain farmers and livestock producers, but could be harmful to the U.S. dairy industry. The EC would have a comparative trade advantage in dairy products. Other constraints that must be considered in planning for export ex-

¹⁸ Agricultural Trade and the Proposed Round of Multilateral Negotiations. Reprinted in Congressional Record, April 12, 1973, pp. 12032-42.

pansion are the cost to the U.S. taxpayer, impact on U.S. food prices, opposition from competitor nations with whom the U.S. needs to cooperate on other matters, and opposition from foreign agricultural interests.

Perhaps the most obvious method for increasing U.S. agricultural exports is to enlarge the scope of existing programs. This might be done by increasing the number of nations eligible for credit assistance, by changing credit terms available, by focusing more attention on export promotion within the Departments of Agriculture and Commerce, by increasing Government-financed food shipments, by reactivating dormant programs, or negotiating bilateral and multilateral agreements.

Section 402 of the Trade Act of 1974 limits the use of Government credit programs to those nations holding "most favored nation" tariff status. By extending access to U.S. credit, markets for American farm goods might be increased, particularly in Eastern Europe and some developing nations. The CCC Export Credit Sales program was successful in promoting grain sales to Poland in 1975-76; East Germany was also a large purchaser of U.S. grains and would probably have purchased even more had some type of credit been available.

Several bills now pending in the 95th Congress would make non-market-economy countries eligible for CCC credit programs. (See Appendix) Some bills, such as H.R. 10377 and S. 2385, would make Communist nations eligible for any CCC program (except Food for Peace) under which credit, credit guarantees, or investment guarantees were extended. These bills also would authorize commercial sales of agricultural commodities out of private or CCC stocks on credit terms in excess of three years but not more than ten years. The current credit terms are limited to three years.

Repayments could work in different ways. Some bills would require that repayments to the United States be placed in a fund for the purpose of extending additional loans. Under other proposals, the credit could be direct loans to be repaid in dollars with interest at a rate which would be equivalent to the average cost of borrowed funds plus one-half of one percent; or the guarantee of 90 percent of the value of loans made by U.S. commercial financial institutions.

The bills also would direct the Secretary of Agriculture to take reasonable precautions to safeguard usual marketings, avoid displacing commercial cash sales for dollars, and to require commitments from purchasers that would prevent resale or transshipment of U.S. products purchased on CCC credit. They would require that no sale be made unless the Secretary of Agriculture determines that such a sale would (1) develop, expand or maintain such country as a long-term foreign market for commercial sales, (2) increase the sale and export of U.S. farm commodities on a long-term basis, (3) improve the marketing, storage, handling or distribution in such country of U.S. commodities, or (4) otherwise improve the capability of such country to purchase and utilize U.S. farm products.

Some proposals would use the CCC credit program and the multilateral trade negotiations to increase the U.S. share of agricultural commodities in world trade, and would authorize CCC financing for exporters of U.S. farm commodities who wish to extend deferred payment terms not to exceed three years to foreign buyers for the purpose of meeting foreign competition and making additional sales. Repayment would be made in dollars.

Several bills would express the sense of the Congress that the CCC make available credit at levels to assure that total U.S. credits available for the export of agricultural commodities would bear the same ratio to total U.S. credits available for the export of non-agricultural commodities as the value of U.S. agricultural exports bears to the value of U.S. non-agricultural exports.

The existing export-sales promotion programs under the direction of the Foreign Agricultural Service and the Department of Commerce might focus more directly on potential growth markets for U.S. products. Promotion of grain sales in Eastern Europe and promotion of poultry and processed foods in the Middle East are obvious examples of cooperative efforts that could benefit various segments of U.S. agriculture.

Several bills pending in the 95th Congress would authorize and direct the Secretary of Agriculture to establish between 6 and 25 United States Agricultural Trade Officers for the purpose of developing, maintaining, and expanding international markets. The Agricultural Trade Officers would report to the Administrator of the Foreign Agricultural Service or to any other person the

Secretary might designate. The bills also would upgrade the position of agricultural attaches in U.S. diplomatic missions by changing their title to Agricultural Counselor, and adding to their duties comprehensive reporting on the supply and demand situation of the host country. (See Appendix).

Sales promotion programs also might shift emphasis in terms of commodities. For example, it has been suggested that the U.S. shift its efforts from grain sales to meats and processed foods. Spokesmen in favor of the plan contend that increased exports of meat would benefit all sectors of the agricultural industry. Grain farmers would have the same market demand for their products, through the market would be domestic instead of foreign. The livestock industry would benefit from expanded markets for its products, and the meat processors would share in the economic benefits of expanded exports. A second example of a possible shift in commodity emphasis would be to expand the promotion of blended foods. Some of these products have already been sold on concessional terms and a few nations have made inquiries about commercial purchases. An educational program on the nutritional value and uses of these foods could boost sales.

Concessional sales and food aid programs can be expanded or contracted relatively easily. Because the Government holds few stocks, most of the exports under these programs represent Government purchases on the commercial market. The major constraints on the program are the cost to the taxpayer, the availability of specific commodities, the ability of the recipient nation to handle the shipments, and the broader policy objectives of the United States.

A less direct method of expanding U.S. export trade would be to reduce foreign competition. A recent example of this approach focused on world palm oil production and the competition that palm oil presented to U.S. soybean exports. The United States announced in July 1976 that it would no longer support loans by international financial institutions to develop more palm oil for export purposes. Department of Agriculture officials believed that this announcement would have the effect of drying up funding from international institutions which the United States supports, such as the World Bank. Similar policies could be used to limit the development of other competitive exports by nations dependent on international loans. This approach would have a limited effect, however, and could possibly have a negative effect if the international reaction was to erect trade barriers against U.S. products.

By negotiating bilateral trade agreements, the U.S. Government and/or private trading firms could assure larger sales in selected markets and for selected products. For example, a buyer who wished to be guaranteed a minimum amount of a certain commodity in time of shortage might be encouraged to sign a multi-year purchase agreement, indicating his intention to buy the minimal amount each year for several years. In exchange the U.S. agent would guarantee the availability and sale of the minimal amount for the duration of the agreement. The advantages of such purchase agreements include the relative ease with which they can be negotiated (in contrast to GATT negotiations, for example) and the absence of a direct cost to the American taxpayer.

Because of the potential use of export controls by the U.S. Government, private longterm trading agreements may not be acceptable to foreign buyers. On the other hand, if the U.S. Government should offer an agreement that included assurances against export restrictions, more foreign buyers might be willing to sign longterm agreements.

Several bills in the 95th Congress would declare the sense of the Congress that the President direct (1) U.S. trade negotiators to give highest priority to improving U.S. access to the markets of the European Community and Japan, (2) the Department of Agriculture to program in fiscal year 1978 a minimum of \$1.5 billion for Title I of Food for Peace, (3) the CCC to extend an additional \$500 million line of credit to eligible nations, and (4) the Export-Import Bank to expand its agricultural loan guarantee program to include all U.S. farm commodities. (See Appendix)

The barter program is currently inactive, but the legislative authority for the program still exists in Section 303 of P.L. 83-480. During recent discussions on U.S. "food power" issues, one of the possible uses of food power frequently mentioned has been the barter of food for strategic materials, such as minerals. Because the Government owns little food, it would have to purchase the commodities on the open market before initiating barter negotiations.

The export subsidy program of the CCC also is currently inactive but could be reactivated for specific products.

POSSIBLE GROWTH MARKETS FOR U.S. FARM PRODUCTS

*Communist nations*¹⁹

Perhaps it is with good reason that several pending bills of the 95th Congress deal with removal of trade restrictions on the Communist nations. The centrally planned countries, particularly Eastern Europe and the Soviet Union, have been among the fastest growing markets for U.S. farm products in recent years. They have additional growth potential, particularly in the livestock and feed sectors.

The expansion of East-West trade in the 1970s has been dramatic. For U.S. agriculture, the increases was 14-fold from 1970 to 1976. The outlook for 1978 is favorable because of Soviet grain purchases and Chinese cotton and soybean purchases. The Foreign Agricultural Service estimates that the Communist nations could become a \$5 billion market for U.S. farm products by 1980, and could approach the \$6 billion market level of the European Community.

Special obstacles exist to expansion of East-West trade, however. The United States does not grant "most favored nation" tariff status to most of the Communist countries; the exceptions are Poland, Romania, and Yugoslavia. Title IV of the Trade Act of 1974 prohibits most favored nation status and CCC credits to nations that do not permit free emigration of their citizens. Bilateral trade agreements with the Soviet Union and Eastern European nations have eased trade barriers with those countries. Such agreements are unlikely with the Peoples Republic of China because of diplomatic non-recognition.

Eastern Europe is experiencing growth requirements for more and better protein foods. Rising per capita incomes are boosting demand for high quality vegetable oils, and local production cannot match demand. The northern countries will need to import protein feeds for an indefinite period. New soybean crushing facilities are scheduled to expand in Romania and Yugoslavia in 1978 and in Bulgaria in 1979. The U.S. share of the soybean meal market has declined in the 1970s because of favorable Brazilian prices.

To promote the use of U.S. soybean products, the Foreign Agricultural Service has scheduled a two-stage project through 1985. The first phase will involve distribution of information geared toward feed manufacturers and livestock producers. The second will take place when the new crushing facilities begin operation. The United States will provide technical assistance to the plant managers to assure production of high quality soybean meal and oil.

Developing nations

In the past, most of the U.S. funds spent on market promotion have focused on the largest trading partners: Japan and European Community. But a large number of countries included in the developing world are potential growth markets. As foreign exchange becomes available to their governments and as per capita income rises, these nations will look for imports to boost the nutritional level of their diets. U.S. Department of Agriculture publications in 1977 and 1978 have noted the growth potential in Southwest Asia, North Africa, and the Middle East.

Southeast Asia:²⁰ A team of wheat marketing specialists visited 10 Asian countries in the spring of 1977. In their judgment, the market for U.S. wheat in Asia would continue to expand for the next five years. The nations visited were Sri Lanka, Singapore, Indonesia, India, Thailand, the Philippines, Taiwan, South Korea, Japan, and Malaysia.

James Iso of the Foreign Agricultural Service wrote in April 1977 that the outlook for exports of U.S. soybeans to Southeast Asia was favorable. Rising incomes and changing eating habits would call for more imports of feedgrains. Brazilian and Asian suppliers had a substantial foothold in the market but, in Iso's opinion, Southeast Asia could become a new frontier for the United States and a longterm growth market as local diets improved, particularly in populous Indonesia and India.

¹⁹ Roger Neeta, East-West trade: boon to U.S. farmers, *Foreign Agriculture*, March 6, 1978: 2-5; Poland's grain crops up, but imports to stay high, *Foreign Agriculture*, May 9, 1977: 5-6; and John J. Reddington, Eastern Europe seen as promising market for U.S. oilseeds, *Foreign Agriculture*, February 20, 1978: 2-5.

²⁰ Richard K. Baum, U.S. wheat team sees Asian market growth, *Foreign Agriculture*, September 26, 1977: 12-13; and James Iso, Southeast Asia—emerging growth market for soybeans, *Foreign Agriculture*, April 11, 1977: 2-4.

Middle East and North Africa:²¹ With their tremendous income from petroleum, nations of the Middle East and North Africa are growth markets for U.S. exporters of wheat, feedgrains, rice, soybeans, frozen poultry, beef, fresh fruits and vegetables, and processed foods. Iran and Egypt with their large populations are rated as the best commercial outlets for grains, soybean oil and meal. Egypt is also a candidate for food aid because of its foreign currency shortage and development needs. Wealthy but sparsely populated nations such as Saudi Arabia are commercial markets for consumer-ready products. The Saudis also are trying to boost local production of sheep and poultry and need to import feedstuffs.

In 1977 U.S. exports of soybeans and products to the Middle East and North Africa topped \$100 million for the first time. Market competition comes mainly from Brazil and the European Community. The Foreign Agricultural Service and the American Soybean Association have stepped up product promotion in the region to tap the growing market. The region has a population of 171 million in 19 countries. As incomes rise, so will diet expectations and food purchases.

One major focus of these countries is to improve the quality of local meat, particularly poultry. The Foreign Agricultural Service and cooperators are attempting to acquaint poultry operators with the value of soybean meal as an ingredient in poultry feed. The FAS believes there is considerable potential for boosting the quantity and quality of vegetable oils sold in the region.

APPENDIX

MAJOR FEATURES OF SELECTED BILLS ON AGRICULTURAL TRADE

	H.R. 10377	H.R. 10434	H.R. 10520	H.R. 10946	H.R. 11096	H.R. 11101	H.R. 11294	H.R. 11463	H.R. 1180
Establishment of a 3 to 10 credit program through CCC.	×	×	×	×	-----	×	-----	-----	-----
Reimbursement for actual costs.	×	-----	-----	-----	-----	-----	-----	-----	-----
Establishment of fund for extending additional loans.	-----	×	×	×	-----	-----	-----	-----	-----
Appropriation of funds as deemed necessary.	-----	-----	-----	-----	-----	×	-----	-----	-----
Repayment of loans with interest.	-----	-----	-----	-----	-----	×	-----	-----	-----
Guarantee of 90 percent of value of commercial loan.	-----	-----	-----	-----	-----	×	-----	-----	-----
Ratio of agricultural export credit to nonagricultural export credit.	-----	×	×	-----	-----	×	-----	-----	-----
Eligibility of nonmarket economy countries for credit.	×	-----	-----	-----	-----	×	-----	-----	-----
The 3 to 10 yr program.	×	-----	-----	-----	-----	×	-----	-----	-----
Any CCC credit program.	×	-----	-----	-----	-----	-----	-----	-----	-----
Impact of title IV of Trade Act of 1974 on agriculture.	-----	×	×	×	-----	-----	-----	-----	-----
Restrictions on CCC credit sales.	-----	-----	-----	-----	-----	×	-----	-----	-----
Precautions to protect commercial sales for dollars.	-----	-----	-----	-----	-----	×	-----	-----	-----
Commitments to prevent resale or transshipment.	-----	-----	-----	-----	-----	×	-----	-----	-----
Determination of long-term beneficial effect of the sale.	-----	-----	-----	-----	-----	×	-----	-----	-----
Relation to multilateral trade negotiations.	-----	-----	-----	-----	-----	-----	-----	×	-----
Increase in U.S. share of trade.	-----	-----	-----	-----	-----	-----	-----	×	-----
Position of Deputy Special Representative.	-----	-----	-----	-----	-----	-----	-----	×	-----
Sense of the Congress:	-----	-----	-----	-----	-----	-----	-----	-----	-----
Improvement in markets of Japan and EC.	-----	-----	-----	-----	-----	-----	-----	×	-----
Expansion of Public Law 480, title I.	-----	-----	-----	-----	-----	-----	-----	×	-----
Expansion of CCC credit.	-----	-----	-----	-----	-----	-----	-----	×	-----
Expansion of Export-Import Bank loan guarantees.	-----	-----	-----	-----	-----	-----	-----	×	-----
Review of cost-effectiveness of current programs and proposed programs.	-----	-----	×	×	-----	-----	-----	-----	-----

²¹ Edmund H. Driggs, The Mideast poultry outlet: problems and potential, *Foreign Agriculture*, May 16, 1977: 7-10; Frank J. Piason, Three nations lead Mideast/North African buying of soy products, *Foreign Agriculture*, April 10, 1978: 6-7, 10-11; Frank J. Piason, U.S. soybean, product exports gain in Mideast, North Africa, *Foreign Agriculture*, April 3, 1978: 2-5; Shackford Pitcher, Jordan boosting output of eggs and boilers, *Foreign Agriculture*, September 26, 1977: 7; and U.S. consumer-ready foods finding a market in Iran, *Foreign Agriculture*, May 9, 1977: 2-5.

APPENDIX—Continued

MAJOR FEATURES OF SELECTED BILLS ON AGRICULTURAL TRADE—Continued

	H.R. 10377	H.R. 10434	H.R. 10520	H.R. 10946	H.R. 11096	H.R. 11101	H.R. 11294	H.R. 11463	H.R. 1180
USDA reorganization:									
Establishment of agricultural trade offices		X	X	X				X	
Creation of 2 positions in place of Assistant Secretary of Agriculture for International Affairs and Commodity Programs.		X	X	X				X	
Upgrading of agricultural attaché jobs.		X	X	X				X	
Establishment of import quotas					X			X	X
Establishment of import tariffs and an agricultural export fund.					X				X
Requirement that export prices be not less than 100 percent of parity.					X				X
Congressional review of embargo or suspension of a sale.								X	
Designation of CCC as marketing agent for export sales of 7 commodities.							X		

STATEMENT OF HON. DICK CLARK, A U.S. SENATOR FROM IOWA

Mr. Chairman, I very much appreciate the opportunity to appear before your subcommittee this morning, and I appreciate your consideration of my bill S. 2968. I believe that you have four bills under consideration, and that all have the general purpose of increasing U.S. exports of agricultural commodities. There are significant differences in approach proposed by these bills, but there are also many similarities. I would hope that it would be possible to consider these bills quickly, and gather proposals for modification and report to the Agriculture Committee a bill that can be passed into law very quickly.

I will be brief. I simply want to observe that of the two main components of our agricultural policy, our foreign trade policy has always had stepchild status. That may have been appropriate years ago when our overseas sales of agricultural commodities were small, and when we found foreign exchange from agricultural sales to be more nearly an embarrassment than an asset. But if that ever was the case, it is not now. Today, the success of our domestic agricultural policy depends on the success of our foreign trade policy. I do not think that fact is adequately appreciated, and I do not think that it is adequately understood across the country, or in government.

Let me say that I know President Carter appreciates this fact because I discussed it with him Tuesday. We discussed our general need to improve agricultural exports, and to strengthen our prices overseas. He is very much interested in our foreign trade problems, and he asked me to keep him posted on the progress of this bill.

He invited me to call Mrs. Kreps and discuss these proposals with her because of the implications for the U.S. balance of payments and the value of the dollar. And he implied that he thought more should be done in the area of foreign trade, especially foreign trade of agricultural products.

But I am not sure others in the government share the President's concern, or at least have shared it in the past. Too often, U.S. policy seems to reflect the attitude that foreign market development programs are not really important. When there are shortages around the world, our policy seems to reflect the view that it is unnecessary to improve the basis for our agricultural trade, since we have so much of the available supply, and foreigners must buy from us if they are to buy anywhere.

When there are surpluses here and around the world, our policy seems to reflect either the view that increases in foreign trade cannot be accomplished, or if they can, there will not be enough to do any real good.

As a result, the foreign market development programs have been turned on and off several times since World War II, but they have never been a central component of our agricultural policy. They have been peripheral, operating in the shadow of other efforts.

It is my view that we can no longer consider the foreign trade component of our agricultural policy as secondary in importance. This is not because our

domestic production or price policies are less important. It is because the success of our domestic policies depends so heavily on the success of our foreign policies and programs.

The importance of our export policies and programs has increased dramatically since 1973. A change in economic circumstances and in world weather then converted U.S. agriculture to an export orientation almost overnight. Almost overnight, we came to depend on foreigners for markets for more than half of our soybean production and a quarter of our corn production—our two principal grain crops in Iowa.

And, we have a very positive balance of trade in agriculture, we sold \$24 billion worth of agricultural products overseas, in 1977, but bought only \$13.4 billion worth of agricultural products overseas—for a positive balance of \$10.1 billion. Clearly, our negative overall balance of trade would have been very much worse without the agricultural exports.

The factors that moved us to an export oriented agriculture were worldwide economic trends and weather, rather than a conscious change in our policy. Because we did not design the policy change, our system of efforts to maintain the increase our overseas markets has not kept pace. It is important that we upgrade these efforts, make them more viable and more effective, and that we ensure that they are commensurate with the important role they play in maintaining and increasing the prosperity of American farmers.

Each of the four parts of S. 2968 would help meet that goal.

I believe the intermediate credit provisions of the bill are the most important. They are additions to the current program. We have short term (up to 3 years) commercial credits available from CCC at market rates. And, we have very long term credit under Public Law 480 that permits repayment over a 10 to 40 year period. However, for those purchasers who need somewhat better terms than the current 3 year CCC loans, but who do not need or who cannot qualify for the concessional sales provisions under Public Law 480 long term programs, there is now no adequate source of credit.

Many countries that are potential markets for U.S. commercial exports do not have adequate facilities to handle or store these products. In many cases, these countries lack adequate credit to permit the construction of such facilities. S. 2968 would permit loans for such facilities.

It is impossible to know how much credit is needed under this program, or exactly what the cost would be. The program would operate through the existing structure of CCC. The new authorities would permit loans, and Congress would reimburse CCC after the loans were made. The loans would be at commercial rates of interest, and would be repaid.

The level of loan activity under the program would depend on a number of factors, including the price of our products, and their availability both here and in importing countries. USDA estimates outlays under this program at approximately \$100 million per year for the first year and at higher levels later on.

The second feature of this bill is to establish U.S. agricultural trade offices in a number of countries. We now have one such office in London. In the typical setting in the U.S. diplomatic mission abroad, the management of U.S. market development activities is but one of a large number of responsibilities agricultural attaches must carry out.

They now work from their U.S. Embassy offices. Because the attachés' attention must be divided and because cooperators and private trade representatives frequently cannot conduct business on the same premises as the attachés, coordination and consolidation of activities are greatly hindered. Furthermore, many nonresident exporters are discouraged by the lack of facilities and services at their disposal for market development activities.

This bill would permit trade offices to be located outside embassies. They would be headed by an assistant agricultural attaché and staffed by local nationals for professional and clerical help.

The offices would provide the data for use by the strategic planning activities needed to formulate long term market development programs and policies. They would be responsible for the implementation and coordination of all USDA export market promotion activities within each country.

They would assist visiting U.S. business representatives and nonresident cooperator personnel in their market development efforts, and would provide guidance on the use of Public Law 480 as a development tool for U.S. agricultural markets.

These offices would also provide assistance for exhibits, sales teams, the Trade Opportunity Referral System and assist in developing the industry support for removing trade barriers that inhibit U.S. agricultural exports.

Twenty-five such offices would be authorized by this bill. USDA estimates that a gradual expansion would lead to the development of some 17 such offices during the first 5 years of the program's operation. The operation of 17 offices would require an additional \$3.5 million and 56 staff.

The bill has two additional sections. One would upgrade the current position of Assistant Secretary of Agriculture for International Affairs and Commodity Programs to Under Secretary. The second would upgrade the position of the officials attached to the diplomatic missions of the United States from "Attaché" to "Counsellor".

These are technical changes in structure, but they are important in making this program more visible, and in making it work better.

The current Assistant Secretary of Agriculture of International Affairs and Commodity Programs not only manages programs responsible for more than \$10 billion dollars, but he must negotiate constantly with officials of the Department of State and with officials of other Governments with regard to the operation of our agricultural programs. He is constantly dealing with U.S. officials with Under Secretary rank. This places him at a considerable disadvantage in his negotiations, and it reduces the status of the agricultural programs he manages in the view of those departments, and in the view of other countries. This discrepancy in rank should be changed to give the representative of agriculture equal status with those with whom he deals.

A similar situation occurs in the U.S. diplomatic missions. The rank of attaché is too low to permit agricultural representatives access to many of the meetings and functions they need to attend. It significantly reduces the effectiveness of these representatives. Increasing the status of these officials should help upgrade our program of expanding agricultural exports, and make it more visible both here and abroad.

Mr. Chairman, I have no illusions that these program changes would instantly raise prices in our export markets. They would not. They are mainly technical things to make our system of export activities work better. They are not costly, and would far more than pay for themselves over the long run.



