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LOAN ELIGIBILITY FOR 1979 SOYBEAN CROP

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HEARING

BEFORE THE

SUBCOMMITTEE ON OILSEEDS AND RICE

OF THE

COMMITTEE ON AGRICULTURE

HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

H.R. 7142

MAY 13, 1980

Serial No. 96-FFF

DOCUMENTS



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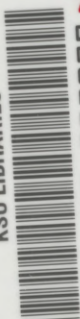
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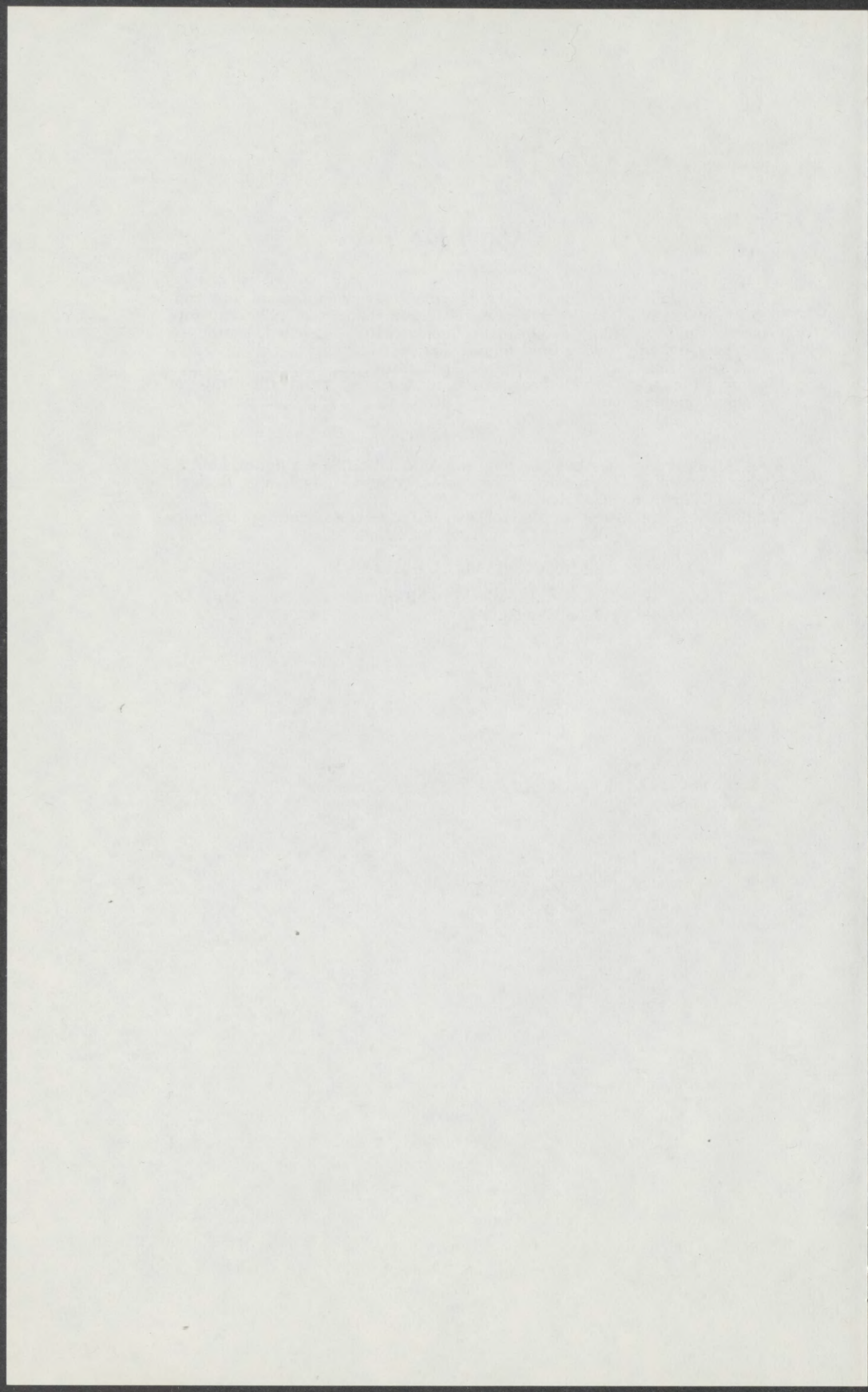
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LOAN ELIGIBILITY FOR 1979 SOYBEAN CROP

TUESDAY, MAY 13, 1980

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OILSEEDS AND RICE
OF THE COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:20 p.m., in room 1302, Longworth House Office Building, Hon. Dawson Mathis (chairman of the subcommittee) presiding.

Present: Representatives Bowen, Stenholm, Findley, and Thomas.

Staff present: Robert T. Lowerre, associate counsel; Christine D. Abram, clerk; James A. Davis and James C. Tippet.

Mr. STENHOLM [acting chairman]. The Subcommittee on Oilseeds and Rice meets today to consider H.R. 7142, by Mr. Findley, the ranking minority member of the subcommittee, which eliminates any cross compliance requirement as a condition of eligibility for loans and purchases in the case of the 1979 crop soybeans.

[H.R. 7142 and the report from U.S. Department of Agriculture follow:]

[H.R. 7142, 96th Congress, 2d session]

A BILL To eliminate any cross compliance requirement as a condition of eligibility for loans and purchases in the case of 1979 crop soybeans thus providing soybean producers with a needed source of short-term credit during their financial crisis.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding any other provision of law, the reduction of acreage normally planted to designated commodities required by the Secretary of Agriculture under section 1001(a) of the Food and Agriculture Act of 1977 with respect to 1979 crops and compliance with any applicable set-aside under the Agricultural Act of 1949 shall not apply as a condition of eligibility for loans and purchases for the 1979 crop of soybeans.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., May 13, 1980.

HON. THOMAS S. FOLEY,
Chairman, Committee on Agriculture,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request of April 25 for the Department's views on H.R. 7142, a bill: "To eliminate any cross compliance requirements as a condition of eligibility for loans and purchases in the case of 1979 crop soybeans thus providing soybean producers with a needed source of short-term credit during their financial crisis."

The Department opposes enactment of this bill.

H.R. 7142 would eliminate any cross compliance requirement as a condition of eligibility for loans and purchases of soybeans for the 1979 crop only. Soybean producers who had not complied with the set-aside provisions under the wheat and feed grain support programs for 1979 crops would, therefore, become eligible for soybean loans on 1979 crop soybeans.

The cross compliance requirement in effect for all CCC price support programs was established to prevent the payment of benefits under one program as a direct result of producers not complying with the provisions of another program. Without such a requirement, not only would the incentive to participate in programs with set-aside provisions be reduced, but producers would be actively discouraged from participating in order to increase benefits under another program. This is particularly true when a set-aside provision is in effect for a substitute commodity.

Eliminating the cross compliance requirement for 1979 crop soybeans would undermine the integrity of the program, decrease the incentive for producers to participate in CCC programs in the future and provide the erroneous impression that the cross compliance feature is not an important and integral part of CCC commodity support programs. Furthermore, such an action would not be equitable to those producers who did comply with cross compliance requirements.

Enactment of H.R. 7142 would be expected to increase loan activity in FY 1980 by an estimated 55 million bushels and increase fiscal year 1980 outlays by \$180 million. Net outlays in FY 1981 would be reduced by an equivalent amount as the additional loans on 1979 crop soybeans were repaid. Thus, total outlays over the two-year period would remain the same.

The Office of Management and Budget advises that there is no objection to the presentation of this report and that enactment of H.R. 7142 would not be in accord with the program of the President.

Sincerely,

BOB BERGLAND.

Mr. STENHOLM. I would like to call upon Mr. Findley at this time for any further remarks he would like to make concerning this bill.

OPENING REMARKS OF HON. PAUL FINDLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. FINDLEY. Thank you, Mr. Chairman. I introduced this bill to provide farmers with a needed source of short-term credit during their current financial crisis. Technically, it would require the Secretary of Agriculture to remove the cross compliance restriction which prevents many soybean farmers from obtaining price support loans of \$4.50 per bushel on 1979 crop beans. This restriction applies to the very large majority of farmers who, for various reasons, did not sign up for the 1979 crop feed grain set-aside program.

The cross-compliance restriction was put into effect by administrative action. On April 4 I sent a telegram to President Carter urging him to undertake several initiatives to help farmers in their current financial crisis. None of the actions I urged would have required further legislation and the delay that such a process would entail. Removal of the soybean cross-compliance restriction was one of the actions that I urged that would enable farmers to get price support loans and thus money to help pay for operations this season.

Unfortunately, the administration has failed to rescind cross compliance and so on April 23 I introduced H.R. 7142 to end this unwarranted restriction.

As my colleagues know, the Congress has already acted to help feed grain farmers by partially opening the reserve program to those who did not sign up for the 1979 feed grain program and the President has signed that legislation into law.

The cross-compliance restriction on soybean supports was conditional on a farmer's participation in the feed grain program. Now that the farmer has been made eligible to participate in the feed grain program and obtain price support for his corn, it makes no sense to deny producers the right to put their 1979 crop beans under loan and thereby get much needed operating cash.

Farmers this year have been hit by embargo-depressed commodity prices, by exorbitant farm operating credit costs, and by inflation-escalated farm costs. The crisis is not of the farmer's making.

This legislation will not solve all of the farmer's problems but it can help him with a valuable line of credit based on the beans he now has in storage, and the prospect is that at \$4.50, opening this to soybean farmers would not cause the Government to take over any of the beans inasmuch as, I think, just about everybody expects bean prices to remain above the \$4.50 level.

Mr. Chairman, I would like to add also that the American Farm Bureau Federation, the Illinois Farm Bureau, and the National Farmers' Organization have stated their support for this legislation.

Charles Frazier, executive director of the Washington office of NFO stated:

In view of the action already taken to open up the 1979 crop feed grain program, it is only a matter of equity to remove the cross-compliance restriction on soybeans and allow the farmer holding soybeans for a better market to get price support loans.

Also, Mr. Chairman, I would like to include in the record the text of a telegram from Harold Steele, president of the Illinois Farm Bureau, which expresses strong support of this legislation and further to state that John Datt, director of the Washington office of American Farm Bureau Federation stated to me this morning that American Farm Bureau Federation does support this bill. Thank you, Mr. Chairman.

Mr. STENHOLM. Thank you, Mr. Findley. With no objection, we shall insert the requested material in the record at this time.

[The material referred to above follows:]

TEXT OF TELEGRAM FROM HAROLD STEELE, MAY 13, 1980

During its April meeting, the Illinois Farm Bureau Board of Directors went on record requesting that the cross compliance provision relating to soybeans be eliminated and that all 1979-produced soybeans be eligible for price support loans. Such action would greatly assist soybean producers who are being forced to sell their soybeans on depressed markets in order to obtain needed operating capital. Price support loans would make needed capital funds available to producers at reasonable interest rates.

Farm Bureau of Illinois supports the provisions of H.R. 7142 to remove the cost compliance provisions for soybeans.

Sincerely,

HAROLD B. STEELE,
President, Illinois Farm Bureau.

Mr. STENHOLM. Our first witness this morning is Mr. Howard Hjort, Director of Economics, Policy Analysis and Budget, of the U.S. Department of Agriculture.

STATEMENT OF HOWARD W. HJORT, DIRECTOR OF ECONOMICS,
POLICY ANALYSIS AND BUDGET, U.S. DEPARTMENT OF AGRICULTURE

Mr. HJORT. Thank you, Mr. Chairman. I do appreciate this opportunity to present the administration's views on H.R. 7142, a bill to eliminate any cross-compliance requirements as a condition of eligibility for loans and purchases in the case of 1979 crop soybeans.

The administration opposes enactment of this bill.

H.R. 7142 would eliminate any cross-compliance requirement as a condition of eligibility for loans and purchases of soybeans for the 1979 crop only. Soybean producers who had not complied with the set-aside provisions under the wheat and feed grain support programs for 1979 crops would, therefore, become eligible for loans on 1979 crop soybeans.

The cross-compliance requirement in effect for all CCC price support programs was established to prevent the payment of benefits under one program as a direct result of producers not complying with the provisions of another program. Without such a requirement not only would the incentive to participate in programs with set-aside provisions be reduced but producers would be actively discouraged from participating in order to increase benefits under another program. This is particularly true when a set-aside provision is in effect for a substitute commodity.

Eliminating the cross-compliance requirement for 1979 crop soybeans would undermine the integrity of the program, decrease the incentive for producers to participate in CCC programs in the future, and provide the erroneous impression that the cross-compliance feature is not an important and integral part of CCC commodity support programs.

Furthermore, such an action would not be equitable to those producers who did comply with cross-compliance requirements.

Reference has been made to the legislative action that has been taken by the Congress and implemented by the administration to permit limited entry of 1979 crop corn directly into the reserve by those that did not participate in the 1979 program. The basic justification for doing that, I believe, is somewhat different. Corn was the major commodity that was involved in the suspension of exports to the Soviet Union and the participation simply was not large enough to be able to encourage those that did participate to take a sufficient quantity out of the market so that market prices could move back up.

The enactment of H.R. 7142 would be expected to increase loan activity in fiscal year 1980, we have estimated, by 55 million bushels, and increase fiscal year 1980 outlays by \$180 million. Net outlays in fiscal year 1981 would be reduced by an equivalent amount as the additional loans on 1979 crop soybeans were repaid. Thus, total outlays over the 2-year period would remain the same.

With regard to a related matter, the full committee last week voted to report H.R. 7121 to amend section 201(e) of the Agricultural Act of 1949, as amended, to require that the price of 1980 and 1981 crops of soybeans be supported through loans and purchases at not less than \$5.02 per bushel.

The administration opposes enactment of that bill as well, mainly because under current legislation the Secretary has the authority to increase the soybean loan rate as appropriate in view of the loan rates of other commodities, market conditions, and levels necessary to maintain U.S. overseas markets. We believe the existing flexibility to establish soybean support levels based on domestic and international market conditions is essential.

The Congress currently has under consideration various proposals that would affect loan prices for grain. We do not know what the outcome will be. They may very well lead to a basis for an adjustment in the loan price for soybeans and for other commodities as well.

We do think that it is important that the loan levels be considered within the context of all of the other commodity loans as well as domestic and international market conditions. This proposal would reduce the Secretary's flexibility and therefore we cannot support it.

We would also like to highlight the current situation. As we all know, oilseed production was very large in 1979, not only in the United States but on a worldwide basis, and market prices have come down. There will be reserve stocks remaining at the end of the current season. Our producers have indicated, in April, that they intend to plant nearly as many acres of soybeans this year and we all know that costs of producing soybeans are rising rapidly.

Reducing the flexibility to adjust the support level for any given commodity could result in an imbalance in price support levels and unintended shifts in incentives so that production decisions would be made in response to Government programs rather than market forces. As a result, we would not support this proposal to reduce the Secretary's discretion with regard to the soybean loan levels.

These concerns are related. The need to maintain appropriate cross-compliance rules and the need to establish our price support loan levels within the framework of all our feed grain and oilseed programs is essential to our policy to minimize Government involvement in farmers' decisionmaking.

This administration's agricultural policy depends on a system of programs designed to let the forces of supply and demand establish incentives for shifts in acreage used to grow crops. The farmer-owned reserve is our main policy mechanism for dealing with the production swings that result from good and bad weather.

The other programs—commodity loan programs, voluntary acreage set-aside, and land diversion programs—are additional tools to help bring supply into better balance with use in such cases and to provide price and income protection against extremely good weather and economic disasters. These are important protections but, year in and year out, increasingly it will be the farmer-owned reserve that helps balance the supplies available to the market with demand at prices that cover farmer costs and permit them to realize profits.

In an important sense soybeans have been our most dynamic agricultural sector. In 1970 we harvested 42.2 million acres of soybeans compared to 57.4 million acres of corn. In 1979 we harvested 70.5 million acres of soybeans and 71 million acres of corn. In 1970, we exported 434 million bushels of soybeans. By 1979-80 that number has increased almost 90 percent to an estimated 815 million bushels. During the 1973-79 period, soybean exports averaged 621 million bushels annually and we had export controls in 3 of those 7 years.

The soybean industry has an effective market development program and world oilseed requirements continue to climb at a relatively rapid rate. It is, therefore, in my view, essential that the United States be able to be a reliable supplier in world markets.

We are committed to present for public comment this spring a proposal for a farmer-owned reserve for soybeans. We know this will be a controversial proposal. Some soybean producers oppose such a program but we have been told by others that they support the idea. The purpose of this call for comment is to give us a chance to thoroughly evaluate the pros and cons of the proposal.

We do believe it would be one way of getting soybean prices up or preventing them from declining. With production costs rising at the rate they are it seems to us to be essential to solve the credit problems facing the industry. In a real sense, it is necessary for soybean prices to improve from where they are.

We now think our free stocks of soybeans at the end of 1979-80 will be about 400 million bushels. This is a relatively high level compared to previous years' levels but it is not excessive when compared to annual utilization. Based upon domestic and foreign use during the 1979-80 season, 400 million bushels represents a 10-week supply.

Pipeline requirements must be around 200 million, yet the extra 200 million bushels has depressed the season average farm price by 8 to 9 percent from the 1978-79 average. With production costs rising sharply, current product prices are failing to cover costs for a growing share of our soybean producers.

With that, I would be happy to try to answer any questions that the chairman or members of the committee may have.

Mr. STENHOLM. Thank you, Mr. Hjort. Mr. Mathis?

Mr. MATHIS. Thank you, Mr. Chairman.

Mr. Hjort, is this the first public comment that you have had relative to the presentation of a proposal for farmer-owned reserves for soybeans, or have I been out of town and missed it?

Mr. HJORT. The Secretary made a commitment some time back, as a matter of fact, before the House Appropriations Committee, to submit a proposal for comment. I am not sure how much publicity that received but we are committed to put out for comment such a proposal.

Mr. MATHIS. Is that the kind of thing that might merit the attention of members of the Subcommittee on Oilseeds and Rice of the House Committee on Agriculture which has jurisdiction over that kind of legislation?

Mr. HJORT. Yes, sir. I think it is. That is one of the reasons for my mentioning it here. It is one of the reasons why we go through the normal process of inviting public participation and comment on any such proposal before a decision is made to implement it or not.

Mr. FINDLEY. Will the gentleman yield?

Mr. MATHIS. I would be delighted to yield.

Mr. FINDLEY. Mr. Chairman, I think it is all well and good to invite public comment next spring, and I guess you mean the spring of 1981. Is that correct?

Mr. HJORT. No, sir. We are planning to invite public comment reasonably soon.

Mr. FINDLEY. You mean this spring.

Mr. HJORT. Yes, sir.

Mr. FINDLEY. Mr. Chairman, I hope that you will see fit to schedule hearings on this very sweeping proposal, one that causes me great concern. I think this is the right forum for a public discussion of the issue.

Mr. MATHIS. I have no further questions.

Mr. STENHOLM. Mr. Findley?

Mr. FINDLEY. Dr. Hjort, much of your statement relates to the \$5.02 loan rate for beans reported favorably by the Agriculture Committee last week, but very little of your comment relates to the bill that the subcommittee now has under consideration.

The critical comment that you make about the \$5.02 loan rate, for the most part, would not apply to the bill now before us because the loan rate which would have effect is \$4.50. Would you agree that my observation is correct?

Mr. HJORT. Yes; as I understand your particular measure it does not affect the loan rate. The present loan rate is \$4.50 for the 1979 crop.

Mr. FINDLEY. I have always supported the idea of a loan program for farmers as means of promoting orderly marketing. I do not know whether it is out of style to describe the loan program that way, but I think the original intention of crop loans was to enable farmers to hold their grain until the most advantageous time for selling, to get some cash at harvest time, but to put off the decision if they wished to on when to market their crop.

It seems to me that the bill now before us is entirely consistent with that objective. I recognize the desire of the administration to involve farmers in cross compliance arrangements. That is almost a separate issue because this year we have two circumstances that I think would justify setting aside that basic argument and just dealing with the question of loan rates for the 1979 crop beans.

One of these events was the Russian grain embargo. Even though the role of beans in that transaction was not large, it was nevertheless significant and most experts feel that it did have a significant downward effect on soybean prices.

The other is the decision of the administration to permit corn farmers to, despite the requirements of cross-compliance last year, get into the reserve program as a result of the Soviet grain embargo.

Therefore, I would hope that despite your general feelings about cross compliance that you would feel that this is merited. Do you have any comments?

Mr. HJORT. Mr. Chairman, we do believe that the principle that we are talking about here, the principle of cross compliance, is one that is quite fundamental to our food and agriculture policies and it is, in that context, a rather important matter. As I have indicated, over the 2 years it does not appear that there would be any net change in outlays. There would be some increase in the current fiscal year but it would be paid back in the next.

Therefore, our main concern over this proposal is what it does to the future integrity of the programs.

Mr. FINDLEY. But have you not already breached that principle with regard to corn?

Mr. HJORT. No, sir. I do not believe so. It is a limited entry. It is for a specified maximum quantity, a relatively small quantity compared to the total that the nonparticipants produced.

It certainly is a deviation from the original rules. There is no doubt about that.

Mr. FINDLEY. Under the law and regulations on cross compliance last year, even this partial entry would have been impossible.

Mr. HJORT. It would have been impossible had not the Congress passed the legislation that enabled us to go ahead and offer it.

What it really comes down to was a choice between the Government purchasing or encouraging farmers to place their grain into the farmer-owned reserve. As you know, we have always felt that there is no real need for the Government to own feed grain. We believe the

farmer-owned reserve is a very adequate and preferred tool to use to hold those commodities off the market when prices are depressed.

Under the circumstances there was that choice. We could have said: No, let us stay with the original rules and only participants can put grain into reserve and we will purchase the rest. The decision was that it would be preferable, even under these circumstances that you mentioned, to permit a limited quantity of corn to be placed directly into the reserve by those that did not participate and in that way reduce the need for Government purchases as an overall mechanism of getting prices back up.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. STENHOLM. Mr. Thomas?

Mr. THOMAS. Thank you, Mr. Chairman. You indicated that the corn question was a deviation from the regular rules and that you can deviate in various degrees. One of the deviations you chose not to take on cross compliance had to do with cotton growers in my area, for example, who in good faith with the USDA followed the rules in effect and planted grain. USDA, after the fact, announced a set-aside for grain.

Is my memory correct in indicating that USDA would not recognize the after-the-fact change in the rules for cross compliance for the cotton program?

Mr. HJORT. I am not familiar with the specific instance to which you are referring. We, the administration, were very firm supporters of the concept of cross compliance in connection with the 1977 legislative process and I believe—

Mr. THOMAS. What happened was that you made the decision after the grain was already in the ground. The USDA and the mechanisms inside USDA made the decision after the fact on cross compliance. I had people who, in good faith with the rules at that time, put principally barley in the ground and were out of compliance based upon the rules that were developed after the fact.

I asked the administration if they would review it and they did not.

My concern, in terms of this particular bill, is that regardless of the deviations—to me, a deviation is a deviation and the deviation did not deviate in my direction at the administrative decisionmaking level. However, it deviated in the direction of corn because a bill passed Congress.

Mr. Findley is apparently taking the appropriate deviation on soybeans because he has a bill. My question would be: If this bill passed both Houses of Congress, would the Agriculture Department recommend to the President that he veto it or would this be a deviation that they honor? I just want to know how to get the Department to deviate in my direction.

Is legislation a deviation which you honor?

Mr. HJORT. Let me point out that the administration has consistently opposed and continues to oppose any blanketing in of eligibility for nonparticipants. That position has been there all the way through this legislative session—

Mr. THOMAS. Regardless of the circumstances and even if it is after the fact, you make the decision.

Mr. HJORT. There have been many legislative proposals before the Congress that would open up the loan program to nonparticipants

generally. We have testified in opposition to every one of those measures.

The measure you are referring to, the limited entry of corn—as you know, that corn has to go directly into reserve. There would be no such requirement in this case for soybeans.

Noncompliers could place corn in reserve only after the eligible producers had a full opportunity to participate. There is a limited quantity and a limited time. In addition, as compared to the regular reserve program for participants, we are not waiving the interest.

Therefore, there are differences. It is a limited approach and we believe it was justified.

This would be a much more general proposal and the administration is opposed to changes in our basic cross compliance rules.

Mr. THOMAS. Could we try a yes or no? If Congress will be worked and this legislation passes, would you urge the President to veto it?

Mr. HJORT. Yes.

Mr. THOMAS. All right. Did you ask the President to veto the deviation from the rule on corn?

Mr. HJORT. No, sir. We supported that. I believe that, had it not been for the administration's testimony in support of it, it would not have passed.

Mr. THOMAS. That is all, Mr. Chairman.

Mr. FINDLEY. Will you yield to me?

Mr. THOMAS. Certainly I will yield.

Mr. FINDLEY. I wonder if Dr. Hjort could tell us what his recommendation would be if the \$5.02 loan rate passes both Houses. What would the Department's recommendation be to the President in that event?

Mr. HJORT. That very much depends upon what happens with the other pending measures. As the law requires, we are to keep one eye on the loan and support levels for corn and another one on soybeans and another eye on the other competing oilseeds.

For good, bad, or indifferent reasons, the analyses have suggested to us that a soybean loan about 2.25 times the corn loan is an appropriate relationship. We are already committed to a \$2.10 loan on corn. The \$4.50 loan for soybeans went along with the \$2 corn loan.

If the loan rate for corn stays at \$2.10 there would be some justification for some increase in the soybean loan to maintain the balance, but then we have this whole legislative process underway that includes proposals to increase the corn loan.

Therefore, it would depend. I would say this. If we end up with something on the order of a \$2.25 corn loan I would say \$5.02 would be justified as being in a proper relationship.

I cannot give you a yes or no answer on that. It depends upon the circumstances that arise between now and when these final loan rates are set.

Mr. STENHOLM. Mr. Bowen?

Mr. MATHIS. Mr. Chairman?

Mr. STENSHOLM. Mr. Mathis.

Mr. MATHIS. I would just like to get on the record the amount of the corn that Dr. Hjort anticipates coming into the loan program in violation of the earlier cross compliance rules.

You are talking about limited entry of this corn. How much are we talking about?

Mr. HJORT. So far 41 million bushels have come into the reserve. They have to go directly into the reserve. They cannot get a loan without placing it directly into the reserve.

Mr. MATHIS. Does the Department anticipate that this is going to cause any additional outlay over any extended period of time? You are saying for the soybeans that it is not going to cost anything. Total outlays would remain the same over the 2-year period. Is that also true of the corn?

Mr. HJORT. Each time we put a bushel of former nonparticipant's corn in the reserve, we make a \$2.10 loan and an advance storage payment of 26.5 cents. That counts as an outlay.

However, the total that has gone into the corn reserve program from participants and nonparticipants is still below the quantity that we budgeted for as part of the offset actions.

Mr. MATHIS. How much did you budget for?

Mr. HJORT. \$2.8 billion for the 2 years.

Mr. MATHIS. Do you have any idea how much additional corn might be coming in?

Mr. HJORT. Do you mean, under the limited program?

Mr. MATHIS. Yes.

Mr. HJORT. I do not. Our expert's initial estimate on the program was that 295 million bushels might come in. That clearly appears to be excessive now. Maybe we would get up to half of that. I just do not know.

Mr. MATHIS. What is the deadline on it coming in? You talked about a limited time period.

Mr. HJORT. At the present time the deadline is May 15. The Secretary is considering an extension.

Mr. MATHIS. We have 2 more days to reach half of 295 million bushels and now you have 42 million, so we would have to have some really rapid movement in the next 2 days to get to even half of what you anticipated.

Mr. HJORT. It is about a week. The 41 million report was actually taken at the county level either last Wednesday or Thursday, so there was about 1 week left. There was a fair amount of feeling that because farmers were very busy planting, and so on, that they were waiting for a rainy day or toward the end of the signup period to decide if they were going to put it in or not.

Mr. MATHIS. What formula is used in the Department to arrive at the figure of 295 million bushels? How did you go about making that guesstimate?

Mr. HJORT. They looked at the total amount that had been produced by participants and nonparticipants and then we have the stock reports that carry us through, now, April 1. The estimate, therefore, of the amount that was still remaining in farmer's hands as of April 1 gave us a start. Of that, based upon whatever information is available in terms of forward contract sales, and so on, they estimate what quantity might be available to go into the program.

Then based upon previous years' experience of the relationship between the eligible quantity and the quantity on which loans were made the estimate was reached.

Mr. MATHIS. Would this be the same basic kind of formula through which you would establish the loan activity such that the loan activity for fiscal year 1980 might be increased by 55 million bushels?

Mr. HJORT. Yes. All of this is, of course, geared to the basic supply-demand situation. Our current estimate is that we will have 400 million bushels of soybeans—about 400 million bushels of old crop soybeans—left at the end of this marketing year.

Mr. MATHIS. Is there a possibility that you might be as far off on the estimated 55 million bushels of soybeans that might come in under the provisions of this bill as you were on the 295 million bushels of corn that might have come in under the limited entry of corn into the reserve?

Mr. HJORT. In proportional terms; yes.

Mr. MATHIS. Therefore, we could really be talking about less than 10 million bushels of soybeans coming in if the same ratio of correctness is applied.

Mr. HJORT. Not really. I think there is a better basis for the soybean estimate. We have had several years in which there has been eligibility for loans and have been in the situation where the relationship between the loan level and the market price have been about equidistant from where they are now.

We have had considerable experience so far this year on those that have been eligible and on what kind of use they have made of the program and since we are well through the season we do have a reasonably good estimate of the amount of beans that will be left at the end of the year.

Those facts do provide reasonable assurance on an estimate, but they are estimates. They could vary significantly.

Mr. MATHIS. No matter if it were 10 million bushels of beans that came in as a result of the enactment of this legislation or 55 million bushels, the total outlay over the 2-year period is going to remain the same.

Mr. HJORT. Right. That is because the basic supply-demand factors will not change due to the proposed legislation. The 1979 crop has been produced and is in the bin. This would not have any appreciable impact on price and therefore on utilization.

Mr. MATHIS. You do feel that it will not have any appreciable impact on price, but do you also feel that the passage of this legislation could have any appreciable impact on the soybean producers' ability to produce this year or next year? Is there a possibility that we can keep him in business for another year without having any impact on his economic situation?

Mr. HJORT. A lot of soybean producers are also corn producers. One of the interesting questions related to this is: Why have we not had greater participation in the limited entry corn program? They can go to their local office and walk out with about as much cash as if they had marketed it and have the real prospect of an increase in price. In other words, it is a very direct measure to relieve credit pressures.

However, they are not taking a great deal of advantage of it. By this time most of the producers have had to make their arrangements for credit for planting, at least. So by the time this one would be passed, and before the President could act, I am quite sure that the planting will essentially be over.

Mr. MATHIS. Is that not also true for corn to which you said the \$5.02 was going to be keyed? Is not that same time factor working on corn and feed grains?

Mr. HJORT. Those are basically for the 1980 crop provisions and the 1980 crop will not be coming in until October or November.

Mr. MATHIS. We are talking about arranging for financing now. We are talking about this bill becoming available to farmers for 1980 to put the 1980 crop in in order that they might be able to obtain some financing. That is the same crop year that we are talking about in terms of corn and feed grains.

You said you needed to wait and see the outcome of the pending legislation before you decided whether or not \$5.02 was justified.

Mr. HJORT. I was talking about the 1980 crop, yes.

However, in this measure we are talking about relaxing the cross-compliance rules and permitting loans on the 1979 crop soybeans to some producers that were previously not eligible.

Mr. MATHIS. Would that not give the farmer a little additional source of income for 1980? That is really what we are talking about. He is not going to go back and plant any more beans in 1979.

Mr. HJORT. It would give him credit if he desires to use this, yes. We were saying, in effect, that there would be \$180 million more credit in this fiscal year. It would be repaid in the next fiscal year to the point where it would balance off.

Mr. MATHIS. Then the answer to my question of 3 to 4 minutes ago would be; yes, it could have a positive economic impact on the farmer's financial situation immediately.

Mr. HJORT. Yes, sir.

Mr. MATHIS. Thank you, Mr. Chairman.

Mr. STENHOLM. Mr. Bowen?

Mr. BOWEN. Thank you, Mr. Chairman.

Mr. HJORT. I was just thinking back about the discussions that took place in 1977 when we rewrote the farm legislation. I do remember several very heated conversations inside the legislative and with the executive branch on the whole subject of cross compliance.

Of course, my farmers are not for cross compliance in any form, shape, or fashion. However, we did accept the fact that the administration had a very adamant position on cross compliance, and it was discussed fairly thoroughly.

In all honesty, I cannot remember soybeans ever being mentioned in that discussion when we talked about cross compliance. As chairman of the Cotton Subcommittee, I was talking about cotton and other commodities—wheat, feed grains, and others—that are regulated in the same manner. Soybeans are not regulated in the same way as other crops are—they do not have set-asides or diversions, nothing but a loan—and although I will admit I never asked this question in open debate, it was my assumption that cross compliance did not apply to soybeans.

How did the Department come up with the conclusion that cross compliance would apply to soybeans or could be applied to soybeans, shall we say, by administrative action?

Mr. HJORT. We have tried to make that clear. I am sorry if that was not clear in the administration's proposal all the way through.

The general proposition is that to protect the integrity of the programs, we should not be in a situation like the Federal Government has been in at times in the past where farmers can pick and choose—agree to participate in this program if it is to their advantage and not

participate in another one—and can work the system, the net effect being that you do not really get much for the taxpayer's money.

Therefore, it was very much a part of the overall proposal right from the start. We have tried to make it clear and administer it in that way all the way through.

It is up to the producer to choose, knowing what the rules are, and if he wants to participate under those rules that is fine. If not, fine.

Mr. BOWEN. Did it not take some specific administrative action to establish the fact that the cross-compliance provision was being applied to soybeans? Did it not take some specific action different from that for the other commodities? Is that the way it was applied?

Mr. HJORT. It is a matter of regulations. Obviously, our lawyers have also determined for the Secretary that there is the legal authority to require cross compliance and the Secretary has desired to do so. Therefore, it has been applied and has been a matter of regulations all through this period.

Mr. FINDLEY. Will the gentleman yield on that point?

Mr. BOWEN. I would be glad to.

Mr. FINDLEY. I wonder, Dr. HJORT. Did any soybean interest group recommend that cross compliance be established for beans?

Mr. HJORT. I do not have the answer to that question. I simply do not recall. That would be back in 1977 and I am not sure.

Mr. FINDLEY. I think Mr. Bowen was trying to establish the genealogy of the cross-compliance feature and Dr. Hjort just stated that he knows of no soybean interest group that recommended that cross compliance be established. Apparently, it was totally initiated within the bureaucracy of the Department.

Mr. BOWEN. In the discussions that took place—and certainly I was a party to a great deal of the discussion that took place on the whole cross-compliance issue when we put that language in at the Secretary's request, I do not think soybeans were ever mentioned.

I think the feeling was that since soybeans were just out there unprotected by the normal range of legislative machinery, in terms of set-asides and diversions, and so on, that they would be treated differently and that cross compliance was not to be applied to them.

I never heard anybody bring it up and suggest it, although it may have been lurking in the far reaches of somebody's thinking in the Department of Agriculture. I do not think anyone every discussed it here.

If you search the record of discussions in committee, conference, and on the floor I do not think you will find soybeans ever mentioned in connection with cross compliance.

Mr. FINDLEY. I would agree with that. I do not know of any aspect of the legislative history of that bill that even suggests that any single Member of the House or Senate, much less any soybean producer or interest group, recommended cross compliance for beans.

Mr. BOWEN. In light of my view that the legislation did not affect soybeans anyway in terms of cross compliance, I regret that it is necessary to have to take this legislative action because it implies that for every other year besides this one the administration has the authority to require cross compliance.

However, I can see that, apparently, it is the only way we are going to make any progress. The only other option would be to exempt

soybeans, period, not just for this 1 year. We could go ahead and exempt them, but that might be a bit more difficult to achieve.

If the gentleman from Illinois feels that the most immediate relief can come in this manner, by simply addressing 1 year, then I am certainly very happy to support that position.

Thank you, Mr. Chairman.

Mr. HJORT. I am sure we all have different recollections of that legislative process. However, the matter was discussed not in connection with the section dealing with wheat, or cotton, or feed grains. It was a general provision. It was applicable on a broad scale.

You will all remember that the legislation that the administration proposed clearly included all of these commodities and did include soybeans. There was never any doubt in our minds that you cannot operate a program without including soybeans.

They are basically the same producers. They compete for the same acres. In all of our set-aside discussions in that legislative session and ever since we have administered it, we have always recognized that we do not want to get back to a system of allotments or saying that these acres are for corn and these acres are for soybeans. We believe the farmer is the best judge of how to use those acres. That was a fundamental principle behind that 1977 legislation.

It got a lot of attention and a lot of discussion. The legislation which passed in the end allowed for the farmer to decide.

When you offer a set-aside program for corn, we all have to recognize that it effects the acreage for soybeans.

Mr. BOWEN. Mr. Hjort, were you suggesting that the legislation actually enumerates soybeans among commodities covered by cross compliance, or is that just a broad piece of language? As I recall, it is a broad piece—

Mr. HJORT. As I recall, it is broad and it did not specifically restrict itself to wheat, corn, feed grains, and cotton, because it was to be a general provision.

Mr. BOWEN. It addressed itself to those commodities which are subject to being complied with; that is, with set-asides or other ways of restricting production. Of course, since soybeans is not a commodity which is subject to being complied with in any matter, and since there is nothing you can do with soybeans to require compliance with any regulations, I arrived at the conclusion that cross compliance was not to be applied to soybeans.

It would have been preferable, I suppose, to itemize them if that had been the case. As you admit, soybeans are not mentioned in the cross-compliance language.

Thank you, Mr. Chairman.

Mr. STENHOLM. I would add to the previous comment—I was not here during the establishment of the legislation that is under discussion today, but I find myself with this opinion. I do believe that soybeans should be, if they were not—on which I am apparently in disagreement with many of my colleagues on this committee—covered by cross compliance.

I have a strong belief that we must have cross compliance if programs of this nature are going to work. I agree with you to that degree.

However, I also find myself in the position of wanting to be helpful in solving a problem that has developed through no soybean farmer's fault.

My question of you is this. Information that I have, based on the current soybean market, indicates that it is anticipated by most people who deal with the market that any soybeans that would enter the loan under this bill would be redeemed. Do you agree?

Mr. HJORT. I believe they would be redeemed over the 2-year period. I am talking about an equivalent quantity.

The estimate is, in effect, saying that if you broaden the eligibility for loans in the current year you will get some additional loan activity but it is not going to change your basic supply situation.

Now, it may mean that some that take a fresh loan will still hold it and somebody that was previously eligible will pay his off so that you net out the same, but some of the new participants may continue to hold their loans on into fiscal 1981.

Mr. STENHOLM. That was the line of questioning Mr. Mathis pursued earlier. Basically, what we are talking about is some manner of alleviating a difficult situation with some soybean farmers who, through no fault of their own, find themselves in a situation which prompts the legislation before us.

Would you or would the Department support this legislation if we attempted to amend it to be closer to the program that we now have in operation for wheat and corn, in which we might look at a lower loan level for 1979? Just for numbers, instead of saying \$4.50 for 1979 crop soybeans, we are talking about now, say, \$4.25.

Would this change the Department's opinion on the helpfulness of this legislation?

Mr. HJORT. Are you saying, if this were fashioned in a way such that there would be some degree of limit or a lower loan level, or some such, for those that previously were not eligible?

Mr. STENHOLM. Yes. I ask this because I have a personal belief that we have some possible long-term effects as a result of any opening up of the program to allow those who, for whatever reason, did not participate in the past to come in today. We have done it with corn. We agree on this. You have already testified to the effect that there has been a change in the rules after the game was started.

However, we justify it by saying that there is a different level of participation. That is why I asked the question.

If we applied the same type of rules to the soybean producer we are talking about now, would this change the Department's position?

Mr. HJORT. I have not discussed the matter with the Secretary or others, but if, for example, there were a proposal that would permit a quantity to go into the loan program equal to the quantity that otherwise would have been shipped to the Soviet Union, that, I think, would put it on different ground.

As I said, I have not discussed the matter with the Secretary, but that may be one way of looking at the objective in a slightly different manner. What I am saying is that if there were a quantity limit that would be equal to the quantity that would otherwise have been shipped to the Soviet Union there is the possibility of a different sort of justification that comes closer to the kind of justification that was associated with limited entry of corn directly into the farmer-owned reserve.

Mr. STENHOLM. I hope you will—and you said you would pursue this—pursue this line of thinking and see if this might be a way that we might solve this particular problem.

Mr. MATHIS. Will the gentleman yield?

Mr. STENHOLM. I would be happy to yield.

Mr. MATHIS. If I understand what the gentleman is saying, it is that if we were to propose a \$4.25 loan rate for noncompliers for 1979 and then offered the identical legislation to what it is except for the lower loan rate—was that the question that you asked?

Mr. STENHOLM. That was the question.

Mr. MATHIS. I wonder if we might get a straight-up answer on that particular provision.

Mr. HJORT. We have opposed any general opening of the loan program to nonparticipants and we have testified on that in connection with wheat, feed grains, corn, and so on on numerous occasions, so I know where the administration's position is there. I do not believe that, even if it were at a lower level, if it is a general opening up of the program that it would find favor with the administration.

Mr. MATHIS. I think that what the gentleman from Texas was trying to do was to find some compromise that the administration might support. Failing that, I suggest that we go ahead and pass the legislation as it is.

Mr. STENHOLM. Let me follow up for an additional moment. Assuming some of the other legislation that we have had before the full Agriculture Committee, with regard to the possible changing of the loan level for the other commodities, passes and with some additional opening up of the reserve, which we have had indicated to us in the committee—Mr. Mathis pursued this line of questioning a moment ago.

We are talking about unlimited entry of the 1980 crop into the reserve as a result of the changes in legislation. Mr. Mathis, I would suggest that we should perhaps give some thought to what this might mean to this legislation were some of the other things to occur on the floor.

Are there any other questions?

Mr. BOWEN. Mr. Chairman?

Mr. STENHOLM. Yes, Mr. Bowen.

Mr. BOWEN. I would like to make just one brief comment. I would simply like to remind Mr. Hjort that the gentleman from Illinois and I pointed out at the hearing at which Secretary Bergland testified just 1 week or so ago that we felt that if you wanted to win friends among the soybean growers the best thing you could do would be to expand some export credits. I hope you continue to work on that issue, that is, the GSM-5 credit area. That is just desperately needed.

I think you indicated yourself, in your testimony, there is something like \$70 million available with another \$5 million that is committed elsewhere, but that the remainder is about \$70 million. I sincerely hope that you will continue to explore that avenue.

Mr. FINDLEY. Will the gentleman yield to me?

Mr. BOWEN. I would be very happy to.

Mr. FINDLEY. I think about 2 weeks have elapsed. Can you give us any progress report? Secretary Bergland indicated that somethings were in the works. Has there been any movement that you could report?

Mr. HJORT. We have discussed the matter with the industry and we have tried to compare notes on countries where there may be real opportunities to expand markets through the use of additional credits,

but to my knowledge there has not been closure on that process. I think that process is still underway.

I did want to clarify one thing. I said there was \$70 million available. I noted that in the press, after that statement, someone interpreted that to say that the full \$70 million was available or was likely to be allocated for soybeans and soybean products. I did not mean to imply that. I meant to imply that there is \$70 million and we are working with the industry on the use of some of those funds.

Mr. BOWEN. Your statement, as I recall, was that there was still unexpended some \$75 million that could be used for GSM-5 credit and that \$5 million of it had been committed to other purposes, \$70 million remained.

Mr. HJORT. Yes.

Mr. BOWEN. Of course, it was my hope that the entire \$70 million might be allocated for soybeans, but we would be delighted to get all we can.

Thank you, Mr. Chairman.

Mr. STENHOLM. Thank you, Dr. Hjort.

Our next witness is Mr. Allan Aves, president of the American Soybean Association of Washington, D.C.

STATEMENT OF ALLAN AVES, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, ACCOMPANIED BY JOHN BAIZE

Mr. AVES. Thank you, Mr. Chairman. My name is Allan Aves and I appear here today as president of the American Soybean Association. I am a farmer from Kirkland, Ill., where I raise soybeans, corn, wheat, and hogs.

The American Soybean Association is a national, nonprofit, volunteer, single-commodity association organized to assure the opportunity for a profitable soybean industry. ASA is supported by approximately 20,000 dues-paying soybean producer members and receives the bulk of its funding from volunteer checkoff investments from over 466,000 soybean producers in 22 States. ASA seeks to increase soybean profitability primarily through foreign market development and research.

Mr. Chairman, the American Soybean Association commends you for calling this hearing to receive public comment on H.R. 7142, a bill introduced by our friend, Representative Paul Findley. H.R. 7142 seeks to allow all soybean producers to participate in the 1979 soybean loan program regardless of whether or not they participated in the 1979 feed grain program.

The American Soybean Association commends you and the Committee on Agriculture for its adoption last Thursday of H.R. 7121, your bill to increase the loan rate for soybeans to \$5.02 per bushel for the 1980 and 1981 crop years. ASA considers both bills to be very important to the U.S. soybean industry during this period of embargoed markets, rising production costs, and low market prices.

Section 1001(a) of the Food and Agriculture Act of 1977 provides that:

Whenever a set-aside is in effect for one or more of the 1978 through 1981 crops of wheat, feed grains, upland cotton, and rice, the Secretary may require, as a condition of eligibility for loans, purchases, and payments under the Agricultural Act of 1949, as amended, that acreage normally planted to crops designated by the Secretary * * * shall be reduced by the acreage of set-aside or diversion.

Thus, in 1979 when the Secretary instituted a set-aside on feed grains a producer not reducing his planted acreage by the amount required by the set-aside was prevented by law from participating in the loan program for feed grains as well as for wheat, cotton, and rice. The Secretary, by administrative action, extended this ineligibility to include soybeans.

Because the Secretary extended the cross-compliance requirement to soybeans in the 1979 crop year, thousands of farmers producing both soybeans and corn are today unable to use the soybean loan as a marketing tool. While the share is less in the Southeast, the overwhelming majority of soybeans in the Midwest are grown by producers who also produce corn or grain sorghum in rotation with soybeans. According to USDA, only about 20 percent of the Nation's feed grain producers complied with the 1979 feed grain set-aside program. Therefore, only a small percentage of soybean producers are eligible for the soybean loan program.

Usage of the soybean loan program has been minimal during the last decade because market prices have been relatively high compared to the soybean loan rate and because ample credit has been available to farmers from the private sector. In fact, there have been no net Federal outlays for the soybean loan program since 1972.

The current situation is significantly different from previous years. The calendar year began with the embargo on shipments of feed grains and soybeans to the Soviet Union. Soybean producers have seen their cash price drop by as much as 65 cents per bushel since the embargo was imposed on January 4.

Combine the low market price with rapidly rising production costs and 20 percent interest rates and it is evident that soybean producers are experiencing a difficult financial situation. In some cases farmers are finding it difficult to obtain credit at any price.

Because of the economic squeeze on the soybean producer, many are choosing to sell their soybeans at today's depressed prices. Of course, such sales tend to dampen the market below what it would be if farmers continued to hold their soybeans for a higher price at a later date. Were soybean farmers eligible to put their remaining 1979 crop soybeans into the loan program, they would be able to get financing they need to put in their 1980 crop and still retain ownership and marketing control over their soybeans.

On April 1, U.S. soybean stocks totaled 1.2 billion bushels, about half of which were stored on the farm. However, 95.4 million bushels were under loan on April 16. Opening of the soybean loan program to noncompliers would result in a significant increase in soybean loan activity and make available much needed financing to farmers. Most important, the increased loan activity would slow down the liquidation of old crop soybeans onto a depressed market. The result would be an increase in soybean market prices.

The administration has made the argument that opening the soybean loan program to farmers who did not comply with the 1979 feed grain program would be unfair to those who did comply. The argument is also made that such an action would reduce the integrity of overall Federal commodity programs. While we can understand some of the logic in the administration's arguments, we content that the current situation justifies opening up the soybean loan program to noncompliers.

ASA has always opposed the cross-compliance provision as it applies to the soybean loan program. The Food and Agriculture Act of 1977 specifically provides that the Secretary does not have the authority to require a set-aside of soybean acreage as a condition for participation in the soybean loan program, yet the Secretary has made it necessary for the corn-soybean producer to comply with a feed grain set-aside in order to participate in the soybean loan program. We contend that such a requirement was not the intent of this committee when it approved the Food and Agriculture Act of 1977. Otherwise, the cross-compliance provision would have been statutorily extended to soybeans as it was to feed grains, rice, wheat, and upland cotton. For the administration to penalize the soybean industry for overproduction in the feed grain sector does not make sense since current law does not provide authority to penalize the feed grain industry for overproduction in the soybean sector.

In our opinion, the President's decision to impose the embargo on soybean shipments to the Soviet Union represents a very significant change in policy since the 1979 soybean program was announced over 18 months ago. The embargo represents a change in the rules that farmers were told they could expect when they planted their 1979 crop. It also means a much lower market price for a large share of that crop. We think it is only fair that the loan program be expanded to all soybean producers to help them withstand the impact of the embargo.

The Congress has already acted to help feed grain producers impacted by the Soviet embargo by partially opening the feed grain reserve program to producers not participating in the 1979 feed grain program. President Carter signed that legislation and USDA is now seeking additional grain for the farmer-held feed grain reserve program. However, the same producers who are eligible to participate in the feed grain reserve are ineligible to participate in the soybean loan program. We do not understand the logic of such a policy.

It is unclear just how many soybeans will be put in the soybean loan program if the cross-compliance provision is removed. Just for a comparison—we could agree very well with the possibility of 55 million bushels—we have established here that if 200 million additional bushels are put in the loan it will provide farmers with an additional \$900 million in needed financing. Most likely every one of the loans extended will be repaid with interest within the next year with no net outlays accruing to the Federal Government. Moreover, there is little likelihood that the Federal Government will assume the ownership of any of the soybeans placed under the loan. Market prices are expected to remain well above the \$4.50 loan level in effect for the 1979 crop. With the strong aversion ASA has to Federal ownership of a soybean reserve, we would not support removal of the cross-compliance provision if we felt that all loans would not be repaid.

Therefore, Mr. Chairman, the American Soybean Association fully supports H.R. 7142. We ask that your subcommittee approve it at the earliest possible date so American soybean farmers will be assured of the financing they need as they begin to produce a new crop.

I would like to add, Mr. Chairman, to this testimony that, speaking for the American Soybean Association, we are very, very violently

opposed to a reserve program. I do state that briefly in the testimony but I would like to call more attention to it.

We feel very strongly that the free market system is the only way that can really work for the American soybean producer. It has worked for 60 years. This year marks our 60th anniversary. Basically, over those years it has been a free program for soybeans and has worked very very beneficially.

As you know, we are the No. 1 crop and the No. 1 export out of the United States and it has been done through the free market system. I ask you not to accept a reserve program.

We are a reliable supplier. The comment was made just before my testimony that a reserve program would make us a reliable supplier. We always have been. Certainly, a reserve program would not change that.

We have always supplied the soybeans that were necessary except in cases of embargoes. Even in the 1973 embargo, when there was supposed to be a shortage of soybeans, I do not think anyone went without the soybeans that they had purchased other than those who were stopped by the embargo. Those could have been supplied.

There were plenty of soybeans back in the bins, even then, to cover what had been purchased.

We do ask you, once again, very strongly: Do not support a reserve program! Thank you.

Mr. STENHOLM. Thank you, Mr. Aves. Mr. Mathis?

Mr. MATHIS. Mr. Chairman. I have no questions. I want to thank Mr. Aves for his testimony, both in support of the bill that the subcommittee has under consideration today, H.R. 7142, and also in support of the bill for which we were able to secure passage last week, the new loan rate program for 1980 and 1981.

I would make one comment for the record at this point, Mr. Chairman, to ask for, I guess, confirmation. Mr. Aves, it is my understanding that some 46 million bushels of soybeans and soybean products have been embargoed. Is that a ballpark figure?

Mr. AVES. Yes; that is very close. I understand that is the correct figure.

Mr. MATHIS. Mr. Hjort, in his testimony, was talking about participation of 55 million bushels of soybeans going into the program as a result of the enactment of this legislation. If his estimate is correct—based on his estimate of the corn that would go in, I have very severe doubts as to whether or not his estimates are correct—it would be very close to what was actually embargoed from the Soviet Union. Is that correct?

Mr. AVES. Yes, I think it would be.

Mr. MATHIS. Thank you for your presentation.

Mr. STENHOLM. Mr. Findley?

Mr. FINDLEY. Thank you, Mr. Aves, for your strong support of this bill, for listing me as a friend—I appreciate that very much—and for your strong opposition to the soybean reserve concept. Clearly, that is coming down the pike as an administration recommendation. I think it has to be viewed that way.

I hope you will spread the word to the land of soybeans to gear up for a real battle. I think it is very critical and I am glad to know that you are in opposition to it.

Mr. Aves, had it not been for the embargo, would ASA be asking the Congress to establish the loan rate at \$5.02?

Mr. AVES. I would think, probably not. The embargo was not only a very bad deterrent as far as the export of soybeans was concerned, it was also established at a very poor time. I do not know that you would ever find a good time, as far as that goes, for an embargo, but certainly the timing was very very wrong.

Farmers generally try to distribute their sales out over three times in the year. They will sell some at harvest time. They will sell enough, usually, in January to pay their expenses in the next spring's planting. They will also maintain a few soybeans for the possible runup in prices in the summer.

The farmer really did not have the opportunity to sell the soybeans in January that he normally would have had. The embargo called on January 4, caused farmers not to sell. They could really have sold on the first, second, or third but that is a little bit difficult to do. They like to analyze the market and spend some time doing that.

With the embargo, the fluctuation in markets, and the uncertainty of everything that was going on, they still did not sell. They suddenly found themselves at the end of January and the first of February, when they were normally selling soybeans, with a price below the cost of production and they still did not want to sell.

Therefore, because of that farmers have just not had the money to put their crops in properly. I think some farmers even now have already committed themselves to the crop that they are going to plant. They have already found money in some fashion to plant some of their crop. The problem is, I do not think it is going to be planted properly.

Some farmers are going to cut themselves short in some area. They will perhaps do a poorer job of preparing the oil to save money. They may do a poorer job of selecting herbicides. They may try to get by the cheapest they can because they just do not have enough money.

I am sure that we would not have asked for this if it had not been for this disruption of the free market system.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. STENHOLM. Mr. Bowen?

Mr. BOWEN. Thank you, Mr. Chairman. I have no questions.

Mr. Aves, I would like to commend you for the very fine testimony. I am glad to see that you share the view that I hold and I think that most of my colleagues on the committee hold. When we passed the 1977 farm bill we did not intend to subject soybeans to cross-compliance regulations since they did not have the benefits and protections and requirements for compliance that other crops have, and they should not be subject to the same restrictions in this matter. I am pleased to see that that is your position.

I note that although you do mention in most of your discussion, corn versus soybeans which, of course, is the major alternative crop of your region, I would like to make clear for the record and for anyone who is confused that the legislation exempts soybeans in terms of any crop that was subject to a set-aside in 1979. In my part of the country we grow some wheat as well, and there was also a set-aside for wheat.

This would, of course, protect our wheatgrowers, but of much greater importance to us in Mississippi and the southeastern part of the country is the fact that the cornrowers of the Midwest will be

able to hold a lot of soybeans off the market. That will do a lot more for us than simply exempting our farmers who have not complied on their wheat crops. That is what we really need, to hold the soybeans off the market and get the market price up. That is why this legislation is so important.

Thank you very much.

Mr. STENHOLM. Mr. Aves, in your testimony you admit that there is some logic in the administration's arguments and I think rightfully so, but you also contend that the current situation justifies opening up the soybean loan and I agree with you on that.

My question is, in light of the question I asked Dr. Hjort—I will ask you the same question. What are the merits of looking at a lower loan? I used \$4.25 but I think \$4.31 would be a logical figure to use, in that in the corn loan, if I recall, we are talking about a difference of 19 cents in interest on corn that was forgiven.

If we kept the same logic we would look at \$4.31 for those soybean producers who chose not to comply last year or to participate. Would you comment on that as a proposal?

Mr. AVES. I would merely give you my own personal opinion. I cannot speak for all of the Soybean Association under these conditions because we have not conferred on it. I personally would say, and I feel that the Soybean Association would also feel, that this would be acceptable.

I think that we do need some way to get some money back into the farmers' hands and to keep these soybeans off the market. I think very strongly that if farmers had not been forced to sell in these last few weeks now the market would not be as low as it is right now.

I am not certain of this price but I am going to say that at home right now my cash price would be about \$5.60 to \$5.65. I do not know what the market might have done today. It might have been up or it might have been down. I have not heard.

We are really way below the cost of production. Certainly, if we can hold some of these soybeans off the market we will get higher prices for them. I am certain of that.

Mr. STENHOLM. What is your cost of production?

Mr. AVES. My cost of production varies greatly, as everyone's does. It depends upon whether or not I want to use the total of all of my farms—

Mr. STENHOLM. On the average.

Mr. AVES. My average would be probably about \$7.25.

Mr. STENHOLM. This will be a very unpopular statement for me to make. I am not as opposed to the reserve as, apparently, the soybean industry is. I am not a soybean farmer myself, or was not. Certainly, in dry west Texas we do not raise many soybeans.

I have a personal philosophy on our overall farm program which prompts me to ask this question. You just made the statement that if we could get more of these beans into the loan, it would have a price-boosting effect. I totally agree with you on that. Basically, we have seen this work to a great degree in the wheat market, even more so than in the corn market.

What is the difference? Why is the soybean industry so much different from wheat, feed grains, and corn as far as a reserve is concerned as long as we can have it in the control of producers and if

we can get a little better administration of set-aside and supply control?

Mr. AVES. Mainly, the difference is that soybeans can be grown just about any place in the world.

We have seen the competition from South America. Therefore, we do not need to have a reserve program because, when you have a reserve program, you must have some type of release mechanism to get those soybeans off the market. This, of course, guarantees a price effective to other countries. They will, all of a sudden, start producing more.

Whereas, with a loan program which we are discussing here, we anticipate that by the end of the loan period farmers would have purchased back those soybeans.

In many cases where the farmers have the soybeans on the farm they will probably not build more buildings to store more beans. They are going to get rid of those beans this fall. They will pay off the loan and the beans will be gone and off the market at a time beans will be at a higher price.

Some commodity brokers are suggesting that next year's beans will be \$9. Whether or not that is correct, I do not know. That may be just another thought. The feeling was that the embargo has caused South America to start producing more corn and wheat and less soybeans. This is going to cause our bean market to go drastically higher.

I do not know if this is correct or not. It is just an interpretation someone has. Certainly, if we have a reserve program and establish some type of release mechanism for those soybeans where we have those soybeans over our heads at all times, it is going to keep our bean prices at a lower level. It is going to cause other countries who are producing probably more than we can—in fact, I understand that the potential in Brazil is up to 100 million metric tons. We produced 60 million metric tons this last year; Brazil produced 15 million metric tons.

All we need to do is give Brazil or Argentina the go ahead that prices are going to be such and such—which we would be doing with a reserve program—and this would let them expand their product and sell them for just a little bit lower than we are. Again, this would again make us residual supplies. This is why we are so violently opposed to a reserve program.

Mr. STENHOLM. I guess it is a little play on words, but I really do not see all that much difference between the loan program as we intend to make this one and the reserve. I just do not see the big threat there.

Mr. AVES. It is a difference in the release price. The release price, I believe, would be established at 150 percent of the loan rate at which they were put in. That would be about \$7.50 for a release price. It would give the other countries to recognize that soybeans are very likely going to go to \$7.50 and they are going to expand.

They will borrow money and expand out into the jungle. They will fix their roads and railroads. In fact, I have just seen in the Wall Street Journal that the World Bank made a loan to Brazil to help them improve their railroads. That would be another thing in effect against us.

Mr. MATHIS. Will the gentleman from Texas yield?

Mr. STENHOLM. I would be happy to yield.

Mr. MATHIS. I would suspect that if the administration goes forward with its proposal to create a soybean reserve, that legislation would be referred to the Committee on Agriculture and following normal procedure that legislation would then be referred to the Subcommittee on Oilseeds and Rice.

If a majority of the committee thought that that kind of legislation ought to have serious consideration, we would call hearings. I doubt very seriously that a majority of the members would feel that way. In fact, I am almost tempted to say that I am virtually sure that while serving as chairman of this subcommittee for another 6 or 7 months I have no intention of doing that during this Congress.

Mr. STENHOLM. I understood that exactly. [Laughter.]

Mr. Thomas?

Mr. THOMAS. Mr. Aves, I agree with your analysis in terms of the reserve. I am happy to say that only lately many of the cotton growers are becoming aware of that same argument. People in my area understand it and are pushing for the price coming out of the marketplace. I want to applaud your organization for hanging onto it because once you lose it it is very difficult to get back.

I want to push the chairman's question in terms of what you would accept as a compromise a little farther, in fact to the point about which Mr. Hjort was talking. That was, first, making those people who were not in the cross-compliance program second-class citizens in terms of a lower price as a first step and as a second step to limit the number to around 46 million bushels that would have been involved in the embargo.

What I understood him to be doing was setting up at least a two-stage mechanism. Of course, we did not push him beyond that so it may have a third or a fourth stage. Would you be willing to accept those two criteria?

I did not get that clearly from the chairman. Would you accept the lower price, the \$4.31?

Mr. AVES. Yes.

Mr. THOMAS. Would you also accept the limitation on the amount?

Mr. AVES. Yes.

Mr. THOMAS. You would prefer that to no loan at all?

Mr. AVES. Right.

Mr. THOMAS. You are not really in a bargaining position with them if you will take whatever they give you. [Laughter.]

Mr. AVES. We would prefer nothing if a reserve program were included in any way.

Mr. THOMAS. All right. Reserve is the trigger mechanism for you. You will take anything but a reserve.

Mr. AVES. Right.

Mr. THOMAS. Thank you, Mr. Chairman.

Mr. STENHOLM. Thank you, Mr. Aves.

Our next witness is Mr. Robert Mullins of the National Farmers Union, Washington, D.C.

**STATEMENT OF ROBERT J. MULLINS, ASSISTANT DIRECTOR,
LEGISLATIVE SERVICES, NATIONAL FARMERS UNION**

Mr. MULLINS. Thank you, Mr. Chairman. If I may, I will submit my prepared statement for the record and make a couple of points for the subcommittee.

Mr. STENHOLM. Without objection, so ordered.

Mr. MULLINS. Thank you, Mr. Chairman.

I am Robert Mullins, the assistant director of legislative services for the National Farmers Union.

I will tell you right off that our organization is in agreement with the basic purpose of the legislation before the subcommittee this afternoon. That is, to provide a source of needed short-term credit during this financial situation in rural areas, particularly in light of the fact that the actions the administration has taken in the last few weeks have really amounted to very little and have not solved the problem.

In attempting to resolve the conflict that has been talked about already today, on one hand preserving the integrity of the farm program concept and on the other hand getting some cash out into the country, I did a lot of consultation with our leadership in our soybean States. There was a great deal of debate, questioning, and soul searching as to what the best approach to solving this problem would be.

We would recommend that advances to farmers on their 1980 crop by CCC would achieve the same goal, that of getting the cash out into the country, as would opening the 1979 crop loan program to those who, for one reason or another, did not participate in the feed grain set-aside.

Tied to this, we would urge that one possible requirement would be a voluntary unpaid, say 15 percent, set-aside. That would then make the producer eligible for an advance of up to half based on normal yield on his 1980 CCC loan. We think this would accomplish the goal of getting the money out there and yet not compromise the farm program concept, per se.

Mr. MATHIS [chairman]: Thank you, Mr. Mullins.

Without objection, your entire testimony will be included in the record.

The Chair would note that these recommendations that you are making are doable or could be implemented under existing authority of the Secretary. Is that not correct?

Mr. MULLINS. Yes, sir, it is. As I understand it, we have visited with some people in the Department and they finally came down to the point where they could find no reason why they could not make advance loans.

Mr. MATHIS. That is, if they were desirous of doing so. Of course, I do not know a member of the full committee or a Member of the House who thinks that the administration is going to take that kind of action. I guess that is why we are confronted today with the necessity of attempting to pass this legislation out of committee.

I think some of us may agree with you that administrative action would be preferable to attempting to pass legislation at this point in time, but I also think that we have very little faith in the willingness of the administration to take administrative action.

Does the gentleman from Texas have a question?

Mr. STENHOLM. Yes; does the administration have the right to place a set-aside on soybeans?

Mr. MATHIS. No.

Mr. STENHOLM. I was under that impression—

Mr. MATHIS. If the gentleman would yield, I would say no. The administration does not have that.

I assume that what Mr. Mullins is calling for is a voluntary acreage diversion program on the part of the producers themselves.

Mr. MULLINS. Yes, sir. That would be my recommendation, a voluntary diversion from which he would then become eligible for an advance loan.

No, the Secretary does not have the authority for a set-aside.

Mr. MATHIS. Mr. Mullins, we thank you. If there are no further questions, we thank you for your presentation and we appreciate your patience in waiting through the other testimony before the subcommittee this afternoon.

The subcommittee stands adjourned.

[Whereupon, at 3:43 p.m., the subcommittee was adjourned.]

[The prepared statement of Mr. Mullins follows:]

PREPARED STATEMENT OF ROBERT J. MULLINS, ASSISTANT DIRECTOR, LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. Chairman and Members of the Subcommittee, I am Robert J. Mullins, Assistant Director of Legislative Services, National Farmers Union, 1012 14th Street, N.W., Washington, D.C. National Farmers Union is a general farm organization representing over 300,000 farm and ranch families with substantial membership in the major soybean producing states of the nation. I appreciate the opportunity to appear before this Subcommittee and offer the views of the producer-members of the Farmers Union on H.R. 7142, a bill which would eliminate the cross compliance requirement as a condition for loan eligibility on the 1979 crop of soybeans.

Although National Farmers Union is in agreement with the basic purpose of the bill, that of "providing soybean producers with a needed source of short-term credit during their financial crisis", we believe there are alternative measures, other than the one contained in this bill, to reach that objective.

Specifically we would recommend the following measures:

A voluntary, unpaid 15 percent acreage diversion program for 1980 on feed grains and soybeans.

The offering of advances to farmers participating in the voluntary acreage diversion program of an amount equal to one-half of their CCC commodity loans for 1980.

An increase in the CCC loan rates for farmers participating in the voluntary acreage diversion program to the currently announced target price levels for 1980, that is, \$3.63 on wheat, \$2.35 on corn, \$2.50 on grain sorghum, \$2.55 on barley, \$9.49 on rice, and 54.8¢ a pound on cotton. (Loan levels for farmers not voluntarily diverting acreage would remain at already announced levels.) For soybeans, the 1980 loan level should be set at \$7.75 a bushel.

Implementation of these recommendations would have several desirable effects:

1. Current market prices would increase accordingly;
2. The advances on 1980 crop loans would help farmers with their immediate cash-flow problems;
3. A reduction in acreage would place 1980 production more in line with demand and help avoid a substantial price depressing carryover; and
4. Prices next fall would be stabilized at a level at least equal to the cost of producing this year's crop.

We note that these recommendations can be implemented under existing program authorities.

Mr. Chairman, we believe the offering of advance CCC loans would help ease the cash-flow problem while not opening the 1979 loan program to non-compliers and compromising the concept of farm programs per se.

