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# THE INTERNATIONAL WHEAT AGREEMENT

GOVERNMENT

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## HEARING

BEFORE THE

### COMMITTEE ON FOREIGN RELATIONS

OF THE

### UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

MAY 8, 1979

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WASHINGTON : 1979

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(II)

## CONTENTS

Statement of:	Page
Baum, Richard K., president, Western Wheat Associates, Washington, D.C.-----	35
Bellmon, Hon. Henry, a U.S. Senator from the State of Oklahoma-----	4
Calingaert, Hon. Michael, Deputy Assistant Secretary for Economic and Business Affairs, Department of State; accompanied by Jack Boyle, Chief, Food Policy Division-----	15
Hathaway, Hon. Dale E., Under Secretary of Agriculture, Department of Agriculture; accompanied by Tom Saylor, Associate Administrator, Foreign Agricultural Service-----	15
Lewis, Robert G., secretary and chief economist, National Farmers Union, Washington, D.C.-----	30
Minear, Larry, consultant on world hunger, Church World Service/Lutheran World Relief, Washington, D.C.-----	42
Reese, Dallin, vice president, Idaho State Wheat Growers Association, Burley, Idaho-----	26
Wilson, Winston, president, National Association of Wheat Growers, Washington, D.C.-----	39

### APPENDIX

Prepared statements submitted for the record:	Page
Senator Henry Bellmon-----	45
Hon. Dale E. Hathaway-----	47
Hon. Michael Calingaert-----	50
Robert G. Lewis-----	54
Richard Baum-----	70
Winston Wilson-----	73
Larry Minear-----	74
Michael L. Hall, president, Great Plains Wheat, Inc., Washington, D.C.-----	77
Cargill, Inc., Minneapolis, Minn.-----	85
North American Export Grain Association, Inc., Washington, D.C.-----	87
Trading Hunger for Grain, by Richard Gilmore, Overseas Development Council-----	89

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
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21  
22  
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## THE INTERNATIONAL WHEAT AGREEMENT

TUESDAY, MAY, 8, 1979

UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, D.C.*

The committee met, pursuant to notice, at 2:40 p.m., in room 4221, Dirksen Senate Office Building, Hon. Frank Church (chairman of the committee) presiding.

Present: Senators Church, McGovern, Sarbanes, Zorinsky, Javits, Helms, and Hayakawa.

The CHAIRMAN. The hearing will please come to order.

### OPENING STATEMENT

Today the Committee on Foreign Relations will receive testimony on the protocols to extend the Wheat Trade Convention and Food Aid Convention which, together, comprise the 1971 International Wheat Agreement.

In addition, I want to use this opportunity to invite witnesses, Government and private experts in international wheat matters, to comment on the failure of recent attempts to reach a new wheat agreement which would have contained substantive economic provisions. I will also ask that they comment on the likelihood and wisdom of seeking such an agreement in the near future.

The importance of the American wheat farmer to the continued vitality of the American economy is, I am sure, well known to most of those here today. Last year, when the United States registered its historically large \$34 billion trade deficit, only American agriculture saved it from being worse by accruing a trade surplus of \$13.4 billion. Wheat exports alone were responsible for \$4.3 billion. Continued performance in the world marketplace by American farmers which has benefited both the United States and the world economy, requires that farmers earn, on a regular basis, an adequate return for their efforts, and not be subjected to the extreme gyrations in world prices. The International Wheat Agreement before us today lacks economic provisions which might make this goal achievable.

The International Wheat Council, which will continue to function as a consequence of continued U.S. participation in this Wheat Agreement, has served a useful purpose both as a forum for discussion of world wheat problems and as the information collection and distribution network on wheat price and production activities. The minimum food aid pledges of 4.2 million metric tons of grain annually to needy nations throughout the world will also continue with the exten-

sion of the Food Aid Convention. These are useful provisions in the current agreement.

It is unfortunate, however, that nations were unable to concur on new provisions which would have improved world wheat trade by reducing trade barriers, moderating price swings, and enhancing food security, especially of poor nations. However, I was heartened to note that U.S. negotiators did not accede to demands by other nations which might have made a new agreement possible, but one which failed to improve the functioning of world wheat markets to benefit the American farmer.

However, recent failure to reach a new agreement should not, and must not, put an end to attempts to find a method of more equitably sharing the burden of wheat stock accumulation and production adjustments due to shortages and surpluses in the international marketplace. For too long the United States has acted as the world's shock absorber during periods of both tight and excessive supplies. In 1978, for example, the United States was the only nation with a conscious reserve policy and the only exporting nation which has traditionally taken the initiative to adjust supplies through acreage reduction.

A question has been raised as to whether the United States or other major wheat exporters should use grain as a weapon against ever increasing prices of OPEC oil—expressed by the slogan, "A bushel of wheat for a barrel of oil." This proposal would require that major wheat exporting countries form a wheat cartel and link wheat prices to oil prices. While on its face the proposal may seem attractive, it has serious problems.

First, in order for any wheat cartel to be effective, all major wheat exporting countries must be participants. Australia and Argentina have suggested that they want no part of such a cartel. This would leave the United States and Canada to stand alone. Increasing the price of wheat to \$20 a bushel in order to match the price of a barrel of oil would gain nothing for the United States or Canada in the long run. Rather, it would divert purchases from us to other competitive wheat exporters, or make it economical for formerly importing countries to begin to produce domestically.

Second, charging \$20 a bushel for grain would severely penalize a majority of wheat consuming countries of the world who are not members of OPEC. In fact, Arab OPEC countries import only minimal amounts of wheat from the United States—less than 5 percent of all U.S. wheat exports.

Any action that wheat exporting countries take to raise wheat prices in order to provide a fair return to wheat farmers must be taken as a united front and must take into consideration a responsibility for world food security, as well as providing farmers with a fair and adequate income. To my mind, an agreement by major exporting countries on some minimum export price for wheat could meet these objectives, while not unfairly burdening world wheat consumers, or driving potential customers to other countries.

Our first witness this afternoon is the Honorable Henry Bellmon, a Senator from Oklahoma.

I am happy to welcome you here, Henry. Please take the witness chair and present your testimony as you may desire.

Before we start with the testimony, though, I want to acknowledge the presence of Senator Zorinsky.

Ed, sometimes down there at that end you get lost in the shadows. For a moment, I didn't see you.

Do you have an opening statement that you would like to make?

Senator ZORINSKY. Thank you, Mr. Chairman, I do not. But I would like to comment, just briefly, that many of us are deeply saddened that we were not able to obtain a new International Wheat Agreement. Our country has long continued to react, rather than be the initiator of action concerning fair prices worldwide for wheat. We continue to become the residual seller of wheat.

We have to continue to strive to maintain a will to the future for an International Wheat Agreement, one that returns a just and fair profit. It is not something that needs additional rhetoric. It is something toward which we are going to have to strive much harder in the future to help accomplish on behalf of the many people we represent. It is the only way this country is going to offset its deficit with a trade balance with the rest of the world. I think this is extremely important. Indeed, this is one of the more important items to come before this committee with regard to the future economics of agriculture in this country.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Zorinsky, I certainly agree with your comments.

Senator Javits, do you have any opening remarks?

Senator JAVITS. Thank you, Mr. Chairman. I am here to listen and to learn.

I used to be called the "Window Box Farmer from Manhattan" when I was in the House of Representatives. [General laughter.]

I am glad to see that as ranking member of this committee, my estate is enlarged.

Thank you.

The CHAIRMAN. Window boxes are better for tomatoes than wheat. Senator JAVITS. Right.

I would like to affirm my strong conviction respecting the great role of agriculture, both in the humanitarian sense and in redressing the balance of trade. I always believe in riding strength as a technique for human action. I am very interested in what we can do and how we should do it.

I thank my colleagues for their expertise and I hope to learn and profit and will act accordingly.

Thank you, Mr. Chairman.

The CHAIRMAN. I believe this may be the first occasion when it might be reasonably assumed that other members on this committee have a larger measure of expertise in the subject matter than the Senator from New York. It rarely happens. [General laughter.]

Senator Bellmon, we look forward to hearing your testimony.

STATEMENT OF HON. HENRY BELLMON, A U.S. SENATOR FROM THE  
STATE OF OKLAHOMA

Senator BELLMON. If there is no objection, I would like to submit my prepared remarks for the record and will speak extemporaneously.<sup>1</sup>

The CHAIRMAN. That would be appreciated.

Senator BELLMON. First let me say I think it would be a mistake to downgrade the expertise of the Senator from New York. His son, as I recall, went to Nebraska and worked in the wheat harvest 3 or 4 years ago, and I am sure that Senator Javits got a fair amount of education, second hand, at least, from his son's experience.

Senator JAVITS. That's right.

The CHAIRMAN. I withdraw the remark, then. [General laughter.]

Senator BELLMON. Also, at the beginning of my remarks I would like to express my own personal opposition to any kind of policy or program that this country might embark upon which might attempt to raise the price of a bushel of wheat up to a level of a bushel of crude oil. This is absolutely unworkable, to me, and I hope no one will get the impression that I am here in support of any such idea.

The one point I would like to make most forcefully, however, is the fact that at the present time, the United States and Canada are selling their grain—primarily wheat—at well below the cost of production. It is now costing something like \$4 a bushel to raise wheat in this country, and that price varies, depending on the season, the land costs, and the prices of other production inputs. We are selling our wheat for less than it costs to grow it, and this is a foolish and absolutely indefensible policy.

The reason we are doing this is because the United States and Canada both are producing more grain than the current world markets will accept, and the result is we price our grain low enough to try to move it. The end result is we have the price now down to where we are threatening to drive a lot of growers out of the business.

I might say that I give you this information based on my own personal experience. I am a wheat farmer, and every year, when I compute my income tax, I am absolutely appalled to see how much money our farm loses. I know that farmers who do not have the side income of a Senate salary are in real difficulty. We just cannot go on this way forever.

The problem is that we have had a situation where we compete with the Canadians for a market that is not as great as our supply.

I might also say that I think the committee is fortunate in being able to hear Secretary Hathaway and Mr. Tom Saylor, who have recently been in the Southern Hemisphere and who, I am sure, will have a current report on conditions there.

Let me now get down to the specifics of my statement to the committee.

I was one of the people, along with Senator McGovern and Senator Melcher, who went to Winnipeg about a year ago to meet with the Canadian Wheat Board and with members of the Senate committee of the Canadian Parliament to talk about a joint effort between the United States and Canada to find a way of pricing the grain we export in a more realistic manner.

<sup>1</sup> See p. 45 for Senator Bellmon's prepared statement.

We were given a very welcome reception by the Canadians. They recognized that the present situation is damaging to both countries, and I took them literally when they said that Canada is hurting worse than we are. They are much more dependent upon wheat exports than is the United States. Therefore, I believe they are ready to work cooperatively to set in place some kind of mechanism to stop the cut-throat competition that is hurting both countries.

What they would like to see us do is raise our wheat support prices to levels that would guarantee them a reasonable income. But when we do that, they simply go all out and produce fence row to fence row and expect us to cut back our production to balance supply and demand. I am not at all persuaded that this is the right way to go.

On February 6, I introduced S. 356, a sense of the Senate resolution to encourage the President to work with the Canadian authorities to establish a Grain Exporting Stabilization Commission. I would like to take just a moment to explain the way I believe this Commission might work.

The Commission, I would hope, would be made up of representatives of the United States, Canada, Australia and Argentina. These four countries together export more than 85 percent of the wheat that enters into world commerce.

The Commission, once it is in place, would meet and assign to each of those four countries, and to other countries that might later choose to become members, a share of the market based upon the historic level of exports. Then, the countries would also agree on a minimum price. I would suggest \$4.50 a bushel. I know that Senator McGovern is recommending \$5. But I suggest a price somewhere in this range as the port price. The farmer would get that price, less the costs of transportation and handling. So, it would come out to be between \$4 and \$4.50 a bushel roughly at the farm.

#### COMPARING COSTS OF PRODUCTION

The CHAIRMAN. May I ask a question at this point?

Senator BELLMON. Of course.

The CHAIRMAN. How does that price compare with the cost of production in Argentina or Australia, for example?

Senator BELLMON. It would probably be better to ask that question of Secretary Hathaway. He has recently been there and I believe has current information.

The CHAIRMAN. All right.

Senator BELLMON. The situation in Australia is different than it is here because much of the land there is owned by the government, as I understand it, and is leased to the producer so that land costs are substantially less than ours.

The Canadian cost, however, is not greatly different than ours. While Secretary Hathaway can answer this better than I can, I would imagine that this price would be attractive to the Australians. But if they are limited on the amount of bushels they can export, then we would not expect to see a huge increase in their production.

#### INTERNATIONAL GRAIN COMMISSION

Once each country's market share has been established and once the price has been set, then, if this International Grain Commission

operates the way I anticipate it would operate, it would establish a fee per bushel for grain to be exported. In other words, if the price at the farm is \$3 a bushel and we are trying to get the price up to \$4, then, in order for an American grain exporting company or for the Canadian Wheat Board to sell grain, they would first have to buy an export license or pay an export fee on the amount of wheat they wanted to sell.

To figure this out, let's use the simple figure of \$1 per bushel. Let's say that Continental Grain had an order for 10 million bushels of wheat. They would first buy an export certificate for \$10 million from the Commission. Then they would be free to sell the grain to their customer abroad. The Commission would hold back the small operating costs it would have, which would be very insignificant, and would transmit the balance of the amount the grain company had paid to the U.S. Treasury, which would then transmit the money to the producer based on the amount of grain that the producer had sold.

I would suggest that for humanitarian reasons the Treasury hold back at least 10 percent of the money to be used to help meet the food needs of the poorer of the developing countries. We are not trying to work a hardship on the countries which depend heavily on the grain that we sell. Rather, we want to get the price up to the countries that can afford to pay more for their food.

#### SELLING GRAIN BELOW PRODUCTION COSTS

There is another side to this and that is this. When we sell grain so cheaply and so far below the costs of production, we are actually inhibiting the efforts of producers in the developing countries to increase the food production from those poorer parts of the world. They need a decent price so that they will be able to buy the fertilizer and afford the better seed and better cultural practices that are necessary to bring their food production up to their own domestic needs.

#### TWO PRICES FOR WHEAT

The CHAIRMAN. Senator, would your plan create two prices—an export price for wheat which would differ from the domestic price?

Senator BELLMON. That is one of the results. The domestic price for grain would not necessarily be impacted. The impact would be on the grain that is exported. When we are talking about wheat, that is about two-thirds of what we grow. We export roughly twice as much as we use.

This would have another effect which would be helpful as far as Congress is concerned and that is by increasing the selling price of grain that we export, the cost of our present farm program, under which we make a deficiency payment to growers when the price is below the target price—that is, the cost of that deficiency payment would go down by a factor of about two-thirds. In other words, if the farmer got above target price for the wheat that is exported, then there would be no deficiency payment owed by the Treasury on that grain.

The CHAIRMAN. So it would result, first, in giving the farmer a return on the grain that was exported, and second, it could be expected to reduce the cost to the taxpayers at large of the present price support program?

Senator BELLMON. That's right. Also, it would provide some income or some funds to be used to help meet the food needs of the poorer developing countries.

It would have other advantages, too. Our balance of payments would be significantly improved because the wheat that now goes to Japan and Western Europe at these low prices does not earn as much foreign exchange as it should.

Another matter that makes it imperative that we act is at the present time, Japan attaches something like a \$6 per bushel tariff on wheat the minute it reaches that shore. The European community attaches an export duty of something like \$5 a bushel, or near to that.

Last year, the Treasury of Japan had an income of about half a billion dollars from the duty they had collected on our wheat which we had sold at a loss. We are not doing any favor to the Japanese consumer by selling our wheat so cheaply because by the time it reaches the tables of Japan, the price has been almost tripled. The price has more than doubled by the time it reaches our consumer in Western Europe.

All we are doing here is trying to see that our grain growers get the higher price and that this "cheap grain" does not benefit the treasuries of these other countries.

#### THE SUPPORT FOR THIS PROGRAM

The CHAIRMAN. Do you know whether your proposal is opposed by farm organizations, farm growers' organizations? Is it opposed by these groups? If so, for what reason?

Senator BELLMON. Senator McGovern and I appeared on the national program for the Farmers Union Convention out in Kansas City about 4 weeks ago. We received a warm reception for our proposal. Also, the chairman of the Senate Agriculture Committee of Canada was there.

It is my understanding that the Farmers Union did adopt a resolution favoring this approach. Now, I cannot speak for the Farm Bureau, but I am of the opinion that at least the commodities organizations, the various wheat growers organizations, are strongly for it, as is the Farmers Union.

I have a copy of the press release issued April 18, which states that Secretary Bergland is meeting on May 10, in Saskatoon, Saskatchewan, to talk over an arrangement with the Canadians. I believe that the Australians and the Argentinians are also going to be represented in talking about something along this line.

So, apparently the administration is getting interested in this as well.

Thank you, Mr. Chairman. That completes my statement.

I would say that I would support an extension of the Wheat Trade Convention and Food Aid Convention, but I think we have to go further than that.

#### THE INTERNATIONAL WHEAT AGREEMENT EXTENSION

The CHAIRMAN. I'm glad you brought that up. I was going to ask that question next.

Do you think we should go through with the extension that is before us?

Senator BELLMON. Yes; I do. I would support the extension except I think we need to go further. The Wheat Trade Convention is not going to help us get a reasonable price for our grain. We need to take that step, but we need to go further and try to work cooperatively with the other grain exporting countries to try to get better grain prices.

The CHAIRMAN. Senator Bellmon, I want to commend you for the role you have played in trying to devise a method that would enable our wheat farmers to prosper in this country. It is ridiculous that we should be in a situation where we are subsidizing so many foreign nations, and that is precisely what we are doing when we sell wheat for \$3 or \$3.25 a bushel and the Japanese then turn around, after buying it at that price, and sell it for \$9 or \$10 a bushel. The Europeans do virtually the same. It is clear that we are simply subsidizing the world market and are depressing our own prices and driving our own farmers to the limits of survival, when they are the most efficient producers of wheat in the world.

This policy makes no sense.

I don't know of another country in a similar situation that would tolerate such a policy.

Senator BELLMON. I agree. I imagine our customers abroad must think that we are pretty soft in the head to let this go on. I think they are right.

#### PRESERVING THE LOWEST POSSIBLE COST

The CHAIRMAN. Some have justified this practice on the grounds that we are actually preserving the lowest possible price in our own markets and supermarkets for our own consumers by keeping these prices low. What do you think of that argument?

Senator BELLMON. Mr. Chairman, let me say two things about that.

In the first place, the proposal I have made would not impact on domestic grain prices, so that is another issue. But, so far as domestic grain prices are concerned, if we talk just about wheat, the cost of the wheat that goes into making up a loaf of bread is almost insignificant. At the present time, it is less than 5 cents of the total price of a loaf of bread. If the price of wheat doubled, it would be 10 cents of the probable 50 cents or so people pay for a 1-pound loaf of bread. I don't believe there is any justification for holding prices down below the cost of production for the domestic consumer. But, at the same time, knowing that inflation is a major problem, I would think if we could get a reasonable price for the wheat we export, growers would not insist that we try to take steps immediately to try to increase domestic prices.

We are going to have a higher domestic price if something isn't done because we will see the production of wheat go down dramatically within the next 5 years. Then there will be shortage, and we remember what happened when there was a shortage a few years ago. The price of wheat almost doubled and consumers did feel some sting as a result of that.

#### BEEF PRICES AND OTHER COMMODITIES

The CHAIRMAN. Yes; we are seeing that happen now in cattle.

Senator BELLMON. Yes; that is true.

Consumers were able to buy their beef at a sacrifice for many years. But after the farmers reduced their herds, as they had to do in order to survive, we saw the price of beef double.

I think it is in the consumer's interest to have some stability in the price of wheat and at a level that would allow production to remain at a high level.

The CHAIRMAN. I agree.

I think the same thing applies to sugar or to any other commodity, where a stable, fair price at home in the long run will serve the consumer better than a wildly fluctuating world market. Yet, it is very difficult to persuade our urban friends from the big cities of this country that this is so. One of the most difficult problems I know is to get this message across to people who have little connection with the farms and simply assume that the farmer is making a killing because the price is going up at the supermarket.

Senator BELLMON. It often escapes consumers that of the price they pay at the grocery counter, probably on the average only 40 percent goes to the producer of the food. In the case of grain, maybe as little as 10 or 15 percent goes to the producer. The rest of it is for packaging, marketing, transportation, and labor and the other costs of distribution.

The CHAIRMAN. Thank you.

Senator JAVITS, do you have any questions?

Senator JAVITS. Thank you, Mr. Chairman. I have one thing to ask Senator Bellmon.

#### ECONOMIC INTERESTS AND THE EUROPEAN COMMUNITY

What is the relationship of this network of economic interests which you have described and the common agricultural policy of the European community?

Senator BELLMON. Well, Senator, there is no direct relation. The common agricultural policy of the EEC is—I almost want to call this the enemy, as a matter of fact. The Community has countervailing duties that make it impossible for our grain to reach that market at a competitive price. While I would hate to say that what I am recommending is an effort to defend against the common agricultural policy, I think we need to take action here which will give our grain producers something like the same protection that the EEC gives its growers through the common agricultural policy.

I would be very happy to see a world in which agricultural commodities move freely across national borders without tariffs or other kinds of restrictions. But that just does not happen. The Japanese do not allow it and Europe does not allow it. The result of this is that our growers, who are the world's most efficient, simply do not have access to those markets on a competitive basis.

#### RIGHTING THE COMPETITIVE SITUATION

Senator JAVITS. To what extent will this agreement right the competitive situation?

Senator BELLMON. It will right the situation up to the point that this International Commission feels is equitable in setting a floor under exported grain prices.

Senator McGovern is here now, and he has his own figure. But I assume the Commission would arrive at a figure somewhere between \$4.50 and \$5 per bushel at the port. I would not think—and I certainly would not support, and I doubt that our Government would support a Commission that tried to raise the price of wheat to be equal to the price of a barrel of oil, or did anything of that kind. But I would think as long as the Commission stayed at a level that gave the grower cost of production plus some very modest profit, we could continue to have popular support for that kind of activity.

Senator JAVITS. I see you note that wheat is being sold with a duty by the European community of \$3.90 per bushel. This means it is probably selling in excess of \$7 there. So we are just about making up half that difference by the operation of this agreement.

Senator BELLMON. Right.

Senator MCGOVERN. If the Senator from New York would yield, that \$3.90 goes right into the Treasury of the European countries. The same is true for Japan. And this is a time that we are running a balance of payments deficit of very serious dimensions, as the Senator knows.

Senator JAVITS. Of course.

Senator MCGOVERN. So I think this is a matter that calls for some kind of joint action on the part of the wheat exporters.

Senator BELLMON. Senator McGovern, let me say that before you came in I talked about our trip to Winnipeg and the reception we got from the Canadians. I also made the point that the Japanese Treasury profited to the tune of about \$500 million from our wheat exports last year, and the European community governments made \$325 million in this way. So, they are doing well by themselves because of our unwillingness or inability to price our grain at a more equitable level.

#### LIMITING THE PROPOSAL TO THE UNITED STATES AND CANADA

The CHAIRMAN. Senator, I have just one other question.

Do you think that your proposal and Senator McGovern's proposal, would work if it were limited to the United States and Canada?

Senator BELLMON. The United States and Canada together export about 60 percent of the wheat that moves into world markets. So, it would work to some extent. But it would give the Australians and the Argentinians, who together export about 25 percent of the wheat, a free ride. I think we should try to get them in. I would have serious reservations about setting up such a Commission unless they were members.

Secretary Hathaway can talk about Australia better than I because he has recent firsthand experience, but that country does have the opportunity to greatly expand its wheat production. If we give Australia this kind of price floor, I think we would see a rapid increase in wheat production and export from Australia at a price below ours.

## THE MULTILATERAL TRADE NEGOTIATIONS CODE

Senator JAVITS. I have one other question, and it concerns the MTN subsidies code, which we will be approving here. Does that help us at all in this area?

Senator BELLMON. Senator Javits, I am not that familiar with the new arrangements that have been agreed to in the MTN Treaty. I am of the opinion, based on the little knowledge I have, that the MTN alone is not going to deal with this problem. I think our negotiators did the best they could, but I don't believe they got as many concessions for agriculture as we had hoped.

Senator JAVITS. I think that is right. Our code does not reach this. That is really one of the real deficiencies.

Senator MCGOVERN. Mr. Chairman, with regard to your question about the Canadians and the Americans doing this alone, when we were in Winnipeg, Senator Bellmon and I got a telegram from the Australian Minister of Agriculture, Henry, refresh my memory if I am wrong in my recollection of this. It indicated their eagerness to participate in any kind of action that Canada and the United States took.

A couple of months ago, when Senator Bellmon and I were going down to Kansas City to explain this proposal to the National Convention of the Farmers Union, we got a message from the Argentine Embassy saying that they were very much interested.

The CHAIRMAN. How do the Canadians feel?

Senator MCGOVERN. Well, the Canadians are ready to go from all indications.

The CHAIRMAN. Then what is the problem?

## CONCERNS OF THE ADMINISTRATION

Senator MCGOVERN. Secretary Hathaway and other witnesses can explain the administration's concerns, but I think there are some concerns about the inflationary impact, about producer arrangements that leave out the importing country concerns. We tried to bring them all together in the Geneva discussions, but that fell through after an effort of about a year or a year and a half.

There doubtless are some practical problems in working out an arrangement of this kind. It puts the Congress in an awkward position to be taking the initiative on this because clearly this is an executive branch area of responsibility, to negotiate international agreements.

I think Senator Bellmon is on the right track in everything he has said here today. I read his statement. We have worked very closely on this and I am sure it has broad bipartisan support in the Congress.

Just laying aside the farm interests—though personally that is the matter in which I am most interested—even from the standpoint of those who are concerned about the position of the dollar and those who are worried about the balance of payments and about the international monetary situation, I would think they would be vitally interested in some proposal that would increase our earnings. That is really all we are saying.

Those of us from farm States are bombarded with such statements as "A bushel of wheat for a barrel of oil." Well, obviously, even coming from a wheat State, I don't expect a bushel of wheat to bring the price of a barrel of oil because you cannot replace the oil once it is gone, though you can grow more wheat. But I don't understand why we ought to be selling wheat for \$3 or \$3.50 a bushel in 1979 when it was selling for \$5 a bushel 5 years ago, and since then the price of oil has quadrupled.

Neither Senator Bellmon, nor I, nor anyone else that I know of, is talking about quadrupling the price of wheat. But we are saying that international markets could easily carry another dollar a bushel. When you are talking about billions of bushels, that is a lot of money. Right now a sizable chunk of that money is going right into the treasuries of Japan and the European community, and at least a part of it ought to be coming back here to the United States to our own producers.

#### PURSuing THE MATTER WITH THE STATE DEPARTMENT

The CHAIRMAN. I could not agree more. I think this committee should pursue this matter with the State Department. It is within our general realm of business and relates to the foreign economic policies of this country. It would involve the necessity for an agreement between this country and other foreign governments.

We have to find an answer to the wheat problem. If the administration needs some prodding, I think this committee should undertake to do it. We have three farm State representatives here today, and we have Senator Javits' son. [General laughter.]

Senator MCGOVERN. New York is one of the biggest farm States in the Union.

The CHAIRMAN. Senator Zorinsky, did you have any comments at this time?

Senator ZORINSKY. Mr. Chairman, I would like to say that I certainly respect and commend Senator Bellmon for the initiative that he has taken with Senator McGovern. I am sure Senator Bellmon does not need to be reminded that he has a lot of sympathy toward his goals on this particular committee inasmuch as over a third of the membership of the Foreign Relations Committee also has membership on the Agriculture Committee. As a matter of fact, there are six of us with this joint membership. I certainly want to do what I can to support a better climate economically for agriculture.

#### A DOMESTIC LICENSING SYSTEM

You mentioned before that there are a few little catches as far as how to get something like this to work, one of them being how would you propose a domestic licensing system within marketing quotas. Who gets to export the grain? Do you take turns? Would the International Commission determine the amounts private or U.S. exporters could sell? Each of the other major exporters has a government marketing agency on its behalf and we don't.

Senator BELLMON. Senator, that is an important problem, but I think it can easily be dealt with in this way. Let's assume that in a given marketing year the United States share was 1.2 billion bushels. This

is set by the International Commission. Then, if a grain exporting company, say Cargill, had an order or anticipated an order for 10 million bushels, it would go to the International Commission and pay \$1 per bushel for the certificate to export that much grain. It would pay the \$10 million, or \$1 per bushel. Then it would have the right to sell that much grain to whatever customer it had on the line.

The Commission then would rebate that money to the U.S. Treasury. The Treasury, under my plan, would hold out something like 10 percent to help meet the food needs of the poorer countries. Then, at the end of the marketing year, it would give that money back to the producers based upon the amount of grain they had actually sold.

So there would be no problem. Once the countries had agreed on what share each country had, then the company, whether it is Cargill or the Canadian Wheat Board, would have to buy the certificates.

Senator ZORINSKY. How would you arrive at a common denominator between us and Canada, for example, for transportation costs on wheat products since they have nationalized their railroads and in many instances there is this price differential?

Senator BELLMON. If we set the price at the port and if the Canadians want to subsidize their railroad, then their growers would benefit from that subsidy.

Senator ZORINSKY. I see.

Senator BELLMON. Mr. Chairman, you raised a point about why don't we go ahead and do this. I think there is another reason upon which Senator McGovern did not touch.

#### PHILOSOPHY DISTASTEFUL

It is probably philosophically distasteful for the United States to move in this direction. We have always, at least theoretically, sponsored free trade and would like to see the market set the price. I am for that, but in the real world that does not happen.

The CHAIRMAN. We should be getting the message when we consider the historic, record-breaking deficits of our own trade balances.

Senator BELLMON. True. I think we are now almost forced to take defensive action. What is our current trade deficit with the Japanese?

The CHAIRMAN. It was \$11 billion last year.

Senator BELLMON. Yes, and they made \$500,000 on the duty they put on our wheat which we in effect sold them at a charity price. To me it is repugnant that we let that happen.

The CHAIRMAN. They are eating us up, literally.

It seems to me that something is wrong with our national nervous system. It is like we lost a whole leg and the nervous system has not yet gotten the message to the brain. Really, the State Department will no doubt oppose this in every way possible. We will have to choke it down their throats.

Senator BELLMON. I also recall that they also opposed the 12-mile fishing limit, and now they seem to think it was a good idea.

The CHAIRMAN. I know.

Senator ZORINSKY. Mr. Chairman, there is one insight about which I would like to ask.

## NEW COMPANIES AND QUOTAS

Going back to my original question on how we would disseminate these orders if we once filled our quota, what about companies that are coming in new to the business cooperatives or those that could not afford to put up front money, the \$1 per bushel? Would they be precluded once the quotas were filled?

Senator BELLMON. Once the country, whether it is the United States, Canada, Australia, or Argentina, has been issued its certificates by the International Commission, then that is all for that country until either the new marketing year begins or until other countries have sold out and there is another allocation.

Senator ZORINSKY. It would be on a first come first serve.

Senator BELLMON. That's right.

But so far as a new marketer is concerned, one marketer would have the same right as another. In the United States, it would not be just the current large grain companies. If some new entity wanted to get into the business, it could come in and make the purchase. I would say that the ones who do not have the money to buy the certificates have a problem. But I would assume that the financial institutions would be willing to work with a company that had a legitimate order and could show that it was going to show a profit when the transaction was finally concluded.

Senator ZORINSKY. Thank you, Senator.

That is all I have, Mr. Chairman.

The CHAIRMAN. Are there any other questions for Senator Bellmon?  
[No response.]

## SENATE RESOLUTION

The CHAIRMAN. Senator Bellmon, if this committee were to consider the following resolution, what would be your reaction to it? "Resolved, that it is the sense of the Senate that the current situation in the world wheat market makes it imperative that the President actively work toward convening a negotiating conference of wheat exporting nations with the intent of reaching a cooperative arrangement to establish a minimum export price for wheat."

Senator BELLMON. Mr. Chairman, I would be delighted to see the committee take such action.

I rather think the administration is leaning a little bit in this direction already. I would think some moral support—even a little push—from this committee, would have a very salutary effect upon what may be going to happen anyway.

So I would strongly make that recommendation.

The one thing I would suggest is that we think in terms not just of wheat, but of grain. There is some reason to include other types of grain, particularly feed grains, in any kind of arrangement that is worked out.

The CHAIRMAN. Senator Bellmon, thank you very much for your very helpful testimony.

Senator BELLMON. Thank you, Mr. Chairman.

## VOTE ON SENATE FLOOR

The CHAIRMAN. There is a vote on the floor and we will have to recess to cast our votes. Rather than coming back to this room, be-

cause there may be other votes that will interrupt, I think we had better take up the meeting, after this vote, in room S-116, of the Capitol Building.

[A brief recess was taken and the hearing resumed in S-116, the Capitol.]

The CHAIRMAN. Secretary Hathaway and Deputy Assistant Secretary Calingaert, you represent the Departments of Agriculture and State, respectively.

Mr. HATHAWAY. Would you like both of us to appear before the committee together? Would you like Mr. Calingaert to appear with me?

The CHAIRMAN. Yes, please. And would you please introduce your associates?

**STATEMENTS OF HON. DALE E. HATHAWAY, UNDER SECRETARY OF AGRICULTURE, DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY: TOM SAYLOR, ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, AND HON. MICHAEL CALINGAERT, DEPUTY ASSISTANT SECRETARY FOR ECONOMIC AND BUSINESS AFFAIRS, DEPARTMENT OF STATE; AND JACK BOYLE, CHIEF, FOOD POLICY DIVISION**

Mr. HATHAWAY. This is Tom Saylor, Assistant Administrator of the Foreign Agricultural Service, who also was the on-the-spot negotiator for much of our wheat negotiations. He might be helpful in answering some of our questions.

Mr. CALINGAERT. On my right is Jack Boyle, Chief of the Food Policy Division of the Department of State.

The CHAIRMAN. Thank you.

You gentlemen have heard the testimony of Senator Bellmon.

What do you have to say about it?

By the way, if you have prepared statements, I would suggest that these be put in the record and we can then go directly to questions.

Mr. HATHAWAY. I would be glad to put my prepared statement in the record, which does cover basically the questions that you requested in your letter regarding the extension of the agreement and what happened in the negotiation.<sup>1</sup>

The CHAIRMAN. Would you highlight that for us, please?

#### NEGOTIATIONS OF THE INTERNATIONAL WHEAT AGREEMENT

Mr. HATHAWAY. I think it might be useful, Mr. Chairman, if I just pointed out where I believe we stand insofar as the negotiation is concerned.

After several previous attempts, the final negotiating session—or the last negotiating session—took place in January and February of 1979. Basically, at the time the conference was adjourned, there were three significant outstanding issues which were not resolved. One issue was the size of the reserve stock commitments which we felt would be necessary to maintain wheat price stability and to provide adequate food security.

<sup>1</sup> See p. 47 for Mr. Hathaway's prepared statement.

The United States, the other exporters, and most of the developing countries had supported a total figure of approximately 30 million tons. At the end of the conference, the pledges that had been made totaled only 18 million tons. Of those 18 million tons, some 4 million tons were stocks that would have been held by countries that would basically be unlikely to release them to world markets. Thus, it was our firm opinion that the stock size that would be available for price stabilization and food security purposes was far short of what was necessary to provide for an effective agreement.

The CHAIRMAN. I am glad you did not go forward with it on that account alone. We had experience with the tin agreement, and, as you know, it has been the inadequacy of the buffer stocks that has probably accounted for the failure of that to achieve its objectives.

#### PRICE LEVELS FOR RESERVE STOCKS

Mr. HATHAWAY. The second point was the price levels for the reserve stock accumulation and release. We did have general agreement among the exporters and a number of the other key countries, but a significant number of the developing countries and some other importing countries insisted on stock accumulation and release levels which we did not think would provide a realistic range in terms of either adequate producer returns at the bottom level. Given particularly the inadequate stocks and the early release at the upper level, we felt the stocks would have just disappeared and had no significant effect in mitigating extreme market rises.

#### SPECIAL PROVISIONS FOR DEVELOPING COUNTRIES

Third, there were a series of provisions for developing countries which gave us difficulties in a variety of ways. Among them were special rules for accumulation and release at different price levels, and we found it extremely difficult to understand how they would be administered. Also, there were a number of provisions that essentially amounted to the writing in of foreign assistance transfers into a commercial wheat agreement. We felt that the mixing of these two was not a desirable thing.

In any case, these three issues were never resolved. The conference ended with a resolution calling for an extension of the 1971 agreement and for continuing consultations between countries.

The CHAIRMAN. That is the agreement that is now before us, is it not?

Mr. HATHAWAY. That is the agreement that is now before you, Mr. Chairman.

#### THE OBJECTIONS OF THE INTERNATIONAL WHEAT AGREEMENT

The CHAIRMAN. Well, I don't suppose that will give the committee any difficulty because it is sort of a declaration on motherhood. It won't do our wheat producers any good, though. I suppose it is more to our advantage to be a party to the continuing agreement for the sake of appearances in order to keep our line of communications open with other wheat producing countries than to reject it or repudiate it because we failed to achieve the kind of agreement we sought.

I think you did the right thing. If you brought an agreement here that we all felt would not achieve its objectives, it probably would not have gotten out of this committee anyway and would have been futile. You were quite right in giving up when it became apparent that a satisfactory agreement would not be achieved.

#### ALTERNATIVE PROCEDURES

That brings up the alternative way of proceeding. Suggestions were made by Senator Bellmon and were strongly supported by Senator McGovern of a much simpler way of addressing the problem, by going to the principal exporting countries—there are only four in number—and trying to work out a satisfactory agreement with those countries that would at least establish a satisfactory minimum price for export purposes.

What is the present position of the administration in regard to the Bellmon proposal?

#### THE ADMINISTRATION'S POSITION

Mr. HATHAWAY. Basically, I would like to start back a bit and point out that the administration's position is that we still believe the multi-lateral approach to providing stability and food security in the international wheat market is the best approach. We think there are some problems, in terms of the exporters alone doing this. It is partly because the holding of stocks costs money. We believe there ought to be burden sharing in this, and we see no particular reason that this burden sharing should be limited exclusively to exporters when, in fact, there are a number of wealthy importing countries in the world that could make substantial contributions to that burden sharing.

#### THE MEETING IN CANADA

I might just point out, as Senator Bellmon has suggested, that Secretary Bergland and I will be going to Canada the day after tomorrow to meet with the Ministers of Agriculture of Canada and Argentina and with senior representatives of the Government of Australia and the Australian Wheat Board. Basically, we are going to discuss the possibilities for expanded cooperation among the exporters in terms of both alternatives to resume the broader international negotiations and interim arrangements which might be taken in the meantime in order to improve or stabilize the returns to wheat producers.

#### LIMITS ON EXPORTER COOPERATION

Specifically regarding Senator Bellmon's suggestion, it seems to me that there are some things that have to be taken into consideration. It does put some reasonably basic limits on exporter cooperation alone. The four exporters that are meeting do, I believe, export approximately 80 percent of the world's wheat exports each year. However, those four exporters produce only slightly more than one-fifth of the world's wheat. There is a substantial difference between production and exports. Thus, the possibility of substantially increasing and maintaining a price level without fundamentally altering the world

supply-demand situation for wheat—which is what our proposal for a multilateral program would have achieved—is basically limited.

Let me give you an illustration.

If those four exporters were to raise the price of wheat substantially above present levels, there are countries, including the European Economic Community, that could export very substantial quantities of wheat. They raise, most years, as much as we do. They happen to use a great deal of it for feed because they price wheat at feed levels. The two are essentially priced at the same level.

Under current world market conditions, they could then import an equal amount of feed grains and drastically erode the four exporters' world market position for wheat. This is one of the possibilities.

The CHAIRMAN. Looking at your argument, when you consider that wheat is presently being exported for—well, what is the latest price?

Mr. SAYLOR. At Rotterdam, it is about \$156 to \$160 a ton.

The CHAIRMAN. Would you translate that into bushels for me please? I can only think in terms of bushels.

Mr. SAYLOR. I would say that for Chicago wheat, Soft Grand Winter is about \$2.60 a bushel. At the gulf that would be about \$3.80.

The CHAIRMAN. All right. The \$3.80 a bushel is below our average cost of production in this country. If this export board were to function as Senator Bellmon described it and were to increase that price by \$1, so it would be \$4.80, given the price that is being charged internally for wheat, the price protection level for wheat in the EEC and the price protection level for wheat in Japan, I should not think it would have the kind of impact that you have suggested.

#### IMPORTS OF THE EUROPEAN COMMUNITY AND JAPAN

Mr. HATHAWAY. I am not sure that I made my point.

First, I think it is useful, because there has been a lot of discussion in the community and in Japan, to point out that those two together import a little over 10 million tons of a 75-million-ton world net import. They are not the big wheat importers of the world. Therefore, to try to aim all of our policy at those two areas is not a very practical matter.

What I am saying is this. The community produces 45 to 50 million tons of wheat per year. That is approximately the same as the United States. A very high proportion of that is fed to livestock.

If the four exporters substantially increased the world price of wheat and we did not have a commensurate rise in the price of feed grains, it would be possible for the community and some other countries to export more wheat and import lower cost feed grains and rapidly erode the world wheat market on the part of the four exporters.

Senator SARBANES. What does the word "substantially" mean in the context you used it?

Mr. HATHAWAY. I don't know why they couldn't go to 20 million tons.

Senator SARBANES. No, I didn't mean that. You used the word "substantially" to deal with the price, as I understood it. You said if the four exporters were to substantially increase the price.

Mr. HATHAWAY. Oh, yes—so that it would be markedly out of line with feed grain prices. What I am suggesting is that I do not under-

stand how one can deal with the proposal that Senator Bellmon has put forward and have, for a sustained period within the United States or in world markets, a marked and continued differential between feed grain and wheat prices because so much of the world's wheat is fed. There is a substitution possibility. It exists and could happen.

#### GRAIN RATHER THAN WHEAT

The CHAIRMAN. Isn't that the reason why Senator Bellmon suggested that in the sense of the Senate resolution I mentioned that we might refer to grain rather than just to wheat?

Mr. HATHAWAY. I would think that if you are going to deal with this, you would have to deal with the two, with grain.

The CHAIRMAN. Yes.

#### CONTROLS AND/OR QUOTAS

Mr. HATHAWAY. My second point is this, and this is one I would appreciate your asking the representatives of farm organizations about. As one who has the responsibility for running the Agricultural Stabilization and Conservation Service [ASCS] program and other programs to restrain production, I am not at all clear on, but I assume there would have to be bushel quotas by farm with marketing certificates in which farmers were not allowed to market more than their share of whatever the U.S. world market for wheat was. I don't understand otherwise how we could avoid either huge Government expenditures for Commodity Credit Corporation [CCC] acquisition of wheat and feed grains that substantially exceeded market demand. Thus, I am assuming that in order for a \$4.50 farm price to be sustained under current conditions, some kind of individual farm production controls in terms of quantities would have to be instituted.

The CHAIRMAN. Quotas.

Mr. HATHAWAY. Yes, quotas.

The CHAIRMAN. It would be quotas for the amount of wheat each farmer could put up for export.

Mr. HATHAWAY. I assume also, since the feed grain producers in Illinois and Indiana probably would not terribly be enthused about having wheat dumped into the feed grain market, thereby destroying their market, you would have to put a limit on the amount that could be sold for feed use.

Now, other countries have such programs. The Australians prohibit the delivery of wheat to anyone other than the Wheat Board. It is illegal, technically, to sell wheat to anyone other than the Wheat Board. So, such arrangements do work in other countries.

#### A FUNDAMENTAL CHANGE IN FARM PROGRAMS

What I am saying is you are talking about a fundamental structural change in farm programs and in the way our farming operates. If farmers are willing to consider those changes—I don't know if they would. I don't know the answer to that. But I think they would be necessary, at least under current supply-demand conditions. But I would guess not over the long period because I think over the long period the market will be recovering very substantially.

The CHAIRMAN. We have had such quotas before—though not exactly these quotas—such as acreage limitations on wheat programs for price support purposes.

Mr. CALINGAERT, do you have a comment?

MR. CALINGAERT. Yes, thank you.<sup>1</sup>

#### THE NEGOTIATIONS

I think, in the first place, we should bear in mind that the negotiations have not broken down. We are still in the stage of trying to decide whether there are sufficient grounds to continue those negotiations. As Secretary Hathaway mentioned, we are having some meetings among exporters on other bilateral and multilateral ways to see if there has been some change.

So obviously with Senator Bellmon's proposal we are talking about something farther down the line, presumably, if these negotiations in fact do fail.

The CHAIRMAN. But we cannot prolong these negotiations to the point that we have extinguished all the wheat farmers in the United States.

You have already been at them long enough to make a reasonable determination that they are not going to succeed. Delay often becomes the excuse for indecision. I think, having given this a reasonable test, you ought to be prepared now to take a different course.

Mr. CALINGAERT. I am not suggesting that we should not consider other alternatives. But we have not gotten to the point of deciding that among the interested countries there are no grounds for continuing.

The CHAIRMAN. Well, how much longer do you think the delay should continue before you could reach such a definitive decision?

Mr. CALINGAERT. There will be an informal meeting in June among some of the participating countries, at which this will be discussed. I rather hesitate to give you a specific date, Mr. Chairman, but I certainly agree with you that this cannot go on forever.

#### GETTING TOGETHER ON A REALISTIC BASIS

Mr. HATHAWAY. Mr. Chairman, that is exactly the purpose, as I mentioned at the outset. We still hope that there is a possibility of getting countries back together on a realistic basis. But in the interim, that is the reason for the meeting of the representatives of the four governments, that is, to discuss the alternatives that you are discussing here and other alternatives. We are talking about four countries with four markedly different systems, and in two cases substantially different production costs. The meshing of these national systems is no small matter. It was one of the more complex issues that we did have worked out in the proposed agreement. Whether we can develop an accommodation among the others to bring about stocking arrangements or other changes remains to be seen.

#### A SENATE RESOLUTION

The CHAIRMAN. Would the Secretary's hand not be strengthened if we had a sense of the Senate resolution giving him moral support and political backing for his endeavors?

<sup>1</sup> See p. 50 for Mr. Calingaert's prepared statement.

Mr. HATHAWAY. I am certain the Secretary would welcome the support of the Senate.

The CHAIRMAN. If we were to pass a sense of the Senate resolution that said it is the sense of the Senate that the current situation in the world grain market makes it imperative that the President actively work toward convening a negotiating conference of grain exporting nations with the intent of reaching a cooperative arrangement to establish a minimum export price for grain, or something to that effect, wouldn't that certainly indicate the interest of the Congress in seeing that this problem is solved.

Mr. HATHAWAY. A fairly substantial number of the farm organizations have in the past, at least in advising me as head of the delegation, indicated that they have very serious concerns about the problem of establishing firm minimum prices.

#### THE HISTORY OF MINIMUM PRICE AGREEMENTS

The history of minimum price agreements has been very dismal. These have generally been broken. This is because you are dealing with different locations and different classes of wheat.

What really is implicit in the resolution is basically to take whatever actions are necessary to change the supply availability relative to demand, to raise the price. Wheat, in general, will go up and down together in the world; but the differentials between hard Canadian spring wheat and our soft winter wheat vary substantially. In fact, this last year they have been inverse for some peculiar reasons having to do with shortage of production of certain types of wheat.

So, I think that some other countries and some of our own producing groups who may wish to speak to this might have certain problems with this fixed minimum price concept, as against a different price. They certainly gave me some difficulty with that wording in our negotiations.

Mr. CALINGAERT. I think our experience in 1968 with the international grains arrangement is instructive in that we were in a situation where there were minimum prices spelled out in the agreement among the exporting countries and in an over-supply situation it proved impossible to maintain those.

The CHAIRMAN. When we met with the Canadians, they told us that the Minister responsible for the Canadian Wheat Board stated:

It is Canada's intention to manage our grain marketing system in such a way as not to undermine direct actions by the United States or other countries to assure fair producer returns in the international market.

It would seem to me that from all indications, the Canadians, the Australians, and the Argentinians are willing to talk to try to work something out.

Mr. HATHAWAY. They clearly are willing to talk. They have indicated that, which is why we are going to a somewhat cool part of Canada the day after tomorrow.

The CHAIRMAN. That's fine. But are you seriously interested in seeing if something can be worked out, or are we going to wait to see if all the countries in the world, consumers and exporters alike, can come to agreement?

Mr. HATHAWAY. I believe we are moving on both. We think it will be at least some months, whether that means a few or more, before resuming the negotiations would appear to be feasible. So, we are going to discuss what might be done in the interim.

## THE PRELIMINARY MEETING

I might say that Mr. Saylor and I have participated in a preliminary meeting last week. All four countries happen to believe that the route to go is a multilateral agreement and that an exporter agreement is not the ultimate answer to the wheat producers' problems.

The CHAIRMAN. I wish the OPEC nations had taken the same attitude.

Mr. HATHAWAY. They have a storable product.

The CHAIRMAN. Yes; they do.

But they didn't have very much concern for the consumer nations when they created their cartel.

Mr. HATHAWAY. No.

## INSURING A FAIR PRICE

The CHAIRMAN. I would not suggest that we do anything like that with wheat. But I do think we ought to be able to do something we four countries producing 85 percent of the exported wheat, that would at least insure a fair and reasonable return to our producers, a return something above the cost of their own production. I think something has to give.

Do you have any other comment you would like to make at this time?

## WORLD WHEAT PRODUCTION UP

Mr. HATHAWAY. I would like to make one additional comment because I think, perhaps, people do not realize or have not paid enough attention to the fact that we are in what I would call a unique situation. Mr. Saylor has a table which I think might be useful for the record. It basically shows that in 3 of the past 4 years, world wheat production has been markedly above the trend in production. Moreover, it shows that deviations in 2 of the 3 years are the largest in terms of percentage that have ever been recorded and by far are the largest in terms of absolute quantities.

[The information referred to follows:]

## WORLD WHEAT PRODUCTION: TREND AND DEVIATION

[In million metric tons]

Year	Actual production	Trend <sup>1</sup> production	Deviation	Percent deviation
1960-61	239.4	229.5	9.9	4.3
1961-62	226.4	239.2	-12.8	-5.4
1962-63	255.3	249.0	6.3	2.5
1963-64	237.4	258.8	-21.4	-8.3
1964-65	274.5	268.5	6.0	2.2
1965-66	264.1	278.3	-14.2	-5.1
1966-67	309.0	288.0	21.0	7.3
1967-68	297.0	297.8	-.8	-.3
1968-69	328.2	307.6	20.6	6.7
1969-70	303.6	317.3	-7.7	-2.4
1970-71	315.5	327.1	-11.6	-3.5
1971-72	348.8	336.9	11.9	3.5
1972-73	343.2	346.6	-3.4	-1.0
1973-74	372.4	356.4	16.0	4.5
1974-75	357.0	366.1	-9.1	-2.5
1975-76	350.0	375.9	-25.9	-6.9
1976-77	415.1	385.7	29.4	7.6
1977-78	381.2	395.4	-14.2	-3.6
1978-79	434.0	405.1	+29.0	+7.2

<sup>1</sup> Linear trend equation:  $P = 219.7 + 9.76t$ ,  $R^2 = 0.9565$ ,  $SEE = 16.4$ .

Mr. HATHAWAY. What I am saying, in a summary fashion, is we have had during the past 3 or 4 years extraordinarily large wheat harvest worldwide.

The CHAIRMAN. What has been the cause of this?

Mr. HATHAWAY. Our evaluation is that part of it in some countries is due to improved policies. In many of the developing countries there has been better irrigation. India, for instance, has had record wheat crops. Australia harvested an 18-million-ton crop last year. The previous high I believe, ever, was 14 million. The previous year it was 8.8 million. That is due to weather.

The Soviets had an all-time record crop last year. Western Europe had an all-time record crop. We have had extraordinary weather.

Thus, I am a little concerned, if events should turn in the other direction, that one of the prime elements that needs to be given attention in the United States, which, as you pointed out, Mr. Chairman, is the only country that I think has adequately acted in this regard, is provision of adequate reserve. I do not believe these large, positive deviations from trend are likely to continue indefinitely. It is the only time in the last 20 years that they have had 3 years out of 4 that were positive.

#### THE WEATHER

Weather has been extraordinarily good in the wheat growing regions of the world. I believe that one of the things that will be discussed by the other exporters, and one of the concerns that we have in terms of multilateral agreements, is to encourage the increase in stockholding by large importers and by the exporters.

#### INCREASED ACREAGE IN OTHER COUNTRIES

The CHAIRMAN. Another cause has been the increased acreage under cultivation in other countries, has it not?

Mr. HATHAWAY. Well, not very much. I think that the European community's acreage tends to run—

The CHAIRMAN. But what about Australia?

Mr. HATHAWAY. The very bad crop was produced on the same area as the record crop.

The CHAIRMAN. So their acreage did not increase?

Mr. HATHAWAY. Their acreage has gone up approximately 10 percent, or a little better, since 1975.

The CHAIRMAN. But we are the only country of these producers that has an acreage set aside program, aren't we?

Mr. HATHAWAY. Yes, indeed. We are the only country that has markedly reduced its acreage from the 1974-75 world highs. Canada has expanded its acreage slightly. Argentina has gone up and down, actually down this last year. The United States reduced its acreage from the high of 1975-76.

The CHAIRMAN. Do you have any way of knowing what will happen next year? Doesn't it depend a good deal on what the climate is?

Mr. HATHAWAY. I have no way of knowing. My guess is that we will be looking most diligently at world supply-demand conditions in late July.

## THE ROLE OF THE WEATHER ON PRODUCTION

We have some indications already that weather in a number of the major producing areas is much less favorable than last year. There is already discussion that the European crop will be down. We have early indications of difficulties in Soviet crops in terms of winter kill above normal and delays in planting. Reports have been in the press that they have had the coldest weather in 30 years in China, which has delayed planting. All of this suggests that this unusual string of good weather may have ended.

Of course, our own planting season is quite late. We have virtually no spring wheat planted, and, of course, none in Canada as yet. It is getting on into the season.

While it is too early to tell, at the present time the indications are far less favorable than they were at the same time last year for the major Northern Hemisphere producers.

The CHAIRMAN. All right.

## COSTS TO THE UNITED STATES

What are the costs to the United States in continuing membership in this toothless arrangement?

[General laughter.]

Mr. CALINGAERT. For the present year, it is \$144,000. Next year it will be \$170,000.

The CHAIRMAN. Just to gum it up.

Mr. CALINGAERT. Well, Mr. Chairman, I would add, if I may, that we do obtain benefits from the functioning of the present arrangement.

The CHAIRMAN. What would you say those benefits were?

## THE BENEFITS OF THE INTERNATIONAL WHEAT AGREEMENT

Mr. CALINGAERT. Well, from the Wheat Council there is the exchange of information and the forum for discussion among the wheat trading nations, which has gone on since, I believe, 1933. Also, it has provided a secretariat for these negotiations. Finally, it is the organization that is the secretariat for the Food Aid Committee, which is the other part of the overall agreement.

Mr. SAYLOR. Mr. Chairman, let me make note of the fact that the International Wheat Council Secretariat is known as one of the most competent, in terms of international organization staffs, of any with which we deal. It is highly competent in terms of its statistical work and support.

The CHAIRMAN. Does the staff secure the necessary statistics from the major wheat growing countries and make them available to the others?

Mr. SAYLOR. They do.

## PARTICIPANTS IN THE ARRANGEMENT

The CHAIRMAN. How many nations will be participating in this arrangement?

Mr. SAYLOR. The current membership I believe is about 60.

Ms. O'CONNELL [committee staff]. There are 54 active participants in the Wheat Trade Convention.

The CHAIRMAN. "Active"—does that mean they pay their dues?

Ms. O'CONNELL. It is those who pay their dues and those who deposit their instruments of ratification, or something provisional.

The CHAIRMAN. Thank you.

#### THE URGENCY OF MOVING AHEAD

Gentlemen, I have no further questions. We appreciate your appearance here today. I hope the Secretary takes seriously the urgency of moving ahead with some kind of arrangement internationally and that it will improve the export price of wheat.

It would be foolhardy to indefinitely postpone action on this front in the hope that all countries, consumers and producers alike, will agree in face of the failure of the attempt that you have just made. Obviously it is not a national policy to wait and hope that weather conditions curtail wheat production sufficiently to permit American wheat farmers to survive.

I will be looking for some kind of congressional resolution to give political support to action on this front.

Mr. HATHAWAY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much for your testimony, gentlemen.

#### ACADEMIC DISCUSSIONS

Before we proceed with our panel of witnesses, let me say that for many of us here today the discussions we have had thus far are somewhat academic because most of us do not make our living on a day-to-day basis by farming.

I have asked a friend of mine, a man who makes his living that way, Mr. Dallin Reese from Burley, Idaho, to be here today. I am happy to welcome him. He is secretary of the Idaho State Wheat Growers Association and is first vice president of Utah-Idaho State Farmers Union.

#### INTRODUCTION OF PANEL

Dallin, would you ask the other members of the panel to present themselves and identify themselves for the record? Then we will proceed with your statement.

Mr. REESE. Fine.

Why don't we start with the gentleman on my left.

Mr. LEWIS. I am Robert G. Lewis, secretary and chief economist of the National Farmers Union. I am a cattle producer, but I come from Wisconsin, which at one time was the champion wheat growing State in the Union.

Mr. BAUM. I am Richard Baum, president of Western Wheat Associates of Portland, Oreg.

Mr. WILSON. I am Winston Wilson, president of the National Association of Wheat Growers. I am a wheat farmer in Texas.

Mr. MINEAR. I am Larry Minear, and I believe I am the only non-farmer in the group. I am a consultant in development policy for Church World Service and Lutheran World Relief.

The CHAIRMAN. Gentlemen, thank you very much. Now, Dallin, would you like to commence your testimony.

**STATEMENT OF DALLIN REESE, VICE PRESIDENT, IDAHO STATE WHEAT GROWERS ASSOCIATION, BURLEY, IDAHO**

Mr. REESE. Thank you, Mr. Chairman.

I am happy to be here. I think probably the best way to get the bulk of what I want to say on the record is to read what I have in my statement, because I think it pretty well tells the story of what we, as farmers in Idaho, have to deal with.

As you have already indicated, I am Secretary of the Idaho Wheat Growers Association. In that capacity, I work with the Idaho Wheat Commission to promote the wheat industry in the State of Idaho.

I very much appreciate this opportunity that you have afforded us to come and to talk on the fourth extension of the 1971 International Wheat Agreement.

**IDAHO SUPPORT FOR THE INTERNATIONAL WHEAT AGREEMENT**

As you know, Senators, the wheat growers in the State of Idaho, through a 1 cent per bushel payment to the Idaho Wheat Commission, support financially the efforts of the National Association of Wheat Growers and Western Wheat Associates, and both of these organizations will deal. I am sure, more specifically with the problems of the International Wheat Agreement and the things that deal with it.

We support continued participation in that 1971 international agreement because it does provide a forum for consuming and producing countries to discuss trade issues.

I presume that this means how much value that is. It doesn't have any price protections, as far as I am concerned, as a wheat producer, but it does open the doors so that we can discuss some of these things.

**ACCOMPLISHMENTS IN MARKET DEVELOPMENT**

We have found that the main accomplishments of Western Wheat Associates in market development is their ability to discuss problems and issues directly with export customers. This system developed a spirit of trust and confidence, and it is on this basis that the American wheat sales to the Asian market have increased dramatically over the past 20 years.

This same dialog and consultation through the International Wheat Agreement hopefully can help to improve working relations between all involved countries.

Second, we support U.S. membership in the International Wheat Council. This body administers the 1971 International Wheat Agreement, and has the reputation of a reliable and accurate reporter of world wheat facts and statistics.

Western Wheat Associates and the National Association of Wheat Growers are going to expound more on that. I would like to get into the issues that affect me particularly, in Idaho, and that affects us as farmers.

## IDAHO AS WHEAT STATE

First of all, it may surprise some of you that the State of Idaho is interested in wheat since we take great pride in being the number one potato producer in the Nation. We also are the eighth largest producer of wheat and rank among the top five in the production of 10 other field crops. So we have a strong interest in exports of wheat, especially because most of the wheat that is produced in our area goes to export channels, or approximately about 70 percent of it.

Wheat is the leading export item in the State of Idaho and in 1977, the value of Idaho's wheat exports was \$96 million—approximately 40 percent of the value of all items exported, including forest products, minerals, and manufactured food products.

The State of Idaho ranks seventh nationally in per capita exports of farm output. So you can see that trade is extremely important to the economy of our State, and particularly to wheat producers, such as I.

## THE PACIFIC NORTHWEST

In the Pacific Northwest States of Idaho, Washington, and Oregon, whose economies are very interrelated, the export of wheat totals approximately 85 percent of the production each year. Any action our Government takes to either assist or impede exports will have a dramatic impact on our State and region.

Most of the information I have given you on exports relates to the volume of wheat. There seems to be a new record set in wheat exports each year. The volume statistics are impressive.

However, to me, and to the majority of the wheat producers in Idaho, the increase in volume of wheat shipments is not helping, due to low prices. We simply will not be able to stay in the wheat business unless prices do improve dramatically, and unfortunately we do not have the options in our State—and I think this is true nationally—to switch to alternate crops that are more profitable.

## DEPRESSED PRICES FOR POTATOES

In Idaho we have had a major sugar manufacturer go out of business because of unprofitability, eliminating sugar beets as a crop choice for many of our farmers. Potato prices are at the most depressed level in years, and many producers in my area will not be able to sell their potatoes at any price this year because there is simply no market. I had a producer call me from Rexburg the other night and say that they were offering potatoes out of the cellar at 25 cents a hundred and could not get anybody to take them at that price. There is just no market whatsoever there.

## PRODUCTION COSTS

The situation in wheat is not a whole lot better. Washington State University recently published estimated production costs for winter wheat in the Palouse region, covering northern Idaho and eastern Washington, for the crop year 1979. They calculated the break-even price for wheat production as \$3.84 per bushel, based on representative costs of well-managed farms.

I would like to give an example of how this production cost impacts profitability at today's prices.

The price quoted at Portland, Oreg., for export of soft white wheat on May 2, 6 days ago, was \$3.85 per bushel. The average freight and handling costs from northern Idaho to the coast is 35 cents per bushel. This makes the net price to the farmer \$3.50, producing a loss of 34 cents a bushel, or \$22.09 per acre. Based on these figures, a 1,000 acre wheat farm will lose \$22,000.

The costs of wheat production in my area in southern Idaho on dry land acreage are comparable to northern Idaho, but unfortunately my freight costs are considerably more. Freight and handling from Burley to Portland is approximately 80 cents a bushel. This means the price I would have received for wheat on May 2, would be \$3.05 per bushel, a loss of 79 cents per bushel, or \$51.34 per acre. On my 1,500 acres, this translates to \$77,000 lost this year, based on May prices. The prospects for this year's harvest are not a whole lot better, the way things look now.

The fortunate thing for me is that I purchased my land some years ago and inflation has saved me somewhat. These values and costs are figured on an interest rate of 9 percent. Nevertheless, there would be a loss.

I went through my own place and figured my actual cost as to the exact amount it cost me to produce wheat, and I came up with a grand total cost of \$104.80 per acre out of pocket cash that I have to put into my wheat crop each year. With my dry land area having a yield established of approximately 28 bushels to the acre, about the same day that the soft white wheat sold for \$3.85 per bushel in Portland, I sold some wheat at my bin for \$3.32 for 13-protein wheat. If I translate those figures back to this year's crop and this year's production, out of the number of acres I will have into wheat this year, I am going to lose \$11.84 an acre. This is strictly out of pocket cash. It does not figure anything for my return on my investment or anything for management ability. It does take into consideration some of the labor costs, though.

These things are real dollars to us and they make a real difference in the thing that hurts us the most as farmers.

A similar Washington State cost study last year showed an even higher loss because of lower prices.

#### POWER IN IDAHO

Estimates for 1979 were made prior to the rapid escalation of diesel and gasoline prices, which will make the picture even more bleak. Also, in the irrigated areas of our State, costs are rising even more rapidly because of increases in the costs of pumping due to power charges. Even in Idaho, where we have a lot of hydroelectric power, pumping costs have been increasing rapidly every year since 1970, and just 1 month ago our power charges for pumping in our State took a 14-percent increase.

The CHAIRMAN. Where do you get your power from?

Mr. REESE. I get mine from Bonneville Power. This 14-percent increase was an Idaho Power increase. Burley gets about half and half, Idaho Power and Bonneville Power. There are some coops

around the Burley area, such as Raft River Electric and South Side. The rest are strictly Idaho Power.

How have we survived this long?

#### DEBT LOAD OF FARMERS

The debt load of farmers in our area has increased dramatically. There are various Federal programs to assist in farm loans, and banks, insurance companies, and others still seem willing to loan money to farmers based on higher land values. However, we cannot borrow our way out of the situation. The day of reckoning is already here for many producers in our area.

At the Idaho Bankers Association meeting a month ago in Pocatello, there was much discussion about the number of farm auctions being held in our area. They were beginning to be a little bit concerned. Food production seems to be one of two businesses: One is farming and the second is land ownership. The farming business or portion of this industry is close to bankruptcy now, and the land ownership business is beginning to show a leveling of prices.

Unfortunately, those of us who farm and own our own land are rapidly losing ownership equity even though land prices have increased because we are borrowing against that land to support the farming losses. I might say that I bought my farm 9 years ago and I owe twice as much on the farm now as I paid for it 9 years ago.

The CHAIRMAN. You are not making a lot of headway.

Mr. REESE. Either I am a poor manager or I am not making very much headway. Inflation in land values is the only thing that has kept me in agriculture.

#### THE SUPERFICIAL OPINION THAT NOTHING IS WRONG IN FARMING

This situation simply cannot continue and maintain agriculture and the family farms as we know them today.

Thomas Payne said that "a long habit of not thinking a thing wrong gives it a superficial appearance of being right, and raises at first a formidable outcry in defense of custom."

Our Department of Agriculture looks at statistical reports showing increases in farm land value and record exports and, I am afraid, forms a superficial opinion that nothing is wrong in agriculture. When this committee has the opportunity to review future international commodity agreements, and I am sure it will, I hope it will keep farm prices in mind.

In your review of general agricultural policy in the Senate during this session, I hope you will also closely consider the economic health of farming.

#### PRODUCTION CUTBACKS MEAN HIGHER PRICES

I think it is fair to say that the farmers of Idaho will accept production cutbacks to obtain higher prices. All the indications that I have point to their going along with that thinking. In Twin Falls County, I was asking about the participation in the set-aside program. Last year Twin Falls County had approximately an 80-percent participation in the wheat set-aside program; this year they have

about a 40-percent participation. The price of wheat is so low that there is no incentive to join and participate in the program because your dollars will mean more to you if you go ahead and farm the ground. This does not give us much hope to decrease our production.

It is important, however, that other countries which produce wheat also share in the production control and in holding the necessary reserves needed to insure food for the world in case of catastrophe.

There is one further point I would like to make and that concerns the relationship of our export policy to the importation of foreign oil. It has well been published to equate "a bushel of wheat with a barrel of oil." Today wheat is approximately \$3 a bushel and oil is approximately \$20 a barrel. It is easy to see, therefore, why we have a balance of trade problem.

#### PRODUCTION COSTS AFFECTED BY COST OF OIL

Many of my production costs are directly affected by the cost of oil because diesel, gasoline, fertilizer and chemicals are all petroleum derivatives. These costs have gone up dramatically, and I am extremely concerned that the cost increases have only begun. Of course, all other farm inputs are affected by energy increases, and there must be some mechanism to bring the price of wheat and the price of oil closer together, or my neighbors and I cannot continue in the farming business.

Thank you, Senator, for the privilege of being here and of appearing before your committee to make this statement.

The CHAIRMAN. Thank you, Dallin. I think you have detailed in an excellent fashion the problem that you face and that all other wheat growers face in our State, indeed throughout the Northwest and this country at large.

How would the gentlemen on the panel like to proceed? Do you each have a statement to present?

Mr. LEWIS. I believe so, Mr. Chairman.

The CHAIRMAN. Would you like to comment on the testimony that you have already heard from Senator Bellmon and from the Departmental witnesses?

I am willing to accommodate any particular procedure you would prefer.

Mr. LEWIS. Mr. Chairman, I would like to very quickly summarize my statement and submit it for the record.<sup>1</sup>

The CHAIRMAN. Fine, Mr. Lewis.

#### STATEMENT OF ROBERT G. LEWIS, SECRETARY AND CHIEF ECONOMIST, NATIONAL FARMERS UNION, WASHINGTON, D.C.

Mr. LEWIS. I represent the National Farmers Union, as national secretary and chief economist. We do recommend that the Senate ratify the fourth extension of the 1971 agreement, although we recognize that it does not, by any means, comply with what our organization has recommended in the way of an agreement. Nevertheless, it would keep open the door and shorten the time necessary to complete

<sup>1</sup> See p. 54 for Mr. Lewis' prepared statement.

an effective agreement if, and when, the time comes that the need for action can no longer be ignored.

There is a second feature of the agreement, a Food Aid Convention, that provides a mechanism whereby several countries can work together to contribute food for emergency famine relief and similar purposes.

#### THE FOOD AID CONVENTION

Here again, the real meaning of this Food Aid Convention is to negate, rather than to realize, the purported cause of food aid. It means less food aid, not more. At the very time that this Food Aid Convention was introduced into the agreement, the United States began to retreat from its war on hunger, and actually our total food aid has declined very, very substantially since the Food Aid Convention was introduced into this multilateral treaty.

Nevertheless, we think that also has value and we recommend that the Food Aid Convention be extended. We hope that the framework might serve for a renewal of commitment by the United States and other countries to food aid.

#### SOMETHING MUST BE DONE FOR FARM PRICES

However, we are concerned that approval of this bobtailed agreement, this toothless agreement, not be permitted to obscure the necessity for doing something about raising farm prices immediately, and doing something meaningful about renewing the commitment to Food for Peace. I believe that your committee can do a good deal to avoid that happening.

As far as raising farm prices is concerned, I think it is very important to recognize that this is a matter of domestic farm policy. The President of the United States does not need to ask for the consent of any other government or all of the other governments put together to raise the price support on wheat. He does not even need additional authority from Congress. Congress has already given the President authority, or, the Secretary of Agriculture, to raise the price support rate on wheat to 100 percent of parity—\$5.90 a bushel, as of mid-April. We don't need to have an international agreement to get that done. It is a matter of domestic price support policy. Although many farmers have been "hornswaggled," Mr. Chairman, into supposing that somehow we have to negotiate with other countries to get that price of wheat up, that just it not so.

#### THE SITUATION WITH SUGAR

The CHAIRMAN. As an aside, as an item of interest to you, since you have many different crops to consider in the Farmers Union, let me say we have just the opposite situation in this committee facing us with respect to sugar. We have a sugar agreement which I think is worthy of support. It might work, but even if it does, it will take several years, at best, to work off the present surpluses in the world market to bring the price up to something like a reasonable level.

Meanwhile, we have a sugar industry that is dying at home because of the dumped prices for which foreign sugar is being brought in to our markets and being sold.

## HOLDING UP THE SUGAR AGREEMENT

I have been holding up the International Sugar Agreement in order to get a domestic program that is adequate to keep our own sugar beet growers in business. So, this thing can work two ways.

In the case of wheat, we are looking for some kind of international agreement that would be helpful. In the case of sugar, we are holding back that agreement in order to force the administration to accept a satisfactory domestic program.

It is true with sugar, as it is with wheat, that this does not depend upon an international agreement; it depends upon an adequate domestic program and the necessary decisions on the home front.

Mr. LEWIS. I am familiar with the actions of the committee and the chairman on the sugar agreement. The Farmers Union is sympathetic and understanding of what you are trying to do and we commend you. But I think it is very important now to recognize that it is the responsibility of the Government of the United States to determine, as a matter of domestic price support policy, what our farmers should get for their work, for their wheat, for their products. All other governments that have any farmers who produce wheat have similar responsibilities and they exercise them more sympathetically to their farmers than the U.S. Government does toward our farmers.

## THE REPORT OF THE DEPARTMENT OF AGRICULTURE

Just a few weeks ago a very interesting report was issued by the Department of Agriculture which revealed that the United States is supporting wheat at the lowest price in the world. Now some quibble could be made about whether Egypt beats us out for last place. Egypt, according to this USDA report, has \$1.82 a bushel as a support level. The United States has \$2.25. However, the International Wheat Council, which does have an excellent statistical competence, as the Department of Agriculture witness said, analyzes all of the subsidies and so forth that go into the return to farmers and the government support to farmers. It reports that the total support in Egypt, when you take into account free irrigation water, highly subsidized fertilizer, highly subsidized interest rates, and so forth, is \$3.48 a bushel. When you take in the set-aside payments and so on, in 1977 the total support in the United States was \$2.90.

So, according to the International Wheat Council's correction of USDA's report, Uncle Sam is giving the poorest support on Earth to our producers of wheat.

It is very interesting to note that the countries which are beating the pants off the United States in industrial competition and in the strength of their currencies seem to be able to endure far higher support to their farmers for wheat.

For example, the Japanese are at the head of the line. They do, indeed, pay the price of a barrel of oil for a bushel of wheat—a little bit more, as a matter of fact—\$22 plus.

Switzerland, which also has a very strong currency, supports its farmers at \$17.52 a bushel. West Germany, which is doing fairly well and has a very strong deutsche mark, is able to pay its wheat producers \$7.02. The Netherlands pays \$5.50.

So, it is hard to believe that the American economy cannot get along without the enormous subsidy that is provided by our farmers by supplying wheat at the cheapest price on earth to our domestic consumers, especially when, in our export program, we pass on our wheat at the cheapest price in the world to our primary economic rivals and to our military adversaries.

Mr. Chairman, I think that this committee needs to examine very carefully the realities of the world wheat market, the world wheat economy. If you do that you will find that only about 2 percent of all the wheat produced in the world brings to the farmers who produce it down in Argentina no more than the so-called world market price. The world market price is not a valid indication of what the real economic value of wheat ought to be. It is not a valid indication of how the world can be fed—that is, what the price of wheat needs to be in order to feed the world.

Fifteen percent of the total supply of wheat is produced by farmers in the export countries. But even the largest of those—the United States, Canada, and Australia—find it necessary to dip into their treasuries to pay something extra or to charge a higher price to their own consumers for bread in order to keep their wheat producers going. Eighty-five percent of the total supply of wheat in this world brings to the farmers that produce it prices substantially above the so-called world market price. That world market price and the world market system, need to be better understood by the American people and by American policymakers. I strongly urge that this committee look into that and into the marketing system to determine whether there's any sense in giving away our wheat as cheaply as we do.

#### THE NEED FOR AN INVESTIGATION

I think also it is very necessary to have a full dress investigation of the present food aid policies and programs of this country. The facts are clear. Our annual food aid shipments have been running at the lowest levels in the history of the program in the past half dozen years or more. They are continuing at these very low levels. They are lower than at any time since the start-up year in the Eisenhower administration.

#### THE HUMANITARIAN ASPECTS OF FOOD

The decline in the food-for-peace program raises some distressing questions for farmers. We are concerned about the humanitarian aspects, but we are also concerned about the implications for market development. We appreciate that Public Law 480, popularly known as food for peace, and properly known as the Agricultural Trade Development and Assistance Act, has laid the foundations for the enormous export market that farmers in this country now have. We are concerned that perhaps the sharp decline in food aid shipments signifies that the U.S. Government is retreating from the development of additional export markets for American farmers.

#### CONGRESSIONAL INTEREST IN PUBLIC LAW 480

The CHAIRMAN. That is something into which the committee should inquire, because we have a very keen interest in Public Law 480. As

for domestic farm policy, this committee's jurisdiction, as you know, would be limited to agreements with foreign countries relating to export prices. But we will do all we can, within our jurisdiction, to try to promote a sound farm policy.

I think the economic dimension of our farm policy has never received sufficient attention in this committee. I want to see that changed, because exports are so important to American farmers. I think we absolutely must develop a sound export policy.

Mr. Lewis. I appreciate that, Mr. Chairman. I urge that this committee, recognizing that its mandate is the international scene, investigate the international wheat economy and bring to public attention some of the wild anomalies that do exist. The world market price is a phony indicator of what wheat prices ought to be. It applies realistically only to 2 percent of the total world production of wheat. Still, it is being used in domestic policy as a yardstick, as a measurement, of what our farmers ought to get.

The CHAIRMAN. The same is true for sugar, for which the world price is being used as an indicator. It has no relationship whatever to the costs of production either here or in foreign countries. It is a dump price for sugar that is not sold under a special contract.

#### SENATOR HAYAKAWA PRESIDES

Senator HAYAKAWA. Mr. Chairman, before I excuse myself for another meeting, I want to thank the last witness for his testimony on behalf of this committee.

The CHAIRMAN. Senator, would it be necessary for you to leave right now? There is a vote in the Energy Committee that I have to go to right now. I was wondering if you could keep this meeting going until I returned.

Senator HAYAKAWA. Well, you will have to return really soon. Would someone please telephone to indicate I will be delayed for a few minutes?

The CHAIRMAN. Senator Hayakawa, I appreciate this very much. Please come up here and assume the gavel while I am gone. I will be back as soon as I can.

Senator HAYAKAWA [presiding]. I really did not expect to become Chairman so soon. [General laughter.]

Mr. Lewis, let me repeat that I want to express my gratitude to you.

Mr. LEWIS. Senator, I want to express my gratitude to you, too. I heard you lecture at the University of Wisconsin when I was a freshman taking English.

Senator HAYAKAWA. You don't look that old. [General laughter.]

Mr. LEWIS. You lectured on semantics, and I hope that I have not disappointed you.

Senator HAYAKAWA. Not at all, and thank you. I enjoyed your remarks very much. You are certainly no disappointment, I assure you. Thank you again for your statement.

Is there further testimony?

Mr. BAUM. Senator, I believe I will go next.

Senator HAYAKAWA. Thank you, Mr. Baum.

STATEMENT OF RICHARD K. BAUM, PRESIDENT, WESTERN WHEAT ASSOCIATES, WASHINGTON, D.C.

Mr. BAUM. Senator, I will just summarize my remarks and ask that my statement be incorporated into the record.<sup>1</sup>

I am Richard Baum, president of Western Wheat Associates. I have worked for the wheat growers for 30 years. I am not a wheat producer. I have been responsible for the market development in the Asian area for 25 years in our cooperative program with the Foreign Agriculture Service.

I do not have that much new to say about the International Wheat Agreement. We fully support the extension of it. One of our staff has participated as a consultant to the U.S. delegation during most of their meetings, alternating with our sister group, Great Plains Wheat, and we work closely with the National Association of Wheat Growers and their representatives.

SUPPORT FOR INTERNATIONAL COOPERATION

We do support international cooperation with other major wheat exporting nations on measures to improve coordination of production and marketing policies for food to developing nations. We feel the United States is the only country that has done an adequate job in this area, as you know, in making any attempt to control the production or to withhold reserves from the market.

In the area of market sharing and an "OPEC" for wheat, we feel these are unworkable. We feel the OPEC idea is unworkable because, simply, almost every country in the world can produce wheat at a price. Japan's support price according to our figures, is even higher than an earlier estimate. These estimates depend on what yen value you use. It has been running at around \$1,000 a ton for wheat on normal acreage. If Japanese farmers were to shift from rice acreage, the suggested price would go up to \$1,250 a ton, which is over \$30 a bushel. But even at that level, they only increased production by 150,000 tons this past year. So in itself that is not that significant.

EXPANSION OF MARKETS

We know that markets can be expanded. We have helped to develop the markets in Japan, Korea, and Taiwan, for example, from consumption of around 30 pounds per person to around 72 pounds per person today. This may be reaching a maximum level.

Senator HAYAKAWA. Are you talking only about wheat?

Mr. BAUM. Yes, wheat foods—wheat consumption is up to around 70 pounds per person in all three of those countries. When we started working there 20 years ago, it was more like 30 pounds per person.

This is probably reaching a leveling off stage because of the high consumption of rice and other foods which they will want to continue to eat.

The point is if you try to freeze markets and go into market sharing, then who has any incentive to go in and develop these markets? We presently are working in mainland China and we have made a commit-

<sup>1</sup> See p. 70 for Mr. Baum's prepared statement.

ment to establish a model demonstration bakery for them because one of their goals is to increase convenience foods.

#### DIVIDING THE MARKET SHARE

Again, if you are going to divide up the market share, based on historical records, we would be out of the China market which has never been a traditional market for us. The same thing is true in Indonesia and Sri Lanka, where we are gaining a larger share of markets that traditionally have been primarily Australian markets. These are markets that are growing.

Indonesia, for example, only has a per capita consumption of about 15 pounds per person. We know that it can be increased somewhere to about the same area as in Japan, Korea, and Taiwan. That is, up to around 60 or 70 pounds. But if markets are frozen, then we would be out of those markets, which are growing. Who is going to service a market if it is just going to be divided up?

We think it is very difficult, if not impossible, to make price arrangements work. The international grain arrangement some of us were involved in in 1968 simply would not work. There is no international policeman if someone does decide to cheat. It then becomes very complicated. How are you going to relate prices of dark winter wheat and spring wheat produced in Canada and the United States, of 14 percent protein, with Australian soft wheat or Soft Red Winter wheat in the United States, or even Western White in the Pacific Northwest?

#### THE DIFFERENT USES OF WHEAT

Wheats have traditional uses for different foods and they have different values. Who is going to set up the price differential and how are they going to change prices from year to year when there are different protein levels produced?

For the past 2 years in the Pacific Northwest we have had short crops of White wheat. So that value of white wheat these past 2 years has been much higher than normal in relationship to hard red winter or dark spring wheat.

These are market functions. If you start substituting a cartel arrangement, we don't know how that would function. Who, then, will market damaged wheat, for example? This past year we had rain damage of 30 million bushels of wheat in the Pacific Northwest alone. Well, that wheat has been moving into feed, but about 60,000 tons has moved down to Singapore and has been milled into flour for Vietnam.

#### FIVE MAJOR CLASSES OF WHEAT IN THE UNITED STATES

Again, how would you handle all of these cases? We have five major classes of wheat in the United States, each having somewhat different uses, including durum. It seems to me almost an impossible task to legislate or have some international body sit down and arbitrarily say that wheat is worth this much this year for these different kinds. I think it would almost preclude the continuation of the wheat market development program.

We recognize that the price of wheat is far too low and that something must be done. We certainly encourage the United States to work with other major world wheat exporters toward the end of raising prices.

We would like to supplement the remarks of Mr. Lewis of the Farmers Union. It is difficult for farmers to understand why the United States is cutting back on funds for CCC credit from \$1.6 billion to \$800 million in the next budget year when there is more demand this year for CCC credit than can be supplied, even at very high interest rates.

#### REDUCTION IN PUBLIC LAW 480

We also do not understand why there is a hold-down and reduction in Public Law 480 when there is more need than the United States can supply and when it is the only way the United States will hold its share of the market in developing countries, like Sri Lanka, which has the largest flour mill in the world, which will start operating next April. It is very close to Australia and our Australian friends will dominate that new market completely without the use of Public Law 480. The same thing is true in Indonesia.

So, we would urge this committee to use whatever influence it has to restore additional funds to CCC credit and the Public Law 480 program for the fiscal year 1980 budget.

With that very brief comment, let me say that we appreciate the opportunity to testify before this committee and would be happy to answer any questions.

Senator HAYAKAWA. Thank you, Mr. Baum.

You were using the expression that you were seeking "not an OPEC for wheat."

Mr. BAUM. Yes, sir.

Senator HAYAKAWA. Would you expand on that a bit, please.

OPEC operates strictly as a monopoly, as a cartel, and sets world prices.

Mr. BAUM. Yes.

Senator HAYAKAWA. Anyone who is a member of it follows those prices.

#### MOST WHEAT PRODUCED ELSEWHERE

Mr. BAUM. Exactly. We don't think it is possible for Canada, Australia, Argentina, and the United States—even though they export about 80 percent of the world's wheat exports—to be able to set prices and hold those prices when the majority of the wheat produced in the world is outside of such an agreement.

In India, for example, wheat production has tripled roughly in the last 10 to 20 years. It has grown from about 12 million tons to almost 30 million tons this year. The Indian farmer receives more today for producing his wheat from his government than the American farmer gets. They now get a guarantee of close to \$140 a ton.

My point is that the Indian Government recognized the way to raise its production of wheat was simply to give the farmer a high enough price so that he could afford to put the inputs into increasing production by way of irrigation and fertilizer. They have been able to get that. But, ironically, at the same time they claim that they have

17 million tons of reserve food grains in India. They say that they have a surplus. But there are actually 200 million Indian people who are on a starvation diet. They cannot afford to buy the government's food.

So, the real problem here is the lack of purchasing power of the consumer.

The OPEC question is simply one of how are you going to control all of the nations, other than these four nations, which will not pay any attention to the OPEC rules.

#### SUBSIDIES TO FARMERS

Senator HAYAKAWA. Let me ask this. In wheat production, do all wheat producing nations subsidize their farmers?

Mr. LEWIS. Yes. I think in one or another the government determines what the price is going to be in every country, by one means or another.

Senator HAYAKAWA. Does it do this for exports?

Mr. LEWIS. Well, 85 percent of the total supply of wheat is produced and marketed in national markets that are protected by their national governments, leaving the other 15 percent, produced by the four major exporters, to compete for whatever is left of the market. The governments of Canada, Australia, and the United States do provide extra subsidies above the so-called world market price to their producers, leaving only 2 percent of the total production of the world in Argentina, where the farmers get little, if anything, more than that world market price.

I respectfully disagree with my friend Mr. Baum about the workability of cooperative action on the part of the exporting countries to maintain a better price than we have. I don't think we should call it a wheat cartel. I think we should recognize that what is being proposed by Senator McGovern and by Senator Bellmon—though these Senators do differ slightly on their proposals—is primarily and in my view this: All we need to do is do what we are doing now, but do it at a higher price. The governments of the United States, Canada, Argentina, and Australia consult with each other regularly and have done it. I used to be the official in the U.S. Government that handled those consultations. We continually look at the pricing policies of each government in relation to what sales are being made and what share of the market is being achieved, and adjust those prices accordingly.

#### MARKET SHARING

I think market sharing is going on right now. Every time anybody criticizes what another country is doing with its subsidy rate, it is expressed in terms of they are getting more than their share of the market. Then we put pressure on the other government to change its subsidy program so that they will adjust their share of the market.

So, actually, we are not talking about something new and something different. We are talking about doing what we are doing now, but doing it at a more realistic price.

Senator HAYAKAWA. Thank you, Mr. Lewis.

Mr. BAUM. I didn't mean to say that I oppose working with the other world exporters toward this goal because we do favor that. But I said in the hard sense of an OPEC cartel, it will not work. It won't work if you are talking about getting \$20 a bushel for wheat.

## THE MECHANISMS WHICH ARE IN PLACE

Mr. LEWIS. I think we basically do agree about that. But we do not need to raise all of the frights and negative images of a cartel to get effective cooperation among the exporting countries. The mechanisms are in place. They have been in place since World War II. We ought to run the machine that we have had in place since World War II with greater justice for farmers and greater respect for the needs of the world for food security. We need more wheat in this world. There is just no way to dodge that issue. Keeping the price down below the cost of production is contrary to the interest of the United States and every other country of consumers and of political stability, and so on.

We have the machinery in place. If we run it right, we can handle the problems of surpluses and food aid and adjusting supplies to demand when that needs to be done. We just have to have the creativity and the guts to go out and do it. The United States has done it before and we ought to do it again.

The CHAIRMAN [presiding]. Thank you very much for your testimony.

Who would like to speak next?

Mr. WILSON. I think I am probably next.

**STATEMENT OF WINSTON WILSON, PRESIDENT, NATIONAL  
ASSOCIATION OF WHEAT GROWERS, WASHINGTON, D.C.**

Mr. WILSON. I am Winston Wilson and I am president of the National Association of Wheat Growers. I am a wheat farmer in Texas.

With your permission, I would like to submit my written statement and will paraphrase it for the record.<sup>1</sup>

The CHAIRMAN. Very well.

## SUPPORT FOR THE AGREEMENT

Mr. WILSON. At the outset, let me indicate that our association does support the extension of the 1971 International Wheat Agreement and its components: The Wheat Trade and Food Aid Conventions. Apparently under current conditions, this is the lowest common denominator and probably the only type of agreement which developed and developing nations as a group are prepared to accept.

Concerning the International Wheat Agreement, I was more than a little upset a few minutes ago at the statement by the witness from the State Department to the effect that they did not consider efforts to obtain an international agreement in the Geneva context as being bad. I think it is high time that the U.S. Government pronounced this effort bad if, after 18 months, we have been unable to come to some kind of agreement between exporters and importers. I think it is time to look in other directions, despite what the State Department might say.

## THE SENATE RESOLUTION

Mr. Chairman, earlier you asked the witnesses if they would welcome a sense of the Senate resolution regarding the Secretary of Agriculture

<sup>1</sup> See p. 73 for Mr. Wilson's prepared statement.

looking to other areas. I think our association would welcome not only a sense of the Senate resolution, but even a mandate from the Senate to the Secretary to look at this, because it is high time, after 18 months of futile negotiating, that we looked to other areas for an international agreement.

#### THE NEGOTIATIONS

I would add, though, that we feel the negotiating team, which consisted principally of Dr. Hathaway and Tom Saylor, did a good job for the American farmer because they stuck by their guns in trying to get an agreement that would be of benefit to us. When it became apparent that such an agreement was not in the offing, they packed their bags and went home. I think they should be commended for this because they recognized the fact that they were not professional negotiators, but were there to represent American agriculture. I think they did do this in a very positive manner.

When the negotiations did fold—in our opinion, and I think in the opinion of most other people, there was really not much future in these efforts. We called upon the Carter administration to begin talks immediately with the other major exporting nations to arrive at a workable burden sharing arrangement. It is our hope that some type of arrangement between exporters can be arrived at. I know this has been discussed earlier by the witnesses from the Department and by private witnesses. But let me mention some figures for world wheat production by the major exporters which, in our minds, make it imperative that some type of arrangement be arrived at.

#### THE CUT IN WHEAT PRODUCTION

You will remember that last year the American wheat farmer cut his production by approximately 12 percent. I think we saw some very beneficial price impact because of this, along with the Department-held reserves. We have seen significantly better prices in the past 12 months.

While the U.S. farmer was cutting his production 12 percent, Canadian wheat farmers increased their output 6 percent, Australia increased its output 99 percent, Argentina's production was up 47 percent, and the European community was up 22 percent. Had any of these major exporters or major wheat producing countries cut their production by any degree whatsoever, or had it remained even the same and had there not been these amazing increases, I think we would have seen some decent wheat prices in the world wheat market. The U.S. farmer would not have had to cut production as much.

The CHAIRMAN. You heard the argument made by the Secretary that he has serious doubts that an agreement between the United States, Canada, Australia, and Argentina would work because of other major wheat producers that might enter the export market. What did you think of that argument?

#### THE SUCCESS OF THE EXPORT PROGRAM

Mr. WILSON. Let me answer that by first stating our view of the success of an export program.

I think far too often government officials view how good a job we are doing in exporting by how many bushels we are moving. As a farmer,

as a businessman, and as any economist who works for the U.S. Government knows, we should primarily be measuring the success of export programs by how many dollars come back to the U.S. economy. Bushels do not buy a thing; dollars are what we have to have. That is how we measure our trade deficit, in dollars.

Maybe we would sell a little bit less. But if the income is increased, and my income from my farm is increased, then the country is better off and I am better off. I think that is the only relevant measure at which we should look.

I was a little disappointed in the argument Dr. Hathaway used as to why this would not work. I think he mentioned the fact that if we got wheat prices up, the European community would sell all their wheat and buy U.S. feed grains.

In the first place, the European community normally imports massive amounts of U.S. wheat because the quality of their wheat is so low that they must use our higher quality wheat in their domestic baking industry. So I don't think this argument will hold up altogether.

In the second place, the United States is the only major exporter of feed grains in the world. If the European community stopped feeding their low grade wheat and started buying U.S. feed grains, I think the U.S. economy would certainly be in a better position. So I think this is a pretty poor argument, to be honest.

I cannot buy the fact that we could not have significantly improved wheat prices if the major exporters got together on supply management.

#### NOT A CARTEL ARRANGEMENT

I want to make it clear that we are not necessarily talking about a cartel arrangement from the standpoint of fixing the price of  $X$  and leaving it there. Our interest is in getting some cooperation in supply management and production and some other matters. As I indicated earlier, the United States did cut back production last year. We held about 400 million bushels off the market in the farmer held reserve. This had a very significant, positive impact on world prices. Yet we had no cooperation whatsoever from the other exporters. I cannot help but believe had they taken similar actions, or at least not increased production and not increased the stocks that they dumped on the market, we would have had some decent wheat prices today.

I agree with Dr. Hathaway's argument that were we to raise prices to \$10 a bushel or \$15 a bushel, we would see a lot of increase in the world wheat production in areas where it has not been produced before. But I think if we have a more reasonable and a more serious supply management system by the major exporters, we won't attract this kind of production in the world market.

#### THE ROLE OF THE U.S. GOVERNMENT

I think it is very important that the U.S. Government, both the Congress and the administration, take a different look at our export policy because basically the U.S. export policy has not changed since World War II, during the period of the Marshall plan. At that time we were seeking to rebuild the economies of Europe and the economies of Asia, and the United States sort of became the doorman for international

trade. We always wanted to have free and open trade. But it has been pointed out earlier this afternoon that the United States seems to be the only major country that practices this. We have seen the impact upon our economy as a result.

I think it is time that we examine our trade policies in light of their contribution to our economy. I think it is time we maximize our returns from our export business.

In closing, I would urge you to give careful consideration to encouraging the administration to carefully inquire into the likelihood of getting an agreement between exporters because I think there are real possibilities here.

#### PHRASING OF THE SENATE RESOLUTION

The CHAIRMAN. I certainly will do that. Also, I would hope that you gentlemen would assist the committee in the wording of a sense of the Senate resolution relating to this matter so that the committee can take it up and consider it at its next markup session.

I would ask the staff to work with these panelists on what the wording of that resolution should be.

Mr. Minear, do you have a statement?

#### STATEMENT OF LARRY MINEAR, CONSULTANT ON WORLD HUNGER, CHURCH WORLD SERVICE/LUTHERAN WORLD RELIEF, WASHINGTON, D.C.

Mr. MINEAR. I have only a brief statement, Mr. Chairman.<sup>1</sup>

I am Larry Minear. I work with religious organizations concerned with hunger and malnutrition. We also support equitable prices for producers and are concerned about the plight of U.S. producers which has been described today.

My prepared statement gives my view that the International Wheat Agreement, in addition to being a commercial arrangement, has important implications for world food security. You mentioned this in your own opening remarks.

In the wake of the regrettable collapse of the wheat talks, the Senate should, in my view, ratify the fourth extension of the 1971 agreement. It may, later in the summer, also need to approve a further, but hopefully brief, extension of a clearly inadequate, or, as you say, "toothless," agreement. However, no number of extensions, in fact, in my view nothing short of a new and more effective agreement, will hasten the coming of stable and equitable world wheat prices and world food security in the 1980's.

Whatever the problems with negotiating a new Wheat Trade Convention—and I am persuaded that although there are serious problems, they can, indeed, be overcome—a new Food Aid Convention needs completion and ratification at the earliest possible moment.

You might even want to consider withholding Senate approval for the fifth extension until a Food Aid Convention is available for ratification, as a way of keeping pressure on the food aid side of the International Wheat Agreement.

<sup>1</sup> See p. 74 for Mr. Minear's prepared statement.

Finally, I think there are some things that U.S. food aid and development assistance could do in the area of food security. Some of these have been before the Foreign Relations Committee earlier in the markup of the economic aid bill.

Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Minear, for your testimony.

I want to thank the members of the panel for their statements today.

There is one other statement to be presented to the committee, and it is from Mr. Michael L. Hall, president, Great Plains Wheat, Incorporated. Mr. Hall was unable to attend the meeting today, so we will incorporate the body of his statement into our record.

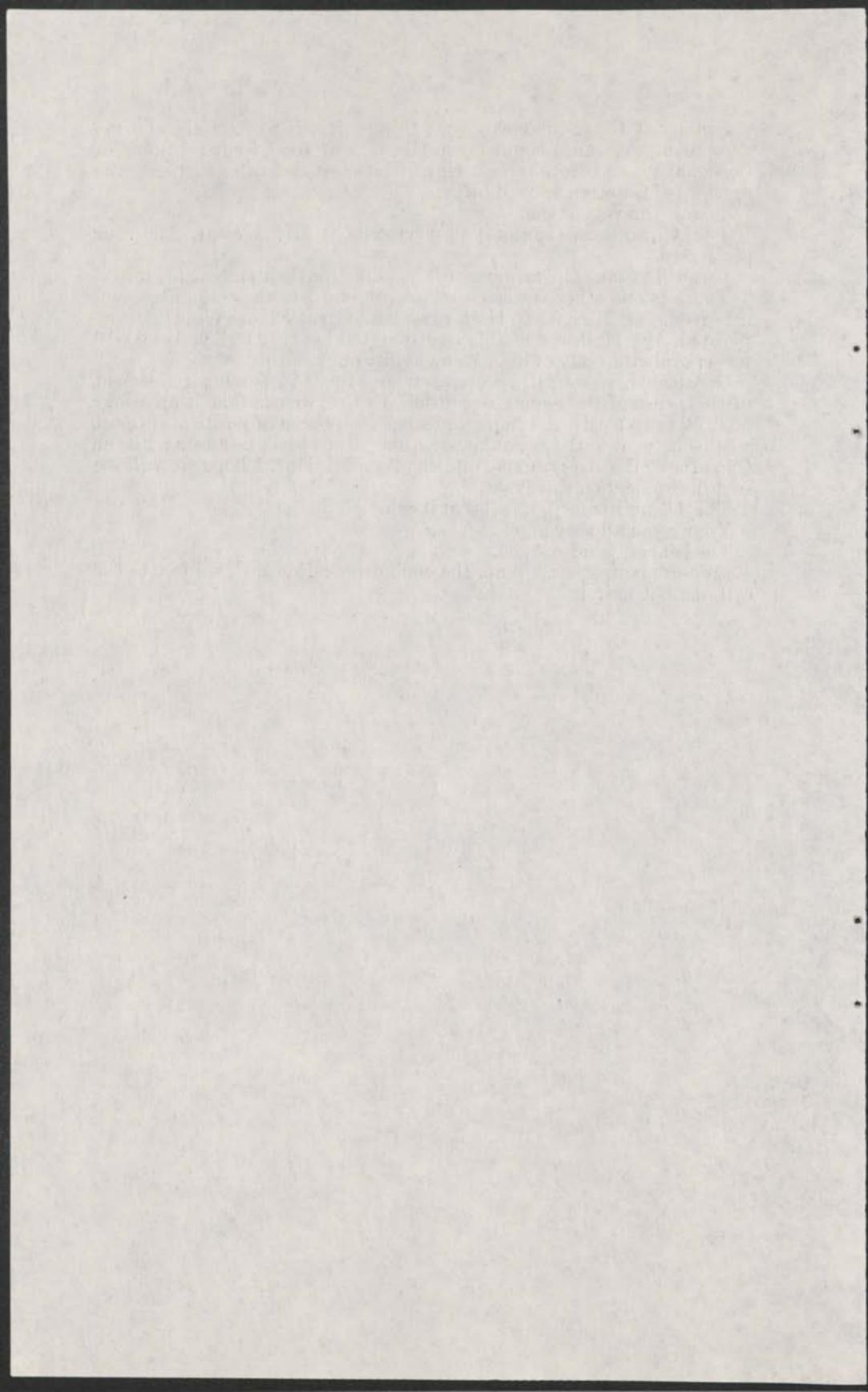
Gentlemen, if we can secure your assistance in further refinement of this sense of the Senate resolution, I think we can take it up at our next markup meeting. I hope that some expression of political support will be helpful to the Secretary of Agriculture when he meets with the Canadians, the Australians, and the Argentinians. I hope we will see some movement on this front.

This Committee will do all that it can.

Thank you all very much.

The hearing is adjourned.

[Whereupon, at 5:28 p.m., the committee adjourned, subject to the call of the Chair.]



## APPENDIX

### PREPARED STATEMENTS SUBMITTED FOR THE RECORD

#### PREPARED STATEMENT OF HON. HENRY BELLMON, A U.S. SENATOR FROM THE STATE OF OKLAHOMA

Mr. Chairman, members of the Foreign Relations Committee, first let me express my appreciation for the invitation to present my views on the proposed fourth extension of the Wheat Trade Convention and World Food Aid Convention constituting the International Wheat Agreement, 1971. My comments this afternoon will be directed to the existing domestic grain situation, the proposed two-year extension of the current International Wheat Agreement, legislation that I have introduced and an upcoming meeting of representatives of grain exporting countries in Saskatoon, Saskatchewan, Canada, on May 10.

Mr. Chairman, in 1978 the United States produced 1.8 billion bushels of wheat. Supply deviations occur depending upon market price incentives, set-aside requirements and weather patterns. Carryover for the new crop year which begins June 1, 1979, is projected to be 950 million bushels. Under our current farm program and the current wheat agreement, the President's budget predicted the average price received by farmers will be below \$3.00 per bushel for the crop year that will soon begin. With today's production costs of about \$4.00 per bushel, this price means that wheat growers are selling at a loss and unless conditions change our country will ultimately face a food shortage.

The long range demand for food grains, soybeans and feed grain is excellent. According to W. David Hopper, Vice President, South Asian Region, the World Bank, in a statement before the Congressional Roundtable on World Food and Population, February 27, 1979:

"In all, the demand for food on a global basis can be expected to increase at close to 3.0 percent per annum, approximately four-fifths of which is population expansion and the remainder due to income growth. A growth of 3.0 percent per year implies a doubling of food requirement in 24 years. Holding the present pattern of food distribution constant, and assuming a continuation of present population and economic expansion growth rates, there will be a world food need of approximately 3.0 billion metric tons of grain by the turn of the century."

In a similar projection, before the same roundtable on January 23, 1979, Maurice J. Williams, Executive Director of the World Food Council, United Nations, Rome, Italy, stated:

"In the next 15 years the demand for food grains in the developed countries will increase tremendously—by an estimated 200 million tons, or nearly equivalent to the current production of grain in the United States. During this period demand in the developing countries will increase by 350 million tons, (13 billion bushels) and under current patterns of production well over 100 million tons (3.7 billion bushels) of this increase in developing world demand would have to be met by increased exports from North America."

Unfortunately, the near term demand for wheat is not good. If the Administration's projected price of under \$3.00 is accurate, many young people may be forced to abandon farming. The average age of American farmers is going up rapidly so there is need to keep young people in the food producing business.

Mr. Chairman, it is interesting to note that even though grain producing countries are now exporting grain at prices below costs of production, our foreign consumers are not benefitting from our largess. For instance, last year Japan imported 121 million bushels of U.S. wheat which they had bought at on-the-farm prices of about \$3.00 per bushel. Once it reached Japan, this wheat was resold for \$8.80 per bushel. This resale policy provided an income of over \$500 million in revenue to the Japanese treasury.

A similar situation exists with the European community which last year placed a duty of \$3.90 per bushel on the 84.5 million bushels of wheat they imported from the U.S. The European community governments thus netted over \$325 million in revenues.

The above phenomenon is more objectionable when it is realized that in 1978 the U.S. had a deficit in its trade accounts with Japan of \$11.6 billion and a deficit of \$3 billion in its trade with West Germany.

It is plainly in our national interest to establish a trade policy which provides a fair income to our grain producers and which reduces the opportunity for other countries to profit at our expense.

As the members of the Committee well know, wheat agreement negotiations were adjourned in February after the participating countries, representing both importers and exporters, could not resolve several major issues. The areas on which a consensus was not achieved in the Geneva negotiations were:

1. Specific reserve stock contributions by member countries necessary to provide and to insure an adequate total reserve,
2. The extent to which separate economic provisions for developing countries should be incorporated into the agreement, and
3. The price levels at which stock acquisitions or releases would occur.

Our negotiators worked 12 months in Geneva on a new wheat agreement that would provide economic protection to our wheat growers. However, after laboring a year, the negotiators were forced to conclude that an equitable agreement could not be reached between importers and exporters.

Last February 6, I introduced a Sense of the Senate Resolution to encourage the establishment of an International Grain Exporting Stabilization Commission. The legislation is designed to place a floor under world grain prices and end the cut-throat competition among exporting countries. If cooperation among exporting countries can be established, government expenditures for farm subsidies will decrease, consumers will be assured of a dependable supply of food at a reasonable cost, producers will receive fair prices and developing countries will have the incentive to increase their food grain production.

The International Grain Exporting Commission Act of 1978 requests the President to take such action as is necessary to establish an international grain exporting commission to be composed of the major grain exporting countries. The Commission would establish a minimum world export price.

Although the management and policies of the Commission would be established by the member countries of the Commission, I envision the Commission implementing an export licensing program. No member country would export grain without an export license issued by the Commission. When the Canadian Wheat Board, Australian Wheat Board, United States Grain Company, or other qualified exporters desire to sell grain, an export license covering the amount of the sale would first be purchased by the exporter at a price per bushel reflecting the difference between the market price and the established export floor price. The grain would then be exported under existing procedures by member countries.

The Commission would retain enough of the revenue from the sale of licenses to cover its modest operating expenses. The balance would be rebated to the Treasury of the country from which the grain was exported.

In the case of the United States, my plan envisions that the U.S. Treasury would first apportion a percentage of the remaining revenues to the poorer of the developing countries based upon the amount of grain purchased. The balance of the revenue would be transmitted directly to grain producers according to the amount of grain produced and sold.

Mr. Chairman, there are many benefits which would come from this program. Let me list them again:

1. Costs of the current farm program to the federal Treasury would be dramatically decreased. A large percentage of the grain grown in this country goes into the export markets. Under the terms of my proposal, the price of the grain would rise to levels sufficiently high so that deficiency payments under the farm program would no longer be required.
2. Income of grain growers would rise to a level moderately above the costs of production.
3. The domestic price of food would not be affected since the program affects only the price of exported grain.
4. Our balance of payments would be significantly strengthened.
5. Food producers in developing countries would have an important new incentive through higher prices to meet future in-country food demands.

6. Japan and Europe would no longer be able to enrich their treasuries at the expense of American grain growers.

7. The OPEC countries would be required to pay a more nearly equitable price for their grain imports.

Mr. Chairman, there undoubtedly is room for improvement on what I have proposed. Also as the Committee well knows, only the President has the authority to propose that the United States be a party to the type of international agreement I have outlined. However, it was my judgment that during consideration of S. 356 it was appropriate to officially lay my proposal before the committee.

Earlier this month Agriculture Secretary Bob Bergland announced he has accepted the invitation of Otto Lang, the minister in charge of the Canadian Wheat Board, to meet with ministers of several major wheat exporting countries in Canada, May 10, in Saskatoon, Saskatchewan. Secretary Bergland stated that during this meeting "he plans to discuss cooperation on measures to promote greater food security in developing countries, the status of efforts to negotiate a new International Wheat Agreement and possibilities for improved coordination of production and marketing policies among the major exporters."

Secretary Bergland and Minister Lang are to be commended for taking the initiative to schedule a meeting of wheat exporting countries to pursue actions that will be mutually beneficial to exporting countries. I have requested the American delegation to the Canada meeting to consider the above proposed International Wheat Exporting Commission as a topic for discussion in the May 10 meeting.

In closing, I support the proposed extension of the Wheat Trade Convention and Food Aid Convention constituting the International Wheat Agreement, 1971. However, I feel we should also move in the direction of an international grain exporting compact. I will be pleased to respond to any questions the Committee may have on my statement, and I welcome support for my proposal.

[News Release, U.S. Department of Agriculture]

#### BERGLAND TO ATTEND MEETING OF MAJOR WHEAT EXPORTING COUNTRIES

Washington, April 18—Secretary of Agriculture Bob Bergland said today he has accepted the invitation of Otto Lang, the minister in charge of the Canadian Wheat Board, to meet with ministers of several major wheat exporting countries in Canada, May 10, in Saskatoon, Saskatchewan.

Bergland said he plans to discuss cooperation on measures to promote greater food security in developing countries, the status of efforts to negotiate a new International Wheat Agreement and possibilities for improved coordination of production and marketing policies among the major exporters.

The meeting, Bergland said, "is part of an ongoing effort to improve communications between wheat producing nations and follows several similar contacts between Minister Lang, other ministers from major exporting countries and me."

The wheat agreement negotiations were adjourned in February after the participating countries, representing both importers and exporters, could not resolve issues involving reserve stock size, trigger price levels and the role of developing countries.

#### PREPARED STATEMENT OF DALE E. HATHAWAY, UNDER SECRETARY OF AGRICULTURE

I appreciate the opportunity to meet with you today regarding the ratification of the 1971 International Wheat Agreement as Extended. I would like to make a brief statement about the need for extension of the IWA, about the status of negotiations for a new IWA, and about the future of U.S. international policy on wheat.

The 1971 International Wheat Agreement includes both a Wheat Trade Convention and a Food Aid Convention. The Wheat Trade Convention—WTC—provides for the establishment of the International Wheat Council as a forum for consultations and exchange of information. The WTC includes no obligatory provisions designed to regulate world wheat trade or to stabilize world wheat prices. The Food Aid Convention establishes obligations for the minimum annual amounts of food aid provided by donor countries.

Since it was first negotiated in 1971, this agreement has enjoyed the support of United States producers and traders. It is a useful instrument for furthering international cooperation in wheat trade matters without imposing undesirable limitations on the United States. It is the most important international forum for

discussion of wheat trade issues and hence provides a unique opportunity for experts on wheat from governments and the private sector to meet and assess the world wheat economy. The Food Aid Convention provides that other wealthy countries will share responsibility for food aid to developing countries. The minimum U.S. commitment of 1.89 million metric tons of wheat and coarse grains under the 1971 Convention is well below the quantities which the U.S. has provided under P.L. 480. Because the 1971 IWA has been regarded as a useful agreement by the U.S. and other member countries, it was extended for one year in 1974, 1975 and again in 1976. These extensions were ratified by the U.S. Senate.

At the World Food Conference in 1974, the United States, together with other nations, recognized the need for an international system of food reserves to provide world food security. The U.S. and others believed that such a system could best be developed within a new International Wheat Agreement. The U.S. first took the initiative in 1975 to submit a proposal for a reserve stock system to the International Wheat Council. But, after several meetings, there was not sufficient basis on which to convene a negotiating conference. Again in June 1977 the United States took the lead in proposing negotiation of a new International Wheat Agreement based on a system of internationally-coordinated, nationally-held reserve stocks.

Serious negotiations on a new IWA began in September 1977 and a full-scale UNCTAD negotiating conference was held in Geneva during February and March 1978. At that conference, it became clear that work on a new agreement could not be completed before July 1978 when the 1971 IWA would expire. The Council therefore decided to extend the existing 1971 IWA for one year—from July 1, 1978 to June 30, 1979. The United States supported this extension.

Although we submitted our provisional application, the Administration did not submit this Fourth Extension for ratification by the Senate until recently. We were waiting until the results of the on-going negotiations were known so that the Senate could consider the extension of the old IWA together with its consideration of the new IWA. During this period, the U.S. has fallen behind in its budget contribution to the International Wheat Council. Especially so that we can bring our contributions up to date, it is necessary to move quickly to formalize our membership in the International Wheat Council for the period July 1978 to June 1979 by ratifying this Fourth Extension of the 1971 International Wheat Agreement.

As you know, the UNCTAD Conference to negotiate a new IWA has adjourned without success. Beginning with the first Conference session in February and March 1978, significant obstacles to a new agreement were encountered. The first session broke up over two issues. First, some countries insisted that the WTC include provisions for rigid minimum/maximum prices similar to those in the 1967 agreement. Although the United States and others agreed that the agreement should seek to keep prices within an agreed range, we firmly believed that the obligations must be defined in terms of measures which directly affect supply and demand such as reserve stock accumulation and release, production adjustment, or consumption adjustment. We did not believe that an agreement based on minimum/maximum price provisions could be workable and equitable. Second, the European Community proposed a coarse grains trade convention which would also include obligations for reserve stocks and minimum/maximum prices. No other important grain trading country was willing to consider an agreement on coarse grains which would impose specific obligations. Although the United States indicated its interest in the stability of coarse grain markets, which directly affects our livestock sector, we did not find that other countries could make a meaningful contribution to an agreement which was designed to achieve greater international stability. Thus, the Conference recessed in March 1978. After several meetings of an Interim Committee and numerous bilateral consultations, it was agreed that the new Wheat Trade Convention would be based on a reserve stock system and would not include rigid minimum/maximum trading prices. It was also agreed that the coarse grains trade convention would be consultative in nature. With these issues resolved, a second Conference was held in November 1978. But this session adjourned without agreement on reserve stock size, price levels, and several other key issues. A final attempt was made in January and February 1979. But, despite substantial agreement on a text for a new Wheat Trade Convention and virtually complete agreement on a new Food Aid Convention, the Conference could not reach a consensus on three key issues:

(1) the size of reserve stock commitments. The United States, other exporters, and the developing countries had supported a total reserve stock of 30 million

metric tons. At the end of the Conference, pledges had been made for a total of about 18 mmt. We did not believe that this total would provide an adequate basis for an effective reserve stock system and were disappointed in the contributions offered by some countries.

(2) the price levels for reserve stock accumulation and release. The U.S. supported price levels which would provide a workable reserve stock mechanism and which were realistic in terms of the market outlook. At the end of the Conference, there was substantial agreement among some key countries, but the developing countries in particular insisted on a price range which would not have provided a realistic basis for a reserve stock system and which was much lower than the range acceptable to producers and exporters.

(3) special provisions for developing countries. The developed countries generally had agreed to a special committee which would seek to mobilize and coordinate existing bilateral and multilateral sources of assistance to developing countries which undertake to hold reserve stocks. They had also agreed to special rules for accumulation and release of developing country reserve stocks subject to review by a committee. But developing countries sought a new fund for financial assistance and special rules for their reserve stocks based only on unilateral declaration. These issues were not finally resolved.

In the end, the Conference adopted a resolution calling for an extension of the 1971 IWA and for continuing consultations on the issues blocking completion of a new agreement. At its March meeting the International Wheat Council did decide to extend the 1971 IWA for an additional two years. This Fifth Extension will be submitted to the Senate for ratification in the near future.

After adjournment of these negotiations, where do we go from here? Consultations will continue on possible resolution of the issues which prevented agreement at the Conference. If we were confident that these issues could be successfully resolved, then a new Conference could be reconvened. The U.S. had made every effort to find a basis for compromise. But we will not compromise to the point at which we lack confidence that the agreement can work. Our bottom-line positions were based on an assessment of market reality and an assessment about what constituted a workable agreement. At the moment, there is no evidence that the positions of other participants in the Conference have changed. Thus, the prospects for an early resumption of negotiations on a new IWA do not appear very good at this time.

However, it may be possible to complete the work on a new Food Aid Convention. The new FAC had been virtually completed by the Conference. Although the total pledges still fall short of the 10 million ton minimum recommended by the World Food Conference of 1974 and supported by the U.S., the new Convention would provide for a meaningful increase in food aid commitments. At the March 19th meeting of the Food Aid Committee, the United States indicated its desire to complete the new Food Aid Convention as early as possible. We also stated our intention to fulfill our pledge to maintain a minimum food aid program of 4.47 million metric tons of grains and rice. At the next meeting of the Food Aid Committee in June, we hope that other donor countries will join us in implementing their new pledges and completing the new Food Aid Convention. In order to assure our ability to maintain our P.L. 480 program at this minimum level even in years of tight supply, the Administration is also seeking Congressional authority to establish a special Food Security Reserve, which has been called the International Emergency Wheat Reserve. We hope that other food aid donors will consider similar measures.

The objectives of the United States for the international wheat market should remain the same. We want to encourage the vigorous expansion of U.S. export earnings, which constitute the foundation for a strong, healthy farm economy. We want to pursue policies which put our export sector on a firm foundation for long-term growth. We believe that reasonable stability in the world market encourages such long-term, steady expansion of world wheat trade. All participants in the world wheat market could benefit from greater international cooperation in which the burden of responsibility for market stability and food security would be more equitably shared among major wheat trading countries. We continue to hope that such cooperation could be achieved on the broadest possible basis, including both exporters and importers, both developed and developing countries. In international fora such as the International Wheat Council, the World Food Council, and the Food and Agriculture Organization (FAO), we will continue to work with other nations which share our objectives for an expanding, stable world wheat market.

At the same time, we will continue to meet with the other major wheat exporters in pursuit of these same objectives. In this regard, I can tell you that Secretary Bergland and I will be going to Canada on May 10th to meet with Canadian Minister Lang and delegations from the other major wheat exporting countries. We will be discussing possibilities for expanded cooperation on wheat matters, the status of the UNCTAD negotiations for a new International Wheat Agreement, and measures to promote greater food security for developing countries. I expect this meeting to be part of the continuing exchange of views which started soon after Secretary Bergland took office and which will continue in the future.

In these discussions, the U.S. will want to know how other countries may be able to contribute toward common objectives for an expanding, stable world wheat market. We will want to be sure that any U.S. policies to ensure fair prices to farmers and to enhance the long-run health and stability of the world wheat market can be matched equitably by others. In order to be effective, it is necessary that any measures directly affect the supply-demand situation in the world market. We will not be interested in any schemes in which the U.S. would end up making all of the effort.

In looking toward the future, and in particular as we evaluate some of the rather sweeping proposals for change in current policy, I think it is important to put the current situation in perspective. Beginning with the 1975/76 crop in the United States, and the 1976/77 crop worldwide, we have seen a series of excellent world wheat harvests. In particular, the 1976/77 and 1978/79 world wheat crops of 415 million metric tons and 436 million metric tons respectively were far above trend production. Thus, we saw a precipitous decline in prices in 1976/77. The bottom was reached in August 1977 when farm-gate prices were actually below the loan rate in many places. The 1977 Farm Bill became law in October of that year and, with the programs provided for by that law, especially the Farmer-Owned Reserve and the set-aside programs, we have been able to turn the price situation around, despite the large harvests around the world this year. Assuming that weather and harvests are closer to average in the coming years than in the last three or four, I think it is safe to say that we have gotten through the worst period of depressed prices.

Of course, we still have problems and unfulfilled objectives. Some countries continue to practice disruptive export pricing policies, and we will need to use the recently completed subsidies code and other measures to press for greater discipline in this area. The U.S. continues to bear a disproportionate share of the responsibility for world reserve stocks and for other supply adjustment measures. For the benefit of the entire world trading system, we should continue to seek ways to achieve greater international cooperation in this dimension. We must continue to implement the provisions of the 1977 Farm Bill in a way which balances the interests of farmers, consumers, and the government budget, and at the same time we must thoroughly explore ways in which our basic farm legislation can be improved. We need to continue our efforts to maintain a vigorous growth of U.S. exports. And, directly relevant to the issue before this Committee, we must continue to support those international institutions such as the International Wheat Council which provide an institutional basis for our efforts toward greater international cooperation.

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PREPARED STATEMENT OF MICHAEL CALINGAERT, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL RESOURCES AND FOOD POLICY

Mr. Chairman, I appreciate the opportunity to appear before your committee and to give the Department of State's views on the importance of extending the International Wheat Agreement (IWA) of 1971. This agreement consists of the Wheat Trade Convention and the Food Aid Convention. The U.S. has been a party to both since their inception in 1971. The extension of the Wheat Trade Convention maintains the framework for international cooperation on wheat trade matters. The extension of the Food Aid Convention continues the commitment of the adhering parties to provide minimum annual levels of grains food aid. U.S. commitments under this Convention are met by commodities sold concessionally or donated under PL 480 assistance programs.

The International Wheat Council, whose total present membership is over 69 countries comprising the major wheat exporting and importing nations, is a unique forum for international consultations on a wide range of important issues.

including wheat production, trade volume, prices, shipping costs, and projections of world supply and demand. These consultations are the nucleus of a long effort to promote trade in wheat and wheat products, to arrive at cooperative solutions to world wheat problems, and to explore ways to stabilize international wheat markets. Last year, the U.S. exported 65 percent of its wheat and earned over \$4.3 billion for it. As the largest wheat-exporting nation in the world, the U.S. has a strong interest in the Council and its work. In addition, the Food Aid Committee, which is the governing body of the Food Aid Convention, is a unique multilateral body where donor countries meet periodically to examine world food aid needs, the contributions by donor countries and related food aid matters.

The Council's professional staff provided invaluable service last year as the Secretariat at the UNCTAD negotiations for a new international grains arrangement. If a new grains arrangement comes into being, the professional staff of the Council will play a central role in monitoring wheat prices throughout the world and providing an analytical and factual background for the Council's decision-making process.

On May 17, 1978, Secretary of Agriculture Bob Bergland signed the Protocols for the Fourth Extension of the 1971 IWA. The instruments of provisional application were deposited on behalf of the U.S. on June 20, 1978. A conference of governments then met in London on June 27, 1978, and determined that conditions had been met for entrance into force of these protocols, covering the period July 1, 1978 to June 30, 1979.

The Administration might have submitted the protocols to the Senate for ratification in the spring or early summer of 1978. However, since the prospects for successfully concluding the UNCTAD negotiations appeared promising at that time and through the succeeding fall and winter months, it was decided to provisionally apply the protocols of extension rather than seek the Senate's advice and consent to ratification of the Fourth Extension and then a new agreement within a matter of months. This decision was in conformity with an opinion from the Department of State's Office of the Legal Adviser which indicated that the U.S. had provisionally applied protocols for previous extensions for varying periods of time and stated that legal authority existed allowing the U.S. to provide information on our wheat trade and production (7 U.S.C. 1761 and section 812 of the agricultural act of 1970 as amended) and to meet our food aid commitments (PL 480).

The Administration hopes that the Senate will give prompt and favorable attention to these protocols. Prompt Senate consent to ratification will permit the earliest possible funding of the U.S. contribution to the International Wheat Council, which normally would have been paid in the fall of 1978. The assessed dues of the U.S. for July 1, 1978 through June 30, 1979 are urgently needed by the Council and are included in the State Department's FY 1979 Supplemental Budget.

I would also like to take this opportunity to note that Secretary Bergland has obtained authority to sign the Protocols for the Fifth Extension of the IWA on behalf of the United States. The Administration will submit the Fifth Extension to the Senate soon, probably within the next two to three months. To prevent U.S. membership from lapsing and in turn risking the expiration of the IWA on July 1, 1979, we plan to deposit a declaration of provisional application of the Protocols for the Fifth Extension prior to the June 22, 1979 deadline. The Fifth Extension covers a two-year period from July 1, 1979 to June 30, 1981.

The only difference between the Fourth and Fifth Extensions of the IWA relates to the length of the extension. The Fourth Extension covered only one year and reflected our expectation that a new IWA would soon be negotiated. The Fifth Extension, like the Third Extension, is for a two-year period. The United States, and other major exporters and importers of wheat, supported the two-year extension on grounds of administrative efficiency. Both sets of Protocols include the stipulation that the existing Food Aid Convention and Wheat Trade Convention will be superseded in the event that a new agreement in either area enters into force before the end of this period.

In this connection, I would like to note that the Extension of the Food Aid Convention of 1971 continues the commitment of the member donor nations to provide a minimum of 4.2 million metric tons of grains food aid annually to needy nations throughout the world. The U.S. commitment under this Conven-

tion is a minimum annual 1.89 million metric tons of grains food aid, which is provided under Public Law 480. On March 19, 1979 the U.S. announced to the 32nd Session of the Food Aid Committee in London that as of July 1, 1979 the U.S. would increase its commitment to 4.47 million metric tons of cereals food aid annually, the amount provisionally pledged during the UNCTAD Grains Negotiations. The U.S. urged other nations to take similar steps to increase their minimum commitments and called upon other donor nations to complete the text of a new Food Aid Convention at an early date.

Now I would like to turn to the UNCTAD negotiations for a new international grains arrangement. These negotiations were adjourned in February 1979, and concerned parties were urged to pursue bilateral and multilateral consultations with a view toward creating the conditions which would allow for a successful resumption of negotiations. We were disappointed that despite considerable progress in these negotiations during the previous 14 months, agreement was not achieved on a new arrangement. Negotiations on the text of a new Food Aid Convention were almost completed, and broad agreement was reached on the structure and nature of the mechanism which would be established under a new Wheat Trade Convention to stabilize international wheat markets. However, these negotiations were adjourned because of impasses in the following areas:

The size of the global wheat reserve and allocation of national reserve obligations;

The levels of price action points, particularly for the accumulation and release of reserves; and

Special provisions for developing countries.

In the grains negotiations, we sought to establish an internationally-coordinated system of nationally-held wheat reserves which would be accumulated and released at realistic price levels, thereby contributing to greater international price stability. If the coordinated release and accumulation of reserves were not able to stabilize prices within a fairly wide price band, then the arrangement would also provide a framework for member nations to discuss a program of parallel actions which each might undertake to adjust production or utilization of wheat.

The Administration will continue to seek a meaningful grains arrangement which is fair to wheat exporters and importers, to consumers and producers, and to developed and developing nations. It is unwilling to agree to any grains arrangement which is not viable, balanced, and fair.

In accordance with the recommendations of the International Wheat Council, the U.S. is participating in bilateral and multilateral consultations relating to the future of the grains negotiations. In this regard, Secretary Bergland will go to Canada on May 10 for a meeting with his counterparts from Argentina, Australia and Canada. The outcome of these discussions will probably indicate to what extent and with which countries further discussions should be held. In light of these consultations, we can then determine whether conditions exist or can be achieved to warrant a resumption of the negotiations.

Mr. Chairman, our efforts in the UNCTAD grains negotiations have been directed to creating greater price stability and greater burden sharing in stockholding and adjustment. This in turn, would result in greater world food security, a principal recommendation of the 1974 World Food Conference. Because of the on-going consultations regarding the possibility of resuming the adjourned UNCTAD grains negotiations, I think it inappropriate for the United States to embark on competing initiatives to achieve greater world wheat price stability. If our consultations with other major wheat trading countries make it evident that the UNCTAD negotiations are not likely to be successful, then other channels to achieve enhanced world food security, a greater degree of international burden sharing in the wheat sector and greater price stability should be pursued.

In light of the uncertainties surrounding the UNCTAD grains negotiations, a number of proposals have recently been made which call for joint action by wheat exporting countries to achieve greater price stability and to assure adequate returns to producers. Since no specific proposals for implementing and operating such arrangements have been made, I will confine my remarks to general observations.

Wheat market instability is a chronic problem. The first International Wheat Agreement came into force in 1933. Under this Agreement, producing countries were to control exports and reduce acreage while importing countries were to eliminate protective tariffs. Under pressure of economic depression and abundant

supplies, the Agreement foundered. A 1949 Agreement set reciprocal obligations between exporters and importers in terms of guaranteed quantities and maximum/minimum prices. The major problem then was one of wheat shortages and the two dominant suppliers—the United States and Canada—essentially implemented the agreement. By the mid 1950's, the supply situation had changed dramatically and importing nations lost interest.

The 1967 International Grains Arrangement attempted to establish a precise mechanism to keep the prices of all wheats trade internationally by member countries in line within agreed maximum and minimum prices. U.S. Hard Red Winter Wheat No. 2 (ordinary Protein) F.O.B. Gulf ports was the reference wheat and fixed quality and transportation differentials were established for computing the minimum and maximum prices of a large assortment of traded wheats. But by the time this agreement came into force in 1968, the world wheat situation had shifted from one of short supply to over-supply. Competitive pressures relating to price relationships among different wheats, shipping patterns and freight rates intensified, causing the arrangement to fall apart at its first test.

As an element of our commodity policy, we generally favor agreements which include both producer and consumer nations. Obviously producer and consumers interests in any commodity agreement are often opposed and this makes achievement of a workable agreement difficult.

If producers alone seek an agreement, the difficulty is lessened somewhat but serious problems still must be overcome. If for example the agreement contemplates market shares, problems such as determining what the overseas market shares of participating countries will be must be addressed. Nations have different and conflicting perceptions of whether their shares of a given market are, or should be, static, increasing, or declining. Intensive competition among nations for present and future market shares is, of course, only one facet of international trade. Competition also occurs both in the quality of wheat offered and in the price. These issues are highly complex and because of the many variables, uniform rule-making to regulate competition is a herculean task.

Another element to be considered is the fundamentally different nature of the U.S. wheat marketing system—which is conducted by the private sector—and those of our principal competitors ranging from Argentina's largely private trading, to Canada's mixed public/private sector, and Australia's public sector control of the wheat trade. Integrating these different marketing systems into a tightly coordinated mechanism would be difficult, if not impossible.

In addition to the above difficulties, other problems are bound to surface. These center on the responses of other countries to the formation of a wheat exporters organization. For example, other producers, which are not traditional exporters might seek to expand their wheat exports. Countries which are traditional importers might seek in the short term, alternate sources of wheat supply. Over the longer term they might intensify their degree of self-reliance in wheat production. In addition, many might turn to greater consumption of rice and other grains to substitute for wheat. Such developments would have serious implications for our accustomed level of wheat exports.

Given the different national agricultural and marketing systems in the four major wheat exporting countries, the competing interests of the firms and countries, the lack of consensus in our country and in other countries on what constitutes the most desirable wheat marketing system, an association of wheat exporting nations would find it difficult to establish a consensus on many issues.

However, they might agree on general guidelines to establish wheat reserves and on a greater degree of coordination in production and supply adjustments to changing world wheat market conditions. This greater degree of general burden sharing among wheat exporters would be welcomed and would contribute to price stability and reasonable returns to efficient producers. Since food security is important to all nations, we would prefer that the largest group of Nations—both exporters and importers—share in this effort. Restricting it to wheat exporters alone, puts too narrow a focus on the dimensions of the universal responsibility for solving the problem.

Our trade policy goals for wheat are:

To expand access to overseas markets;

To encourage foreign demand for U.S. wheat through trade promotion efforts demonstrating the quality of our product and by proving ourselves to be reliable suppliers;

To ensure that our wheat competes in world markets on a fair and equitable basis by developing international codes limiting unfair practices;

To achieve a more equitable international distribution of the burdens of holding wheat reserves and adjusting to market shifts; and

To stabilize world wheat markets through the creation of a system of reserves designed to permit prices to respond to shifts in supply and demand within a realistic band but at the same time providing a reasonable probability that excessive swings in prices will be dampened.

Progress toward achieving these goals will contribute to the revenues earned by wheat exports and will assist U.S. producers to earn a fair return for their wheat.

I will be pleased to respond to questions.

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PREPARED STATEMENT OF ROBERT G. LEWIS, NATIONAL SECRETARY AND CHIEF  
ECONOMIST, NATIONAL FARMERS UNION

I welcome the opportunity to present my views and those of the Farmers Union on the proposal for ratification by the United States Senate of a fourth extension of the International Wheat Agreement of 1971.

The 77th Annual Convention of the National Farmers Union, meeting in Kansas City, Missouri, March 11-14, 1979, adopted the following statement concerning International Commodity Agreements:

"Negotiations to reach an international wheat agreement have collapsed.

"Farmers Union urgently requests the Congress and the Administration to appoint a commission to reach an agreement with Canada, Australia, and Argentina on the world market share of wheat for each country and on a minimum price. These prices must be high enough to return to farmers a reasonable profit above the cost of production.

"We call on Congress to provide direction to the President to negotiate for the early establishment of an international commodity agreement affecting international trade in wheat and feed grains. A new international grains arrangement should provide for:

"a. All trade in grains to be conducted at prices within a range approximating 90 to 110 percent of parity, which would reflect increases in production costs since the negotiation of the International Grains Arrangement of 1967, as well as the costs of maintaining world food reserves and food aid;

"b. World grain reserves to be maintained by importing and exporting countries;

"c. Expanded and improved food aid programs to be carried out by both exporting and importing countries with the goals of providing for emergencies, promoting economic and market development, and generating employment for the world's hungry; and

"d. Equitable sharing among exporting and importing countries of the cost of and responsibility for adjusting market supplies to maintain prices, reserves stocks, and food aid.

"We recommend that international commodity agreements be considered also for other agricultural products widely traded in international markets, particularly sugar, dairy products, coffee, cocoa, edible oils, broom corn, sotol, and other fibers."

The agreement which the Senate is being asked to ratify does not in any way conform to the standards called for by Farmers Union delegates. On the contrary, it amounts very nearly to an outright negation of what is commonly understood to be an "international commodity agreement", and of what delegates endorsed in their policy statement.

HAS TWO MAIN PARTS

The proposed International Wheat Agreement that would be extended has two primary features: (1) A Wheat Trade Convention, and (2) a Food Aid Convention.

The articles of the Wheat Trade Convention which had, in earlier agreements, provided for the reciprocal rights and duties of importing and exporting countries in respect to prices, purchases, and supply of wheat, would be inoperative in the 1979 proposal. Thus it would provide only for the International Wheat Council to function as an information-gathering, research, and consultative agency.

These are useful functions, and they should be continued. There can be no doubt that increasingly close and substantial cooperation between nations will be required in the decades ahead in order to achieve the supply of food to the world's growing population. Although the lack of substantial economic provisions in this 1979 Agreement seems to negate this necessity, it would nevertheless keep open the door and shorten the time needed to achieve more effective cooperation when the need for action can no longer be ignored.

#### FOOD AID DECLINED

The second feature of this 1979 Agreement is a Food Aid Convention. It provides a mechanism whereby several countries have pledged to contribute, in cash or kind, specified quantities of food for famine relief and similar humanitarian purposes.

This also is a useful function and it should be continued.

But here again, the real meaning of this Food Aid Convention is a negation, not realization, of the ostensible object of food aid. It means less food aid, not more. This is obscured by the matter having been incorporated into the imposing framework of a multilateral treaty among the nations of the world. As the wrapping has grown bigger and more ostentatious, the contents have dwindled. There are more hungry people on earth than ever before, but the volume of food aid shipments today is less than half what it was 15 years ago.

The Food Aid Convention was introduced into the International Wheat Agreement at the insistence of the United States at precisely the time when the United States began a sharp reduction in its own food aid shipments. The Convention provides for commitments by other countries to ship 2.3 million tons of wheat-equivalent in food aid per year, but actual annual shipments by the United States have been slashed from a peak of 15.7 million tons in 1964 and an average of 12.4 million tons during the Kennedy-Johnson Administration to only 4.6 million tons last year.

The Food Aid Convention does have value, in that it has drawn other countries into participation in food aid shipments. It is a pity that America is leading the world in a retreat from the advances of hunger, instead of the other direction. But here again, continuation of the Food Aid Convention would keep alive the habit and the practice of international cooperation in feeding the hungry, and that too will be an advantage when the time comes that America might again choose to lead instead of continuing its retreat in the war against hunger.

#### DOES NOT EXCUSE INACTION

Both of the main features of the pending Agreement, therefore, have value as far as they go. There is no reason that they should not be approved—unless doing so is permitted to obscure the necessity to do something truly substantial about raising wheat prices and providing for realistic international food aid and trade development.

It is to prevent that from happening, I believe, that your Committee should address its primary attention and effort in respect to the ratification of the pending Agreement. I will devote the balance of my remarks here to some reasons why and some suggestions of how the Committee might attempt to prevent this negative and failed non-agreement from blocking the action that should be taken by our government to raise wheat prices, and to revive American leadership in international food aid.

First, the need to raise the prices our farmers receive for wheat.

This is purely a matter of domestic price support policy. The President of the United States does not need to ask any other government on earth, nor all of them put together, for permission to increase the price support loan rate on wheat. He does not even need further permission from Congress—the existing farm law already gives to the Secretary of Agriculture the power to set the price support loan rate for wheat at any level he chooses up to 100 percent of parity—\$5.90 per bushel as of April 15, 1979.

The Agreement you are asked to ratify provides specifically that it does not "prejudice the complete liberty of action of any member (country) in the determination and administration of its internal agricultural and price policies".

Farmers have been led to believe that higher prices for wheat were in some way dependent upon negotiating an international agreement with other countries. That is not true. The price of wheat received by American farmers is the direct responsibility of the Government of the United States.

## U.S. PRICE SUPPORT CHEAPEST ON EARTH

In the exercise of that responsibility, the Government of the United States gives to its farmers the cheapest price support for wheat on earth.

By some accounts, Egypt might keep the U.S. out of last place. The U.S. Department of Agriculture reported last month that the October 1978 wheat price guarantee or support in Egypt was \$1.82 per bushel compared to the U.S. loan at \$2.35. The International Wheat Council also reports on the price supports for wheat. The IWC takes into account such "subsidies" to farmers as free irrigation water, payments for complying with set-asides, and so on in its analysis of comparative wheat price supports. The latest International Wheat Council report shows the total support in Egypt at \$3.48 per bushel in 1977 compared to \$2.90 for the United States. The comparison will not be much different for 1978.

All other governments likewise are basically responsible for the price their farmers get for wheat, and all do better by their farmers than Uncle Sam. According to USDA, the top performer is Japan, whose farmers get just shy of 10 times as much support as American farmers, at \$22.97 per bushel.

It is interesting to note that the other countries whose currencies are stronger, and whose industries are most competitive, like the Japanese do not seem to be handicapped without the benefit of the "cheap food" subsidy that American farmers are forced to contribute to our national economy. Switzerland's wheat support is \$17.52, West Germany's is \$7.02, the Netherlands' is \$5.50.

## PRICE SET BY GOVERNMENTS, NOT "MARKET"

An elaborate but false mythology of "the world market" is being invoked to justify the cheapest price on earth for America's grain farmers. The truth is that the wheat pricing structure in the real world is approximately a direct reversal of the theoretical "free market" model.

In the first place, farmers do not sell wheat and consumers do not buy it anywhere in the "world market" outside the United States. All the wheat that enters world trade from other countries is sold or priced by one or another half a dozen national governments. All the wheat that is bought in world trade is bought directly by one or another of several dozen governmental buying agencies, or at prices controlled thereby.

Only in the U.S.A. are the individual farmers left with little backing from their own government, to fend for themselves in competition with other countries' governments on both the selling and buying end. The price support loan rate is the real "floor" under the price they can expect. So long as enough individual farmers can hang onto some wheat, hoping the price will go up and that they will get theirs sold before their neighbors do, the price might rise above the price support floor. But as soon as enough farmers give up that hope and start to sell, the price will drop to the floor again.

## GOVERNMENT REGULATES WHEAT PRICE

Only when there is a shortage or the immediate prospect of a shortage—as is the case right now—can American wheat prices rise above the price support floor. And then the "reserve" machinery will come into play, to stop prices from rising more than modestly above the floor, still far below the prices that most of the farmers get for wheat in most of the countries of the world.

Even if there should be a severe world shortage, the U.S. government appears to be determined to intervene in the marketplace so as to prevent farmers from selling to hungry buyers elsewhere in the world so as to keep it cheap in the United States. In 1973 exports of wheat and some 40 other agricultural commodities were embargoed so as to keep prices down. Exports were restricted again in 1974, and again in 1975, and are now subject to restriction through 1981 under the "standby embargo" arrangement with the Soviet Union, all with the purpose and the result of keeping the price received by American farmers cheapest in the world.

That is how wheat prices are made in the U.S., and that is how the so-called "world market" price is made. It is a system of surreptitious regulation. The prices that result have nothing to do with the marginal cost of production, which by strict economic standards ought to be the theoretical goal for all wheat prices. It has very little to do with the prices at which most of the farmers of the world actually produce most of the wheat in the world, or what consumers of the world pay for bread. It has nothing at all to do with the fair rate of return

on the farmer's labor and investment, which are guaranteed to others in our society whose prices are regulated. This system of regulation is set so as to keep prices received by American wheat farmers unfairly cheap.

The "made in America" price of wheat in world trade bears down narrowly upon American wheat farmers and others in the main wheat exporting countries. About 85 percent of the total world market for wheat is reserved by national governments for their domestic producers, all at prices substantially higher than the "world market price". This leaves only 15 percent of the total world supply that is produced in the four main wheat exporting countries.

But even in the three biggest of these—U.S.A., Canada, and Australia—the artificial so-called "world market price" is so far below the farmers' production costs that the governments dig into their Treasuries, or charge domestic consumers something extra for wheat used at home, or both, so as to add something above the "world market price" to what their producers get.

This leaves only the farmers of Argentina who get by on nothing more than this artificial "world market price". That is barely 2 percent of the world's total wheat production. Thus the "world market price" has no validity as to what the true economic value of wheat is, nor as to what is a fair return to farmers, nor as to what the world should offer to farmers to insure that enough will be produced.

#### UP TO THE UNITED STATES TO ACT

Thus the American farmer's wheat price problem is a *domestic political problem*, not an international problem. Wheat prices are made by political forces involving practically every government in the world, not by the forces of competition in a marketplace. The solution for the American farmers' problem is for our American government to come to its senses and get busy in the process by which wheat prices are made so as to provide reasonably fair prices, that will yield a fair return on the farmers' labor and investment, and give the support to our feeble dollar and our desperate trade deficit that the country needs—and deserves.

Increasing the U.S. price support loan rate for wheat to a more fair and reasonable level, say \$4 to \$5 per bushel, obviously would have an impact upon world trade and would affect other countries. But it neither requires any other country's consent, nor would it require any fundamental change to be made in the world's trading system.

The present price support loan rate for wheat was set by President Ford in the middle of the 1976 election campaign. It stopped wheat prices from dropping as low as they would have gone if the loan rate had remained at \$1.50 per bushel. This price support loan rate of the United States has had, and continues to have, a fundamental influence upon the "world market price".

It is the price at which farmers sell wheat in the U.S.A. which establishes the pricing target of every other country's wheat that enters into world trade. Some countries set their export subsidies, or price their wheat, just enough under the price at which buyers can get American wheat to be able to sell whatever they have. Other countries, notably Canada, price their wheat somewhat less aggressively and deliberately maintain some stocks unsold from year to year. This is exactly what is going on right now. And it is exactly what would have been going on if President Ford (or his successor) had allowed the price support to remain at \$1.50 instead of raising it to \$2.25, or had chosen instead to raise the price support to \$3, or to \$4 per bushel.

#### OTHER COUNTRIES WOULD COOPERATE

Every change that has ever been made by the United States in a domestic price support policy for wheat has affected other countries, and they have reacted. A modest increase in the price support loan rate for wheat at this time would be welcomed by our competitors. Their own public commitments, made repeatedly, and the logic of self-interest insure that they would cooperate with the United States to maintain prices in the world market at the new higher level. This cooperation among the main wheat exporting countries would be fully in accord with time-worn policy and administrative principles relating to the sharing of world export markets.

There is nothing new or different about the "market sharing" procedures and results that would occur at modestly higher price levels. It has been done before—we do it all the time. At present, the U.S. government is actively engaged in seeking to negotiate market-sharing arrangements of various kinds

with other governments. This has been a routine and normal practice since World War II. The provisions relating to export subsidies in the trade agreements that were recently negotiated are based on the principle of market-sharing; they require subsidy rates to be tailored so as to avoid encroaching on other countries' shares of the world market. The reserve stocks provision proposed by the U.S. negotiators also was designed to affect market shares. The Americans who now criticize other governments' wheat pricing and sales practices invariably express their criticisms in terms of the effects upon sharing of the export market. Some spokesmen for the multinational grain trading companies, and their supporters, are advocating the use of export subsidies by the United States with the stated objective of gaining or maintaining a specified share of the market for American wheat.

The same basic principles would continue to govern the pricing policies and practices of other countries whatever the U.S. price support loan rate might be. But a higher loan rate, resulting in higher wheat trading prices in the world market, would create the opportunity for a substantial improvement in that Australia and Argentina as well as Canada would have the incentive and could be expected then to withhold stocks from immediate sale in order to maintain their shares of the world market at agreed levels. These three countries with the United States account for 85 percent of total world wheat exports; sellers of the small balance would at most continue to sell all that they have available, and some probably would cooperate with the main exporting countries by holding stocks.

The United States government should of course continue to concern itself and negotiate with other governments in respect to the effect of national wheat pricing policies upon country shares of the world export market.

#### IMPORTERS' PROFITEERING WOULD DECLINE

Importing country governments may not welcome action by the wheat exporters to cooperate in raising the price of wheat in world trade. The governments that buy American (or Canadian or Australian or Argentinian) wheat have been able to skim off profits amounting to billions of dollars when cheap imported wheat is re-sold for consumption in importing country markets. But the grounds for objections would be slight. What grounds would other governments have to object to a change in our price support policy that would raise our farmers' prices closer to their own? How can Japan protest legitimately if its profits per bushel of imported wheat were to be reduced from \$5 to \$6 per bushel to only \$3 or \$4? The European Community last month levied a tax of just under \$5 per bushel on imported wheat—precisely 121 percent of the cost of American wheat delivered to Rotterdam! Why should American farmers be manipulated to give away grain to the communist governments at less than the cost of production, while American taxpayers groan under the burden of hundreds of billions of dollars a year for military defense costs, presumably against those same communist governments?

No, there is no valid reason in our country's foreign relations for the American government to be constrained from what it ought to do as a matter of domestic farm price support policy—raise the price support loan rate for wheat to \$4 to \$5 per bushel, and to comparable levels for other commodities.

There are many reasons why this should be done. It would give farmers a more fair return on their labor and investment. It would greatly improve our national balance of payments. It would strengthen the feeble American dollar. It would relinquish the dangerous and short-sighted cheap food policy in favor of long-term strength for our national agricultural system.

As I said earlier in this statement, ratification of this Fourth Extension of the International Wheat Agreement of 1971 is desirable—if it is not allowed to block necessary action to raise grain prices in the United States behind the invalid excuse that international agreement is required before that can be done.

I believe that this Committee can perform a great service to the country by thoroughly exposing the inadequacy of that invalid excuse for inaction on farm prices.

I strongly recommend, therefore, that the Committee undertake thorough studies and investigations and further public hearings, to bring to light the true nature of the world grain economy and of the true interest of the American people in relation to it.

#### PROBE DECLINE IN FOOD AID TOO

The decline in America's commitment to the "Food for Peace" program also should be examined. The facts are clear: Our annual food aid shipments have

been running at the lowest levels in the history of the program throughout most of the Nixon-Ford Administration and are continuing so today.

The decline of the program raises some extremely disturbing questions for farmers. Although popularly known as "Food for Peace", the real title of the law is "Agricultural Trade Development and Assistance Act". This program and its predecessors since the end of World War II have contributed enormously to the tremendous expansion of America's agricultural exports. "Food for Peace" donations, followed by concessional sales, laid the groundwork for the development of many of America's largest present-day commercial markets for farm products.

Does the sharp decline in food aid shipments signify that the United States government is retreating from the development of additional export markets for American farmers? There are serious indications that this may be so.

One is that the reduction of food aid shipments cannot reasonably be attributed to their cost. Several years ago, the Farmers Union conducted a study which shows that in most years, farmers were paid almost as much and frequently more to keep land out of production than would have been required to have bought the commodities if they had been produced and given them away for food aid.

This is particularly true as the programs were administered during the Nixon Administration. That pattern is repeated in the results of the set-aside programs last year. Payments to farmers totaled \$1,599 million for "not producing" commodities in 1978 which could have been purchased for slightly less—\$1,585 million. (A copy of this study report, with additional recent data supplied, is attached for the record.)

There are other indications as well that despite public assurances to farmers, the government's primary concern has shifted from promotion of export markets for farm commodities and optimum foreign exchange earnings therefrom, to management of America's agricultural resources so as to maintain a "cheap food" policy at home. These are present in the past two administrations' policies in respect to supply and price guarantees in the International Wheat Agreement, in U.S. promotion of export competition for American farmers, in the restrictive bi-lateral agreements with the U.S.S.R., the recurrent restrictions on agricultural exports, the lack of an adequate reserve stocks policy, and so on.

This is a serious issue, not only for farmers, but for the country as well. Agriculture is one of the nation's leading economic advantages in the world arena, and farmers and the public deserve a clear and convincing definition of just what our policy is, or should be. This matter is clearly the business of this Committee. It is probable that food will be the most important issue in foreign policy in the decades immediately ahead.

I strongly recommend, therefore, that the Committee undertake thorough studies and investigations, and further public hearings, to review the existing and other possible policies of the United States in respect to international access to our agricultural production.

[Reprinted from *National Farmers Union's Washington Newsletter*, Vol. 26, No. 18, May 4, 1979]

#### ALMOST NOBODY IN THE WORLD AS STINGY AS THE U.S. IN SUPPORT OF WHEAT, CORN PRICES

The price support levels provided to American farmers by their government for wheat and corn are the lowest in the world with the exception of Egypt for wheat and Brazil for corn. The wheat support rates or guaranteed prices range from a low of \$1.82 in Egypt to a high of \$22.97 in Japan. The corn support rates or guaranteed prices range from \$1.70 in Brazil to \$10.56 in Switzerland.

The data appears in a foreign agricultural circular, entitled "Wheat and Corn Prices for Selected Countries," just published by the USDA Foreign Agricultural Service. It was obtained through reports from U.S. agricultural attaches in about 65 countries.

Exact comparisons are difficult to make because of differences in support systems, variations in grain qualities, standards and grades, freight costs, location at which the price is supported, and variation in dollar exchange rates.

"Nevertheless, the figures are useful for general comparisons." Reuben L. Johnson, NFU director of Legislative Services, commented this week, "and they do indicate the kind of priority food and farmers have with their respective governments."

## WHEAT SUPPORT OR GUARANTEED PRICE, OCT., 1978

(In U.S. Dollars Per Bushel)	
Egypt	\$1.82
UNITED STATES	2.35
Australia	2.37
Argentina	2.72
Pakistan	2.72
Canada	3.02
E. Germany	3.05
Turkey	3.13
Mexico	3.13
Israel	3.75
India	3.84
New Zealand	3.86
USSR	\$3.89
Yugoslavia	3.97
Peru	3.97
Chile	4.08
United Kingdom	4.08
Syria	4.21
Hungary	4.38
Lebanon	4.46
Sweden	4.54
Portugal	4.57
Czechoslovakia	4.62
Uruguay	4.79
Ireland	\$4.92
Spain	4.93
Poland	4.93
Kenya	4.95
Iran	5.39
Greece	5.39
Netherlands	5.50
Italy	5.52
Belgium	5.74
Morocco	5.80
Colombia	5.96
Ecuador	5.99
Denmark	\$ 6.34
Austria	6.53
W. Germany	7.02
Guatemala	7.10
Brazil	7.48
Taiwan	7.56
Norway	9.58
Nigeria	9.99
Korea	10.48
Switzerland	17.52
Japan	22.97

## CORN SUPPORT OR GUARANTEED PRICE, OCT., 1978

(In U.S. Dollars Per Bushel)	
Brazil	\$1.70
UNITED STATES	2.00
Uruguay	2.00
Pakistan	2.20
India	2.69
USSR	2.69
Indonesia	2.74
Peru	2.76
New Zealand	2.84
Yugoslavia	2.89
Iran	\$3.10
Italy	3.15
France	3.25
Colombia	3.33
Guatemala	3.35
Poland	3.73
Greece	3.76
EEC	3.86
Netherlands	3.94
El Salvador	4.14
Phillipines	\$4.32
Nicaragua	4.57
Mexico	4.70
Portugal	4.72
Kenya	4.72
Hungary	4.82
Dominican Repub.	4.95
Czechoslovakia	5.05
Ecuador	5.13
Morocco	5.16
Syria	\$ 5.21
Costa Rica	5.30
Belgium	5.35
Taiwan	5.64
W. Germany	5.84
Nigeria	5.92
Korea	8.89
Switzerland	10.56

NATIONAL FARMERS UNION,  
Washington, D.C., May 11, 1979.

HON. FRANK CHURCH,  
Chairman, U.S. Senate Committee on Foreign Relations, Russell Senate Office  
Building, Washington, D.C.

DEAR MR. CHAIRMAN: During the hearing of your Committee on May 8, 1979, on ratification of the fourth extension of the International Wheat Agreement of 1971, you invited me and other witnesses representing farmers to respond to remarks of the Assistant Secretary of Agriculture, Dale Hathaway. Mr. Hathaway had suggested that farmer-representatives comment about the workability of price provisions in a wheat agreement and the possibility of serious world over-production if the United States were to raise its price support modestly, as a number of Senators have proposed, so as to be more in line with the levels of price support provided by other governments. Because there was not sufficient time to discuss this matter fully before the hearings closed late in the day, I would appreciate your consideration of these additional comments, and if appropriate, inclusion of this letter in the hearing record.

#### 1. WORKABILITY OF MINIMUM PRICE PROVISIONS

Mr. Hathaway stated that minimum price provisions have never worked. This is not true. Apparently he has been misinformed about the operations of past International Wheat Agreements. The only serious breach of the minimum price provision in any International Agreement on Wheat or Grains occurred in 1969, when the newly-installed Nixon Administration deliberately increased its export subsidy for wheat by about 30 cents per bushel and thereby forced the world trading price below the agreed minimum.

Clarence Palmby, now a Vice President of Continental Grain Company, but then in the position in USDA now occupied by Mr. Hathaway, executed this action. Mr. Palmby, and Continental and the other multinational grain trading companies, have long opposed International Wheat Agreements precisely because they *did work*, thus depriving the grain traders and speculators of the advantages they are able to obtain for themselves in a world grain market subject to violent fluctuations and insecurity of both price and supply for farmers and consumers. In the political argument raised by the grain trading companies against farm price supports and international commodity agreements down through the years, they have characteristically charged that these programs "do not work." Such declarations should be dismissed for the self-serving political rhetoric that they are, and any judgment that the Committee might make as to the performance of past agreements should be based on objective examination of the record. The record shows that while IWA price provisions were in effect, wheat prices were (1) remarkably stable; (2) well within the prescribed range, and (3) substantially higher in real terms, than most of the time before the first International Wheat Agreement took effect and since the International Grains Agreement was torpedoed in 1969.

The key element in past agreements that has made the minimum price provisions workable has been the withholding of stocks off the market in "reserve" status to the extent necessary to maintain prices above the agreed minimum.

Stocks withholding in the past has been performed mainly by the United States and Canada. Both countries have held as much as a full year's production and more in "reserve," thus preventing prices from plunging far lower than they did.

The feasibility of this procedure is now considerably improved, because Australia and Argentina now have declared publicly their willingness to share in this stocks-holding function. Most of the other exporting countries, accounting for the 15 percent or so of total world wheat exports other than those from the four main exporters, probably could be persuaded to share in the stocks-holding responsibility too. But even if some exporters of small quantities decline to share in the stocks-holding responsibility, it would be advantageous to the United States to cooperate with the other main exporters in holding stocks and maintaining reasonable prices.

#### 2. COPING WITH POTENTIAL OVER-PRODUCTION OF WHEAT

##### A. World demand for grain has approximately caught up with world supply

In my judgment, there is little likelihood that average production over the next 10 years would exceed average consumption, even if the U.S. loan rate for wheat were raised to \$4 to \$5 per bushel and other grains in proportion.

For example, the world carryover of *all grains and soybeans* (a better policy indicator than wheat alone) now projected for the beginning of 1979 harvests is 217.5 million tons—only 5½ million tons more than 10 years ago. World population has increased 10 times as much as the carryover, and consumption has increased even more. The present carryover represents 18 percent of the current year's consumption, just a shade above the 17 percent on hand at the beginning of the "world food crisis" in 1972 when the Soviet Union's crop failed, and it is not sufficient to see the world through a similar serious production shortfall without extreme price and supply disruptions.

Prudent and responsible policy for the U.S. Government under present circumstances would be to provide for orderly management of somewhat larger reserves than those now on hand, and to assure prices yielding a fair rate of return to farmers on their labor and investment, instead of driving down the world trading price so as to cause severe hardship for farmers in the United States and other exporting countries.

*B. If supplies can be produced in excess of truly adequate reserves, the "Food for Peace" program should be revived, improved, and reinvigorated, with the object of developing long-range patterns of expanded and two-way trade of grain for products of countries now suffering severe unemployment*

At present, food aid shipments from the United States are less than one-third the volume of 15 years ago. In fact, annual shipments throughout the later years of the previous Administration and so far in the Carter Administration have been smaller than at any time since the program was first initiated in the Eisenhower Administration 25 years ago.

Moreover, the present Administration, like the Nixon Administration before it, is spending more to pay farmers to put cropland out of production than it would cost to buy the output thereof for distribution as "Food for Peace."

In my judgment, the other grain producing and consuming countries would respond favorably to positive leadership from the United States by increasing their participation in food aid and long-range trade development programs.

*C. I do not believe production adjustment measures would be necessary on a large scale, but they should be provided on a standby basis both in the United States and in the other main grain producing countries*

I would recommend a combination of cropland set-aside, producer-financed reserve stock-holding (as in Canada), and producer-financed food aid donations as means by which the various countries could supplement their regular programs so as to adjust current marketings to demand when and if supplies become excessive.

The Farmers Union commends your initiative in focusing public attention upon the issues relating to foreign trade in wheat and other grains, and we will do whatever we can to further that effort.

Sincerely yours,

ROBERT G. LEWIS,  
*National Secretary and Chief Economist.*

**NIXON FOOD POLICY SHIFT CREATED SHORTAGE, FAMINE THREATS, FARMERS UNION ECONOMISTS REPORT**

Washington, D.C., Oct. 28, 1974—Policy changes introduced by the Nixon Administration are directly responsible for the present world food shortage and threatened famines, a study released today by the Farmers Union reveals.

Little more than one-fifth as much U.S. food is now being shipped overseas for hunger relief as ten years ago.

While "Food for Peace" shipments were being drastically curtailed over the five past years, payments to U.S. farmers for holding cropland out of production were increased sharply, setting an all-time record of \$3,566 million in 1972. In that year one acre was held out of production in the United States for every 4½ acres that were harvested.

**COSTS TAXPAYERS MORE**

This shift in food policy has greatly increased costs to U.S. taxpayers. During the Nixon Administration's first five years, nearly \$4 billion more was paid to farmers to prevent food production than it would have cost for the government to buy the same amount of food from farmers.

Last year alone, the government paid \$1,163 million more to hold land out of production than the value of the lost production on the farm at market prices. The record was \$1,181 million in 1971.

An enormous volume of potential food production was sacrificed during these five years which could have been used for providing adequate reserves and greatly-expanded food aid shipments. Assuming yields of only two-thirds of the actual national average for the grain best-suited to the various lands held out of production, the five-year total would have reached the equivalent of 8,609 million bushels of wheat. This is nearly a billion bushels more than the actual total harvests of 7,669 million bushels of wheat in the U.S. during those five years.

#### ENOUGH FOR ALL NEEDS

The potential food that was sacrificed would have been more than ample to meet all the needs that have arisen in the present world food crisis, with ample reserves left over. In several years the prevented production approached the total volume of all food grains bought and sold by all countries in international trade.

If the food sacrificed during the past five years had been produced instead, much of it could have been bought and shipped abroad for food aid under the "Food for Peace" program at less cost to the U.S. government than was paid for not producing it, the Farmers Union study reveals. This excess cost reached \$751 million in 1971 alone. Costs of the Nixon program ranged from a low of 60 percent to a high of 136 percent of what it would have cost to provide equivalent quantities of farm commodities for "Food for Peace" shipments if they had been produced.

#### FARMERS UNION OPPOSES POLICY

The Farmers Union has objected repeatedly to "the erosion of the Food for Peace program" during recent years, as well as to other aspects of the Nixon farm and food policies.

The Farmers Union recommends that farm prices should be stabilized at 100 percent of parity. When "surpluses" occur, they should be insulated from the market in non-recourse price support loan status until prices rise to 110 percent at parity. This would provide an "ever-normal granary" of reserves to protect consumers and export customers. Farm production would be curtailed under the Farmers Union plan only when reserves have reached reasonable levels.

In hearings on renewal of the Food for Peace Act on April 3, 1973, Robert G. Lewis, National Secretary, urged that shipments "be increased, insofar as supplies are available, to a scale approximating the full levels of expenditure authorized by Congress". The Nixon Administration held the value of Food for Peace shipments down to only one-third to one-half of the amounts authorized by Congress.

#### URGES USE OF FOOD FOR DEVELOPMENT

Lewis urged long-term food aid agreements with hungry countries designed to lead to "an enduring pattern of commercial two-way trade wherein U.S. farm commodities can be exchanged for goods and services from the food-importing countries".

He also suggested that food from the U.S. be sold for local currencies in the hunger areas, with the proceeds used "for paying wages in useful public works projects, in order to promote the expansion of demand for food within the receiving countries."

#### "FOOD FOR PEACE" DWINDLES

The Farmers Union study shows that the Nixon Administration immediately slashed the volume of Food for Peace shipments by one-fourth in its first year (1969). The volume dwindled to an estimated 2.8 mil. tons in 1975, the smallest since the program was initiated by the Eisenhower Administration 20 years ago.

The Nixon Administration also boosted cuts in annual food production. The peak of 65.9 million tons in grain equivalent of prevented production came with the peak spending in 1972. After the world food crisis developed beginning in that year, annual reductions tapered off.

The shift in food policy was made by the Nixon Administration pursuant to discretionary authority in the basic agricultural and food aid legislation. These laws were amended in 1970 and again in 1973, but the change did not basically alter the discretion of crop reduction programs, and Secretary of Agriculture Earl Butz and other Administration officials lauded both new Acts as moving in "the right direction."

## DECLINE STARTED UNDER JOHNSON

The decline in food aid shipments, accompanied by increasing payments for cutting U.S. food production, began under the Johnson Administration in 1965. The Farmers Union study revealed the little-known fact that total U.S. food aid shipments during the famine emergency in India in 1966 and 1967 were far smaller than in the pre-famine peak year of 1964. Indeed, shipments during each of the two famine years were smaller than in any previous year of the Kennedy-Johnson Administration or the last year of the Eisenhower Administration.

The study revealed that it was the Eisenhower Administration which has most strongly favored Food for Peace over paying to prevent food production.

During the five Eisenhower years when both types of programs were in effect (1955-60), the value of Food for Peace shipments averaged three times higher than the payments for preventing production.

During the eight Kennedy-Johnson years, the value of Food for Peace shipments each year averaged only two-thirds as high as payments to prevent production.

In the five years of the Nixon Administration, the original ratio was more than reversed. Payments to prevent production had skyrocketed to more than three times the value of average annual Food for Peace shipments.

## "FOOD FOR WAR" INCREASED

But even this does not fully measure the actual cut that has been made in shipments of food for humanitarian and economic development purposes. By the last year of the Nixon Administration (1973), nearly one-third (31%) of the total value of Food for Peace program shipments went to support war efforts in Viet-nam and Cambodia. The Senate Nutrition Committee reported that over half of the total went to these two and other military-related recipients such as Israel and Jordan.

The Farmers Union's estimates of the grain production that was prevented under government programs are based on acreages for which diversion payments were made each year times two-thirds of the actual national average yields during the year for the grain crop best suited to the various types of land in the various programs. These estimates may over-state the volume of prevented production, and commensurately under-state the comparative cost of having instead bought and shipped for food aid the amount of grain that would have been produced.

Actual production on land released from these government programs in 1973 and 1974 has been less than the two-thirds of national average yields assumed in the estimates.

## SPENDING, PRODUCTION CUTS PEAKED IN 1972

The record of \$3,566 million in payments for not producing food matched the record estimate of prevented production of 65.9 million tons in 1972. Simultaneously during that year, the Nixon Administration undertook strenuous negotiations with the Soviet Union and China to expand grain sales to those countries.

The Farmers Union study is based on official U.S. Department of Agriculture data. For simplicity, prevented production on land diverted from cotton is estimated in terms of "grain equivalent" based on national average yields of corn, for which most cotton land is suitable. Prevented production on land diverted from miscellaneous crops and hay is based on national average yields of oats.

The Farmers Union's study was directed by Robert G. Lewis, who is the organization's chief economist as well as National Secretary.

(A series of tables detailing the findings and estimates of the study is attached.) (Data for calendar years 1975-1978 has been added.)

TABLE I.—OPERATING RESULTS OF GOVERNMENT-FINANCED FARM COMMODITY EXPORTS AND ACREAGE DIVERSION PROGRAMS, 1955-78

[Dollar amounts in millions]

Year	Acres idled by farmers as basis for Government payments (millions)	Estimated production of grain from idled acres if grown and harvested (million metric tons) <sup>1</sup>	Market value at farm if crop of grain had been harvested from idled acres <sup>2</sup>	Payments to farmers agreeing to not produce crops on idled acres <sup>3</sup>	Value of U.S. farm commodity exports under Government-financed programs, calendar years <sup>4</sup>	Quantity of U.S. farm commodity exports under Public Law 480 programs, calendar years (million metric tons) <sup>5</sup>
1955					\$1,118	2.4
1956	13.6	8.0	\$405	\$261	1,711	5.3
1957	27.8	15.0	654	654	1,536	7.4
1958	27.1	19.6	864	810	1,233	8.2
1959	22.4	11.3	464	324	1,207	8.4
1960	28.7	15.9	625	367	1,461	12.9
1961	53.7	41.4	1,762	1,104	1,483	11.1
1962	64.7	48.5	2,101	1,440	1,480	11.7
1963	55.7	42.5	1,825	1,382	1,520	14.2
1964	54.9	42.0	1,901	1,951	1,644	15.7
1965	55.9	52.0	2,230	2,115	1,349	13.5
1966	62.5	56.6	2,785	2,946	1,353	12.1
1967	40.2	42.8	1,774	2,738	1,263	10.6
1968	48.9	54.8	2,232	3,090	1,189	10.4
1969	57.6	60.5	2,736	3,417	1,020	7.6
1970	57.1	53.0	2,774	3,352	1,021	8.2
1971	37.4	39.6	1,654	2,835	882	6.7
1972	62.1	65.9	3,346	3,566	1,107	7.2
1973	19.5	15.3	1,218	2,381	750	3.0
1974	0	0	0	0	750	2.8
1975	0	0	0	0	966	4.8
1976	0	0	0	0	773	4.3
1977	0	0	0	0	706	4.5
1978	18.3	11.1	1,585	1,599	791	4.6

<sup>1</sup> Computed at 2/3 of U.S. average yields per acre during year of each crop to which reductions in acreage harvested are attributed. An equivalent based on average yields of corn during year is shown for acreage diverted from cotton; and an equivalent based on average yields of oats during year is shown for "other cropland" diverted primarily from tame hay, and some soybeans, flaxseed, dry edible beans, rice and tobacco.

<sup>2</sup> Estimated production (from 3d col.) times U.S. average price per ton received by farmers for corn at the farm during the year. Prices of the various grains, including the price of wheat less certificates, usually average close to the price per ton of corn.

<sup>3</sup> All payments to farmers conditioned on their agreement to withhold designated farmland from production during the calendar year (corresponds generally to crop year). Wheat certificate payments are included.

<sup>4</sup> Calendar years 1955-73 from annual report on Public Law 480, September 1974. Calendar year 1974 preliminary from FAS-USDA. Calendar years 1975-78 from annual report on Public Law 480, Office of the General Sales Manager, USDA.

<sup>5</sup> Calendar years 1955-73 from USDA's annual statistical report on Public Law 480 shipments, SDS-1-74, March 1974 and earlier reports. Data for Public Law 480 only, excluding relatively small quantities shipped under other Government-financed programs.

<sup>6</sup> Projections, based on data from FAS-USDA on actual shipments during 9 mo. for title I and 6 mo. for title II of Public Law 480.

Source: U.S. Department of Agriculture data except as noted.

TABLE II.—COSTS TO U.S. GOVERNMENT TO AVOID OR DISPOSE OF FARM SURPLUSES BY DIVERTING LAND FROM PRODUCTION COMPARED TO EXPORTING WHEAT OR FEED GRAINS UNDER PUBLIC LAW 480 (FOOD FOR PEACE), 1962-78

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
1. Total payments to farmers on condition of diverting cropland from production <sup>1</sup> (millions of dollars).....	1,440	1,382	1,951	2,115	2,946	2,738	3,090	3,417	3,352	2,835	3,565	2,381	0	0	0	0	1,599
2. Production on all diverted acres, assuming 75 national average yields of grain crop diverted or of most production grain alternative (million metric tons).....	47.9	42.5	42.9	51.4	56.8	42.8	54.8	60.5	53.0	39.6	69.1	18.9	0	0	0	0	11.1
3. Cost of payments per metric ton of assumed diverted production of grains <sup>2</sup> (dollars per metric ton).....	30.06	32.52	45.48	41.15	51.87	64.00	56.39	56.48	63.25	71.59	51.60	125.97	0	0	0	0	144.43
4. Cost per metric ton to U.S. Government to export feed grains under title I, Public Law 480, at ratio of 2 corn to 1 sorghum <sup>3</sup> (dollars per metric ton).....	49.51	50.70	52.68	54.20	54.09	48.82	48.24	50.60	57.69	52.75	84.25	99.60	-----	-----	-----	-----	102.95
5. Cost per metric ton to U.S. Government to export wheat under title I, Public Law 480 <sup>4</sup> (dollars per metric ton).....	83.38	88.89	86.69	73.84	76.66	63.95	56.23	56.60	62.84	64.31	85.98	178.20	-----	-----	-----	-----	130.81
6. Cost of payments for diversion as percent of cost to export feed grains <sup>5</sup> .....	61	64	86	76	96	131	117	112	106	136	61	125	-----	-----	-----	-----	141
7. Cost of payments for diversion as percent of cost to export wheat <sup>6</sup> .....	36	37	52	56	68	100	100	100	101	111	60	70	-----	-----	-----	-----	110

<sup>1</sup> Includes wheat certificates.

<sup>2</sup> Line 1 divided by line 2.

<sup>3</sup> F.o.b. Gulf ports for No. 3 yellow corn and No. 2 yellow milo, per FAS-USDA. Price data for 1971 through 1973 are for fiscal years 1972 through 1974. Data for fiscal 1974 are preliminary. Cost to United States of food for peace shipments under title II (donations) includes most ocean transportation costs to destination ports.

<sup>4</sup> Net cost to buyer f.o.b. Gulf ports, No. 2 HW (old) wheat plus export payments and less cost of wheat certificate. Wheat Situation, ERS-USDA, various issues (see footnote 3).

<sup>5</sup> Line 3 divided by line 4.

<sup>6</sup> Line 3 divided by line 5.

Sources: U.S. Department of Agriculture data.

TABLE III.—VALUE OF U.S. AGRICULTURAL EXPORTS UNDER GOVERNMENT-FINANCED PROGRAMS TO VIETNAM AND CAMBODIA, AND TO ALL COUNTRIES, FISCAL YEARS 1955-73

Fiscal year	Cambodia	Vietnam	Total for 2 countries	Total for all countries	Percent of all shipments to Vietnam and Cambodia
1955	( <sup>1</sup> )	\$1	\$2	\$1,118	Negligible
1956	( <sup>1</sup> )	18	19	1,711	1
1957	( <sup>1</sup> )	32	33	1,536	2
1958	( <sup>1</sup> )	14	16	1,233	1
1959	\$1.2	24	26	1,207	2
1960	1.2	20	26	1,461	2
1961	2.9	26	30	1,483	2
1962	1.0	34	35	1,480	2
1963	.9	36	37	1,520	2
1964	Negligible	43	45	1,644	3
1965	Negligible	49	50	1,349	4
1966	Negligible	94	95	1,353	7
1967	Negligible	176	176	1,263	14
1968	Negligible	148	153	1,189	13
1969	Negligible	103	105	1,020	10
1970	Negligible	129	131	1,021	13
1971	.8	126	128	982	13
1972	9.5	117	128	1,107	12
1973	28.9	171	206	750	27

<sup>1</sup> Export data for Vietnam and Cambodia were combined for fiscal years 1955-58.

Note: Data rounded to nearest half-million. "Negligible" is under \$500,000 and under 1/2 of 1 percent. Totals may not add correctly due to rounding.

Source: Economic Research Service, U.S. Department of Agriculture.





## PREPARED STATEMENT OF RICHARD BAUM, PRESIDENT, WESTERN WHEAT ASSOCIATES, U.S.A., INC.

Mr. Chairman and Members of the Committee, my name is Richard Baum. I am President of Western Wheat Associates and have served in this capacity for the past 20 years. I appreciate the opportunity to review our position on the policy issues being considered by this committee.

Western Wheat Associates, Inc., (WWA) is a market development and trade service organization with offices in six Asian countries and two in the United States. WWA concentrates its efforts in a total of 15 Asian countries. WWA's mission is to maintain and expand overseas markets for all five classes of U.S. wheats and their by-products on behalf of U.S. wheat producers. WWA currently represents growers from eleven major wheat states which, together, produced over 1.1 billion bushels in 1978.

In summary, we support the extension of the 1971 International Wheat Agreement; we support international cooperation with the other major wheat exporting nations on measures to improve coordination of production and marketing policies and food security in developing nations; we oppose the idea of a world wheat cartel to set artificially high prices and divide up world markets as unworkable; and, finally, we recognize the prices received by U.S. wheat producers are below their costs of production and actions must be taken to increase their income if they are to remain in business.

The United States' International Wheat Agreement negotiators had a formidable task before them in attempting to develop a supply management and pricing scheme that would be acceptable to all participating countries. As the U.S. proposal was originally presented, the interest of the U.S. wheat producer was clearly protected. It provided for a mechanism to adjust supplies through nationally-held reserves. These provisions were designed to hold world prices within an established range and to provide for increased security in food supplies in individual countries. The initial price range was reasonably attractive to the U.S. wheat producers and the burden of holding reserve stocks was more fairly distributed among exporters and importers.

By early 1979, compromises during the negotiating process had considerably eroded the benefits that would be derived by U.S. producers, and additional compromises would have been necessary to come to final concurrence with other countries on a new IWA. Further compromises were untenable. U.S. negotiators packed their bags and went home—knowing that by doing so the interests of U.S. wheat producers would be better served. Obstacles were great to negotiating such a comprehensive agreement by the application of one set of rules on participants having widely varying differences of needs and goals.

Even before hopes began to dim for a new and favorable agreement, various interests in the U.S. advocated a change in the direction of our existing trading system. Any revision in our system should be approached cautiously so that the markets and market shares we've worked so hard to obtain are not lost or diminished. Of the more than two billion bushels of U.S. wheat expected to be utilized in the current marketing year, nearly 60 percent will be utilized outside the United States. Despite the already large role exports play in determining the income of farmers, more and expanding markets are necessary if farmers are to keep pace with the rest of our economy and, in fact, remain in business. We have confidence in our ability to find new markets and expand our sales in the markets already established, given a trading atmosphere conducive to free and fair competition.

A concept being advanced which would divvy up world markets on a historical basis has many inherent difficulties. The most prominent difficulty being that the share of the markets would be determined on historical sales, while potential growth due to individual initiative would be stifled.

The U.S. farmer, in cooperation with the government, has invested millions of dollars over the past 25 years to develop wheat export markets. Eating habits are being changed in countries throughout the Asian area to include wheat foods to improve diets nutritionally and to gain variety and convenience. The wheat market development program has proven that new markets can be developed and old markets expanded.

Competition for markets based on improved quality, dependability and service benefits the buyers. The U.S. is the only country that has all classes of wheat available. We are also the most dependable supplier in the world. In addition, we are one of the largest importers from many Asian countries, so they want to buy from us to improve their balance of trade.

For these and other reasons, U.S. wheat has entered expanding markets that by tradition belonged only to our competitors. Examples of such markets are: Indonesia, Malaysia, Sri Lanka and China. Excluding U.S. wheat from markets such as these would further imbalance trade and be a disservice to our taxpayers as well as the wheat producer.

We do not believe it is possible to manage an OPEC-type monopoly on world wheat production to raise prices regardless of supply and demand factors. Setting an artificially high price for wheat would stimulate production in many nations that would not be part of the agreement and, in effect, would defeat the purpose of the cartel. Wheat can be produced in more than 100 countries around the world.

The policies being followed by the European Community (EC) are a current example of the problems created by excessively high price supports to the producer. The French wheat producer receives a price support of over \$5.60 per bushel. These prices encouraged an increase in production of 10 million tons in 1978 over 1977. This surplus is now being dumped on the world market through use of export subsidies (restitutions) running as high as \$3.57 per bushel to China. It is estimated that the EC use of excessive export subsidies to traditional U.S. wheat markets in third countries will cost the U.S. wheat producer losses in excess of one billion dollars this marketing year.

The U.S. has long suffered from the unfair trading practices of our competitors. It is not uncommon for our competitors, when they become burdened with unwieldy supplies, to resort to dumping their commodities on world markets—showing little concern for the cost to national treasuries and the decline in world market prices which inevitably result. Export subsidies by the EC, rebates, price discounting and many other uncompetitive means by others are used to rid themselves of excessive supplies. We have already encountered such tactics in competing for sales to the People's Republic of China. Had it not been for export subsidies by one of our exporting competitors, the sales would likely have been ours. It is difficult to compete with countries that have national treasuries at their disposal.

Although the concept of predetermined market shares is unacceptable, international cooperation among exporting countries in the pursuit of supply management and responsible trading practices should be advanced.

Through the cooperative efforts of the U.S. and other wheat exporting countries, the potential exists for a more economically rational and responsible world of trade policy. Secretary of Agriculture Bob Bergland will soon be meeting in Canada with representatives of major wheat exporting countries. With the likely exclusion of the wheat cartel concept, the discussions may cover a wide spectrum of areas of future cooperation. A dialogue such as this will help promote a better understanding of the view of all concerned and should be ongoing.

We fully support an extension of the 1971 international wheat agreement composed of the food aid convention and wheat trade convention. The agreement, if extended, would continue to provide a forum for the exchange of views of all members, having averted potentially serious trade problems before reaching a crisis stage because of the continued communication which exists among IWA members. The information supplied by the International Wheat Council has become invaluable to many member countries. Although the developed countries have sophisticated apparatus for information gathering, the lesser developed nations lack the expertise and financial resources for such an extensive endeavor.

The Secretariat of the International Wheat Council has become extremely proficient in gathering accurate information on production, consumption, trade and related matters. The poorer countries of the world rely heavily on the knowledge the IWC provides them.

Again, I thank you for your consideration of the view of Western Wheat Associates on the extension of the 1971 International Wheat Agreement and other trade issues. I would be happy to answer any questions you might have.

#### BIOGRAPHY OF RICHARD K. BAUM

Birthdate: June 12, 1923—LaGrande, Ore.

Education: Graduated Oregon State University, 1947 B.C. (Cum Laude), Agronomy and Soils.

Marital Status: Married, six children.

Background: Richard K. Baum, President of Western Wheat Associates, U.S.A., Inc., has served as the organization's chief executive since its inception in 1959. He has served the wheat industry throughout his 30-year professional

career, and helped pioneer the establishment of the Oregon Wheat Commission and the U.S. wheat industry's market development program in Asia. He graduated Cum Laude from Oregon State University in 1947 after having served as a combat infantryman in Europe during World War II. He recent retired as Commanding General of the Oregon National Guard's 41st Brigade. He has traveled extensively throughout Asia on more than 60 occasions in the course of his wheat market development work.

Western Wheat Associates, U.S.A., Inc., known overseas as "Wheat Associates, USA", is a non-profit organization supported by wheat producers in the States of Oregon, Idaho, Washington, Montana, Nebraska, Colorado, Oklahoma, Texas, Wyoming, North Dakota and Minnesota. The objective of Wheat Associates is to expand and develop markets for United States wheat and wheat products in the Asian area in cooperation with the Foreign Agricultural Service, U.S. Department of Agriculture. Overseas offices have been established in Japan, Korea, Taiwan, the Philippines, Singapore and India. Programs are also conducted in Hong Kong, Indonesia, Malaysia, Thailand, Pakistan, Bangladesh, Afghanistan and Sri Lanka.

The WA program includes such things as the establishment of bakers training schools, trade team to the U.S., sending bakery trainees to the American Institute of Baking, providing flour milling and baking industry consultants to assist the local milling and baking industries with improving product quality and introducing new products, providing financial assistance for conducting various wheat flour food demonstration programs and printing cookbooks and recipes, and various technical servicing programs. The overall WWA FY 79 budget is nearly five million dollars.

RICHARD K. BAUM, EXECUTIVE VICE PRESIDENT, WESTERN WHEAT ASSOCIATES, U.S.A., INC., AMERICAN BANK BUILDING, PORTLAND, OREG.

Birthdate: June 12, 1923 at LaGrande, Oregon. Raised on parents farm.

Education: High School—Student Body President, Salutatorian Senior Class. College—B.S. (Cum Laude), Oregon State 1947, Agronomy and Soils.

Military: Active duty U.S. Army 1943–1945. Studied engineering Indiana University, 1943. Served in 14th Armored Division in France and Germany. Present rank of Lieutenant Colonel, Oregon National Guard.

Marital status: Married since 1949, six children ages 2 to 17.

Current position: July 1959 to present: Western Wheat Associates Executive Vice President since inception of organization. Pioneered the wheat market development program in Asia beginning in 1954. Involved in the establishment of the Oregon Wheat Commission—the first in the U.S.—which has been the leader in expanding wheat markets, developing national wheat legislation and implementing wheat programs. Has also been very active in the National Association of Wheat Growers in working on grower problems in all major wheat producing states.

Reports directly to WWA Board of Directors, which meets three times yearly to review program, approve budget and determine policy. Member states WWA are Washington, Oregon, Idaho, Nebraska, Montana. Indirect member states (through Great Plains Wheat, Inc.) are North Dakota, South Dakota, Kansas, Colorado, Oklahoma.

Overall responsibility for wheat market development program in Asia extending from Japan through Pakistan with regional offices in Japan, Taiwan, Philippines, India and Washington, D.C. and supervision of eight administrative employees, twenty supporting employees plus periodic consultants and technicians.

Responsibilities include employment of personnel, management of daily operations, preparation of annual marketing plan, reporting to wheat producer organizations and the U.S.D.A., supervision of overseas program, liaison with U.S. grain trade, continual analysis of wheat supply and demand, and development of annual budget (\$1.4 million in 1968–69).

Extensive travel throughout the Asian area. Close association with officials of the U.S.D.A., U.S. grain trade, agricultural organizations, foreign governments and wheat industry groups abroad. Has represented wheat producers and participated in International Grains Arrangement meetings in Australia and England this year.

Prior experience: July 1958 to June 1959, Administrator, Oregon Wheat Commission; March 1952 to June 1958, Executive Vice President, Oregon Wheat Growers League; September 1947 to March 1952, Wheat Market Analyst, Oregon

Wheat Commission; December 1947 to September 1948, Instructor, Veterans Farm Training Program, Oregon.

Community activities: Former Chairman of Umatilla County Citizen Tax Committee; Member of Rotary Club (suspended due to international travel); Member of Portland Chamber of Commerce; Member of Japan Society of Oregon; Marksmanship Instructor for Boy Scouts; Substitute Coach for Little League Baseball; Speaker and Master of Ceremonies for State and National conventions and meetings; Member of Church of Jesus Christ of Latter Day Saints (principal speaker to youth groups and Sacrament meetings); Member of National Society of Bakery Engineers; and Member of Executive Committee for Election of Hatfield for Governor.

Educational training: Currently enrolled in the extension course of the U.S. Army Command and General Staff College.

Hobbies: Fishing, fly tying, boating, hunting (including tigers in India), golf, all sports generally, and photography.

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PREPARED STATEMENT OF WINSTON WILSON, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Chairman and Members of the Committee, the National Association of Wheat Growers appreciates this opportunity to present its views on the 1971 International Wheat Agreement and related wheat policy issues. I am Winston Wilson, president of the National Association of Wheat Growers and a wheat producer from Quanah, Texas.

At the outset, I would like to indicate the National Association of Wheat Growers support for the fourth extension of the 1971 International Wheat Agreement and its components: the Wheat Trade and Food Aid Conventions. The extended 1971 Agreement represents nearly 50 years of practical experience on the part of the world wheat community in the pursuit of policies which serve both importing and exporting nations. Under current policymaking conditions, it is the lowest common denominator and the only type of agreement which developed and developing nations as a group are prepared to accept. It does provide for continued and important international cooperation in wheat matters, and it maintains the functions of the International Wheat Council in London England. The Council is a necessary world forum for discussion and cooperation in the areas of wheat marketing, supplies, and prices, and it is a respected and leading authority in forecasting world wheat production and trade.

The 1971 International Wheat Agreement expressed the will of the members of the International Wheat Council to later negotiate an agreement containing wheat price and supply provisions, but the opportunity for renegotiation was a long time in arriving. It was not until early 1975, after the conclusion of the World Food Conference, that preparation began for the new International Wheat Agreement. Active work on a new International Wheat Agreement did not begin until mid-1976, and in February 1977 the effort was moved to Geneva where negotiations were conducted in parallel with the multilateral trade negotiations.

The centerpiece of the negotiation was a plan for cooperative acquisition and release of nationally-held wheat reserve stocks at formulated trigger points. This concept represented a modest world effort to provide for increased food security and equitable market prices. The U.S. negotiating team, in the opinion of the National Association of Wheat Growers, demonstrated a high level of leadership in its formal and informal efforts to gain the price and supply commitments that were essential for the successful operation of this plan. U.S. officials kept the National Association of Wheat Growers trade affairs representative, Don Woodward, a Pendleton, Oregon, wheat producer, and member of the White House Advisory Committee for Trade Negotiations, advised of policy developments at virtually every step. Woodward was an official advisor to the U.S. negotiating team, and he attended all the formal negotiating sessions.

The effort continued until February of this year when the International Wheat Agreement negotiations collapsed and the conference adjourned. The inability of participating nations to reach agreement on the size of the overall reserve and the price action points for acquiring and releasing the stocks was the fundamental reason the negotiations failed. The concept of the reserve plan was sound, and the U.S. negotiators did a commendable job under difficult circumstances. The fact that they held to the position that no agreement was preferable to a bad agreement testifies to their determination.

When the negotiations folded, the National Association of Wheat Growers called on the Carter Administration to begin talks immediately with the major wheat exporting nations to arrive at a workable burden-sharing arrangement. It is the hope of our Association that the governments of the major exporting nations can succeed where a world conference of 70 wheat importing and exporting countries has failed. Moreover, it makes a great deal of sense to continue to keep up the pursuit of policies which will result in equitable prices for U.S. producers and their counterparts in other exporting nations. The alternative of continuing to market wheat below the cost of production at significant cost to agricultural producers and national treasuries is unacceptable.

The National Association of Wheat Growers believes that potential exists for exporter cooperation in the areas of supply management and other shared adjustment actions. Currently, the U.S. is the only nation which is operating an acreage adjustment program to curtail excess production. Similarly, the U.S. is the only nation which has acted to isolate stocks from the market to improve market prices and reserve supplies for future demand. Other exporting nations benefit from these unilateral actions, but they nevertheless maintain production and export policies which undermine U.S. efforts. For example, last year American wheat producers reduced production 12 percent, while Canada increased output 4½ percent; Australia, 55 percent; Argentina, 40 percent; and the European Community, 22 percent. These competing nations then made aggressive efforts to move increased volumes into the world market at reduced prices.

It is clear that U.S. supply management actions are not being matched by other exporting nations. For this reason the National Association of Wheat Growers is opposed to the Administration's proposed International Emergency Reserve until international cooperation and participation is developed between countries to share the responsibility and obligations of establishing and maintaining reserve stocks. The U.S. commitment to world food security far exceeds that of any other country. Over 400 million bushels of wheat out of a total exceeding one billion bushels of wheat and feed grains are currently being held in a special farmer-held reserve established by the Food and Agriculture Act of 1977. New U.S. reserve stocks on top of previously established reserves is unwarranted without comprehensive planning and participation by other countries, to avoid excessive costs to our government and excessive costs to producers through depressed prices.

In conclusion, our Association recommends approval of the two-year extension of the 1971 International Wheat Agreement. The National Association of Wheat Growers also believes that a cooperative agreement between exporting nations, which provides for supply management and mutually agreed upon adjustment actions could improve price and marketing conditions for producers in all major exporting nations while assuring adequate supplies to consumers world wide. In this regard, I want to make it clear that the National Association of Wheat Growers does not advocate a wheat cartel, fixed exporting pricing, or market sharing. Our organization does advocate cooperative supply management that provides for security with adequate returns to producers. Without such a plan, there will be chaotic market changes that benefit neither consumers nor producers over the long term.

In closing, I want to once again express my appreciation for the opportunity to present the views of U.S. wheat producers on the International Wheat Agreement and related issues. I will be pleased to respond to your questions at the appropriate time.

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PREPARED STATEMENT OF LARRY MINEAR, REPRESENTATIVE FOR DEVELOPMENT POLICY,  
CHURCH WORLD SERVICE AND LUTHERAN WORLD RELIEF

I am Larry Minear, Representative for Development Policy of Church World Service and Lutheran World Relief. Church World Service (CWS), the overseas development and relief agency of the National Council of Churches, serves the Council's 31-member Protestant and Orthodox commissions. Lutheran World Relief (LWR) is the companion agency of the three major American Lutheran churches. CWS and LWR work in partnership with colleague agencies in developing countries and, at the international level, are actively involved in the work of the World Council of Churches and the Lutheran World Federation respectively.

Mr. Chairman, I am in something of a minority among today's witnesses. I am not a U.S. government official or a representative of U.S. wheat producers. I do try to monitor developments in the international food field on behalf of agencies

and individuals concerned about hunger. Some of the individuals who support our work, let it be said, are themselves government officials, farmers, and indeed hungry people.

My purpose is less to analyze the collapse of the international grains negotiations than to flag for the Committee their ominous implications for world food security. The responsibility for the collapse of the talks is doubtless shared by all participants, as is the responsibility for getting them moving again. There is little value in trying to pin the blame for the impasse on the European Community, the developing countries or, for that matter, the U.S. Suffice it to say, as did Maurice Williams, Executive Director of the United Nations World Food Council to the U.N. General Assembly's Committee on the Whole of March 19, that "governments have so far failed to meet their responsibilities in the area of world food security." The seriousness attached by the World Food Council to the breakdown of the talks and the urgency it voices for their resumption deserve to be heeded by policymakers here and in other countries.

The World Food Council secretariat, in documents prepared for upcoming Council meetings this summer and fall, provides a very helpful definition of world food security in its various aspects.

"World Food Security is not a uniformly understood concept. It is used with a variety of meanings. In a broad sense, it means food security at the village or family level among the poorest people, so that their food consumption can at least be maintained at current levels, and progressively improved over time. Any disturbance in prices or supplies—whether caused by foreign events or decisions they will never hear about or by factors affecting their local conditions—can bring them to the point of starvation, irreversible physical damage and deep suffering. In this broad sense, food security is a function of all the factors affecting the maintenance and improvement of per capita food consumption, particularly in the poor countries, including food production, income generation and distribution together with the capacity to earn foreign exchange. It also includes the adequacy of storage, port facilities, transport and food distribution systems to meet seasonal and special emergency food needs."

Food security has a more limited reference as well.

"In a narrower more specialized sense, world food security means the stability of the international wheat market, the most widely traded food. It is understood that if wheat markets could be made more stable, wheat supplies would flow more easily from surplus to deficit countries at relatively predictable and reasonable prices. This improvement would reduce the uncertainty in international food markets caused by natural or man made factors. Countries depending on food imports would be better able to plan their own production, investments, and the foreign exchange they would require to import food. Exporting countries could plan accordingly. Nowadays, even in this sense, food security is a concept that applies essentially to the developing countries, because most industrialized countries, with the exception of Japan, have become either broadly self-sufficient or exporters of wheat. Those developed countries that do import wheat devote a very small proportion of their foreign earnings to it and, therefore, are not seriously affected by sudden price rises."

Clearly, the successful conclusion of the aborted talks would have important direct benefits in the area of food security, particularly in its more narrow definition. Such may be said of an effective Wheat Trade Convention quite apart from the obvious utility to developing countries of a new Food Aid Convention as well.

Even those concerned about world hunger and disappointed at the collapse of the negotiations do not now counsel a wheat agreement at any price. While we place more urgency than do several other witnesses here today on the successful conclusion of a new Agreement, we do not ask that the U.S. agree to an arrangement which penalizes U.S. producers in the prices received for their commodities or which for other reasons has little chance of accomplishing its objectives. An agreement would serve neither U.S. nor broader interests if prices were set too low to be fair to U.S. producers, nor would it prove durable if defended by coordinated national stocks too modest in size to moderate expectable shifts in world wheat prices. With these background concerns and considerations in mind, I would like to make four recommendations:

- (1) THAT THE INTERNATIONAL WHEAT AGREEMENT TALKS BE REVIVED AS SOON AS POSSIBLE AND BROUGHT TO A PROMPT AND SUCCESSFUL CONCLUSION

Despite serious differences among participants on stock size and trigger prices, food-exporting and food-importing countries alike have much to gain in the long

term from the steadier prices which an effective agreement would provide. If a compromise is not worked out during the relative calm between serious food shortages, pressures for a price cartel among major wheat-exporting nations will increase, with ominous implications for world food security. (It is, however, reassuring to hear producer representatives opposing a wheat cartel arrangement.) With additional flexibility and political will on all sides, the resumed talks might well produce areas of convergence on the outstanding issues where previously divergences had predominated.

At the same time, let me express serious concern about the simple extension of the current Agreement for two additional years. In his U.N. remarks, Mr. Williams described an extension of "mere voluntary consultation procedures" as "a backing away" by member governments of the International Wheat Council "from their responsibilities for building a better system of world food security," as "an irresponsible postponement" of action. Instead, the Food Council is proposing that governments return to negotiations no later than this fall in the interest of finalizing a new Agreement by July 1, 1980. Given the clear danger that the proposed two-year extension may sap interest in resolving existing differences, it would be helpful for this Committee to express its interest in having a new Wheat Trade Convention to ratify by next summer, rather than simply preparing itself to extend the current arrangement for another two years.

(2) THAT THE RECENT PLEDGES TOWARD A NEW FOOD AID CONVENTION BE FORMALIZED AND MADE BINDING IN THE VERY NEAR FUTURE

The 1971 Food Aid Convention (FAC) incorporated pledges totalling 4.23 mmt annually, including 1.89 mmt from the United States. In the latest round of talks governments had tentatively pledged about 7.5 mmt annually under a new FAC, with the U.S. pledge at 4.47 mmt. Additional pledges, some from new donors, might then raise the total closer to the ten million ton target agreed upon at the World Food Conference as a reasonable annual figure in view of the needs of the poorest developing countries.

I was pleased that since the collapse of the talks, the U.S., rather than holding out for resolution of the Wheat Trade Convention issues, has reiterated its intention to abide by its new 4.47 mmt FAC pledge and is pressing other countries to honor their own higher commitments. Sweden has already reaffirmed its higher pledge. Norway and Austria have made FAC pledges for the first time, with Austria reiterating its pledge even in the absence of a new Wheat Trade Convention. We urge that the new and higher FAC figures be formalized at the international level and ratified by the Senate at the earliest possible moment. Having made so much progress on an expanded and more meaningful Food Aid Convention, it would be a major setback to revert to the earlier and more inadequate 1971 Convention.

In support of the higher U.S. pledge to the Food Aid Convention, legislation to create a commodity reserve to backstop the U.S. PL 480 program needs enactment. A measure to establish an International Emergency Wheat Reserve, introduced by the late Senator Hubert Humphrey and Senator Henry Bellmon, passed the Senate in 1977 but failed to be adopted in conference with the House. A similar measure failed of enactment last year. This year, a Food Security Act of 1979 is being considered in the House which would establish a PL 480 reserve of up to 4 mmt of government-held commodities. Prompt passage of this measure on the Senate side, which recently approved funds for such a reserve in its final budget resolution for FY 79, would facilitate its creation in the current fiscal year, with purchases strengthening the market in the coming months.

(3) THAT THE ISSUES OF "SPECIAL MEASURES FOR THE DEVELOPING COUNTRIES" BE SYMPATHETICALLY ADDRESSED

This was a point of continuing contention during the recent talks. Developing countries felt that additional development assistance would be needed in order for them to fulfill their expanded stockholding and management responsibilities. Their share of an overall world reserve stock total of 20-30 mmt would be about 5-7 mmt. To construct storage for 5 mmt would cost, according to rough World Bank estimates, about \$1 billion; the grain itself would run about \$750 million. While willing to accept more responsibilities under the new Agreement, developing countries felt that additional outside help would be needed for them to do so. Developed countries, on the other hand, resisted the approach to the

IWA as an aid mechanism rather than a commercial arrangement. Clearly there is an element of truth in both positions.

It is indisputable that U.S. food aid and development assistance could do more to help poorer countries in this regard. An amendment which has passed the House and is pending before the Senate Agriculture Committee as Section 8 of S. 962, introduced by Senators McGovern, Dole, and Melcher, would give AID and USDA new and greater encouragement to use U.S. bilateral and multilateral food aid and development assistance to enhance food security in developing countries. While there have been no statutory prohibitions against using such aid for "encouraging domestic production, building national food reserves, expanding available storage facilities (and) reducing post-harvest food losses," the proposed amendment would step up U.S. efforts in these directions. The Committee could helpfully associate itself with the proposed amendment and agree to it in conference with the House on the economic aid bill if the occasion presents itself.

I regret that the Committee in its mark-up of the economic aid authorization bill last week found it necessary to make substantial reductions in the Administration's request levels for bilateral aid. It is my conviction that increased U.S. funding for enhancing the food security of developing countries along the lines of the proposed amendment would merit a degree of support that some other current aid efforts may not. The Committee could also be supportive of the work in this area of international agencies such as the UN Food and Agriculture Organization (particularly its Food Security Assistance Scheme, to which the U.S. does not currently contribute), the UN Development Program, and the World Bank. While the reallocation of existing resources in the food security direction will be helpful, there may ultimately be no alternative to substantial increases in aid levels to advance these objectives.

(4) THAT THE FAO'S RECENTLY ANNOUNCED FOOD SECURITY INITIATIVE RECEIVE ACTIVE U.S. SUPPORT

The FAO initiative seeks to speed implementation of the International Undertaking on World Food Security. Already agreed to in principle by 74 governments and the European Community, the Undertaking pledges governments to build national reserve stocks and to use them to help meet world food needs. The Undertaking is broadly compatible with the market stabilization objectives of the International Wheat Agreement, although less prescriptive and legally binding with respect to its rights, obligations, and operational ground rules. Many of the Undertaking's present signatories have yet to set or implement their agreed upon national stock targets.

The latest FAO initiative, announced this spring by Director-General Edouard Saouma, involves pressing all governments to adopt the national reserve stock policies and targets specified in the Undertaking and to agree upon general criteria for the release of such stocks. It also includes special measures to assist low-income food deficit countries to meet their food needs. Initial reaction from the U.S. has been supportive. While the FAO initiative requires no particular Senate action at this time, it is helpful for the Committee to be aware that it is underway and that its objectives deserve support.

Let me conclude by stating that the International Wheat Agreement is more than a commercial arrangement among trading partners. It is a measure with far-reaching implications for world food security. Therefore, while it may be necessary in the aftermath of the collapse of the talks to extend the current Agreement for a short period, it would be unfortunate not to press forward to the successful negotiation of a new Agreement and new Conventions. In the meantime, there is much that ongoing U.S. food aid and development programs and the FAO world food security initiative may do in the interest of improved food security in developing countries. The United States, as the leading trader in wheat and provider of food aid, has a unique contribution—and a special responsibility—in these critical matters.

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PREPARED STATEMENT OF MICHAEL L. HALL, PRESIDENT, GREAT PLAINS WHEAT, INC.

Mr. Chairman and Committee Members, the Board of Directors of our organization is pleased for me to have this opportunity to discuss the various issues surrounding the Administration's request for a multi-year extension of the Inter-

national Wheat Agreement of 1971 (IWA). In addition, the Board of Directors strongly endorses a multi-year extension for many reasons, and urges this Committee to recommend a multi-year extension of the IWA of 1971.

Great Plains Wheat, Inc. (GPW) is a nonprofit association of U.S. wheat farmers, organized through respective state wheat commissions in Colorado, Kansas, Minnesota, Nebraska, North Dakota, Oklahoma, South Dakota, Texas and Wyoming. The basic objective of our organization is to develop, maintain and expand overseas markets for U.S. wheat exports. In this regard, GPW has for over two decades carried out a foreign market development program for all classes of U.S. wheat in both East and West European markets, in the Middle East, in Africa, and in Central and South America. Our foreign promotional and marketing program is based on an ongoing, broad-based approach of market intelligence, trade servicing, technical and marketing assistance, and nutritional and related activities.

All of these programs and activities are carried out by GPW on behalf of U.S. wheat farmers under the auspices and approval of a twenty (20) member Board of Directors, all of whom are actual wheat farmers from the various member states. Consequently, our organization has been and continues to be extremely interested and concerned about the negotiations for any international wheat and/or grains agreement. This concern is rooted in the fact that any international commodity arrangement for wheat will establish in large measure the parameters of international rules for the conduct of international wheat trading. Moreover, such an international agreement can well influence the international atmosphere under which world wheat production and trade take place. Given our fundamental goal of the expansion of world wheat trade on the basis of freer, fair and effective competition, we then are extremely interested in obtaining a workable international agreement for wheat that enhances this basis and permits a realistic and rewarding program of foreign market development for U.S. wheat farmers.

Before discussing the extension of the IWA of 1971, I believe it is necessary to cite a few statistics to demonstrate the importance of expanded U.S. wheat trade not only to U.S. wheat farmers but also to the overall U.S. economy. Twenty (20) years ago, the United States exported about 400 million bushels (10.9 million tons) of wheat. In the current 1978/79 season, over one billion bushels (30 million tons) of U.S. wheat will be exported, a performance that has been achieved in five of the last seven marketing seasons. In 1978, U.S. agricultural exports were valued at US\$27.3 billion, and U.S. wheat accounted for about US\$4.1 billion, or about 15 percent of the total value for farm exports. The export market is not only the most significant factor in determining the annual income to U.S. wheat farmers, but it is also extremely important to the U.S. balance of trade and overall economy because of the export earnings from U.S. wheat exports.

Although the overall quantity of U.S. wheat exports tends to continue to increase, the U.S. percentage share of increasing world wheat trade is declining. I need not go into great detail about the depressed wheat prices in the U.S. wheat states, calculated by the U.S. Department of Agriculture to be a national average of around US\$3.00 per bushel (or about US\$110.25 per ton) at the farm gate for the first three months of 1979. Nor must I describe in great detail the depressed value of the U.S. dollar in world money markets because of sustained deficits in the U.S. trade balance, a deficit that would be even greater if it were not for the sustained volume exports of U.S. wheat and agricultural products. We are all acutely aware of these factors and circumstances.

To continue to develop and expand foreign markets for U.S. wheat exports is not only vital in obtaining a healthy U.S. wheat economy; it is also crucial to the overall U.S. economy. And in this regard, the two-year extension of the IWA of 1971 will facilitate the foreign market development effort for U.S. wheat farmers without the artificial encumbrance of either implied market sharing, price constraints, other non-competitive obligations or other potential restrictions on the expansion of U.S. wheat trade. An extended IWA of 1971 would also complement and augment this country's commitment to its National Export Policy with respect to working toward greater export opportunities for U.S. wheat.

#### I. THE INTERNATIONAL WHEAT AGREEMENT OF 1971

The IWA of 1971 was negotiated in early 1971 to replace the inoperative international Grains Arrangement of 1967 (IGA), the latter of which was unworkable because of rigidities of pricing provisions for world wheat trade that ignored the function of price in an ever changing supply/demand situation. The IWA was negotiated for a duration of three years, and was extended on an annual basis

on three occasions and again in the Spring of 1977 for two years. Unless the IWA is extended again, and hopefully for a multi-year period, it will expire on July 1, 1979. Your support for the IWA extension will allow for the continuation of the two component parts of this agreement.

#### *A. The Wheat Trade Convention*

This Convention is consultative in nature, providing an international forum for scheduled cooperation, discussion and review of all aspects of world wheat production and trade. In addition, this Convention provides for a framework in which member-countries can also review and examine the needs for the operation of various national regimes and policies governing either the importation or exportation of wheat. Under the provisions of this Convention, there are regular monthly meetings of a broad-based membership of both importing and exporting countries, the purpose of which is to keep under constant review world wheat production and trade prospects and other salient developments, for comprehensive analysis with a view toward timely public reports to all wheat trading countries.

#### *B. The Food Aid Convention*

This Convention currently provides for a minimum of about 155 million bushels (or 4.2 million tons) of food aid donations by developed member countries to developing countries. The Food Aid Committee under this Convention is primarily responsible for the orderly operation and annual implementation of donors' obligations to meet their food aid commitment each year. It meets on a regularly scheduled basis to discharge its responsibility in addition to the semi-annual meetings, all of which are thoroughly reported to member countries.

#### *C. The International Wheat Council*

The Council, a long established organization of representatives from wheat trading countries under all past wheat agreements, meets semiannually for an overview of the operations and concerns of the committees of both the Wheat Trade and Food Aid Conventions. In addition to issuing comprehensive reviews of the world wheat situation, the Council is the forum in which major decisions are made about discharging the obligations and responsibilities inherent in all provisions of the IWA of 1971. Well attended meetings of representatives from importing and exporting countries—developing as well as developed; planned economies as well as market economies—every June and November have demonstrated that there is no lack of opportunity for any member country or group of countries to raise, explore and propose ideas, concepts and concerns for improving and expanding world wheat trade. In addition, representatives from other international fora concerned with world food production and distribution regularly attend and actively participate as observers in the work and proceedings of the meeting of the Council.

#### *D. The Council Secretariat*

The Secretariat is the administrative staff of the Council, responsible for the planning, coordination and implementation of the activities and decisions of all competent entities established by the IWA. Under the competent leadership of the Executive Secretary, the Secretariat has demonstrated a recorded performance of sound executive and staff assistance to the Council with respect to its obligations under the two IWA Conventions. Because of the IWA Secretariat, the work of the entities of the two conventions and the Council have achieved an acceptable level of international cooperation on matters of world wheat production and trade so important to the mutual interest and concerns of either exporting countries, importing countries, or both. Nevertheless, the work of the Secretariat should be limited to the analysis of and reporting on wheat production and trade matters; it should not be allowed to expand its staff functions to include other sectors of the protein and livestock complexes supply because of their temporary impact on world wheat price development. And in this regard, the mandate from the U.S. Delegate at IWC Council meetings should be for the IWC Council and Secretariat to maintain a focus primarily on world wheat production and trade affairs, and only broadening its analysis and reporting on those salient developments in either the coarse grains and protein complex that have a fundamental and immediate impact on the wheat complex.

With respect to the debate about extending the IWA on a multi-year basis, a few spokesmen from the U.S. agricultural community may argue that a more comprehensive international agreement for wheat or grain is required. They undoubtedly may argue that such an international approach could be the avenue on which U.S. wheat farmers could travel to higher prices—prices obtained by another international effort to establish wheat export prices either by government fiat or simply by international cooperation in national wheat stocks management. The former approach has been tried and proved to be a failure. A case in point is the IGA of 1967. For various reasons beyond the controls of governments, the latter was recently advanced and proved to be incapable of successful negotiations. And some other individuals may argue for a more limited form of international participation in a price fixing arrangement by a few wheat exporting countries to obtain a higher wheat price desired by producers in all countries. I would like to discuss briefly the three alternative approaches to the continuation of the IWA of 1971.

## II. FIXED PRICING ACCORD FOR WHEAT EXPORT

At the recently adjourned UNCTAD Conference to negotiate a successor agreement to the IWA of 1971, it was the unanimous position of the U.S., Canadian, Australian and Argentine delegates that fixed minimum and maximum pricing provisions for wheat exports were unworkable and should not be pursued in subsequent international commodity agreements for wheat. Delegates from these major exporting countries noted that this effort had failed for many reasons at the outset of the IGA of 1967, and continues to prove exceedingly difficult with other commodities frequently traded in the international marketplace. Moreover, they have publicly and privately noted that the dissimilarities between the production and marketing systems of the United States and Argentina on the one hand, and those of Canada and Australia on the other, raise serious questions and reservations about such a pricing approach at the international level. In addition, the U.S. Senate adopted a resolution in 1971 in conjunction with its favorable advice and consent for ratifying the IWA of 1971 that the International Wheat Council keep under constant review the question of the resumption of negotiations to include pricing provisions in the IWA of 1971. This question never appeared to be capable of successful negotiation by the major member countries of the IWA. Consequently, there was never an effort over the last eight years to attempt to negotiate such an intractable issue. If it has proven difficult, if not impossible, for wheat exporting and importing countries to work out a realistic pricing approach for wheat at the international level, most observers believe it would be equally as difficult to achieve such success on a rather limited basis involving only the major wheat exporting countries.

A. The inability to achieve immediate and concrete agreement for another international commodity agreement for wheat, corn or both has generated frustration, anxiety and uncertainty among various countries. This in turn served to isolate the wheat exporting countries that refuse to accept a schedule of fixed minimum and maximum f.o.b. prices for wheat. During this period of apparent solidarity among the wheat exporting countries, the U.S. became further isolated because of its relatively free and open wheat and grain marketing system. In order to take advantage of the prominence of the U.S. wheat production and marketing system, some spokesmen for other wheat exporting and competitor countries have and are urging the United States to increase the wheat loan rate for their self-interest. In effect, the United States would simply establish a fixed minimum international wheat export price—for the direct income benefit of wheat producers in other countries—to the chagrin of world wheat importing countries and possibly lost wheat export sales and markets to U.S. wheat farmers. These frustrations, anxieties and uncertainties served to generate proposals for various export approaches to pricing mechanisms, particularly for wheat exporting cartels similar to, for example, petroleum cartels. It should be recalled that wheat is an annually renewable commodity capable of being widely produced around the world at some acceptable price level. Petroleum is an extractive and exhaustive commodity incapable of being annually produced and available only from very limited sources. Moreover, the costs for storing a productive commodity with a reasonable storage life only adds to the dissimilarity with petroleum, the storage of which is free until it is extracted. The economies of world petroleum extraction and trade are not capable of serving as a model for world wheat production and trade, notwithstanding the facile appeal of the temporary price successes of OPEC.

B. Any agreement or undertaking by a limited number of wheat exporting countries quickly assumes the implicit or explicit obligation of foreign market sharing. Such an obligation on the part of any participating country appears to be inherent in any of the recent proposals for exporter cooperation between either just the United States and Canada or the four or five major wheat exporting countries. With respect to the concept of sharing world wheat markets, it is important to note that countries other than the United States have not consciously made any commitments to either production restraint or supply management programs. The following two tables provide data from the past six years (1) that show declining U.S. wheat production as a percentage of world production and (2) that show declining U.S. wheat exports as a percentage of world wheat trade.

TABLE I.—WHEAT: WORLD PRODUCTION BY SELECTED COUNTRIES

	[Million metric tons; July-June basis]					
	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
World production.....	371.6	357.2	350.1	415.1	381.9	435.8
United States:						
Metric tons.....	46.4	48.5	57.8	58.3	55.4	49.0
Percent.....	12	14	17	14	15	11
EEC:						
Metric tons.....	41.4	45.4	38.1	39.4	38.5	48.3
Percent.....	11	13	11	9	10	11
Canada:						
Metric tons.....	16.2	13.3	17.1	23.6	19.1	21.1
Percent.....	4	4	5	6	5	5
Australia:						
Metric tons.....	12.0	11.4	12.0	11.7	9.3	18.5
Percent.....	3	3	3	3	2	4
Argentina:						
Metric tons.....	6.6	6.0	8.6	11.0	5.3	8.0
Percent.....	2	2	2	3	1	2

Source: USDA/FAS Foreign Agriculture Circulars: World Grain Situations.

TABLE II.—WHEAT: WORLD TRADE BY SELECTED COUNTRIES

	[Million metric tons; July-June basis]					
	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
World trade.....	62.6	63.9	66.4	62.8	73.0	72.5
United States:						
Metric tons.....	31.0	28.0	31.5	25.8	31.1	31.0
Percent.....	50	44	47	41	43	43
EEC:						
Metric tons.....	5.2	6.9	8.0	5.3	5.5	10.0
Percent.....	8	11	12	8	8	14
Canada:						
Metric tons.....	11.5	11.2	12.1	12.9	16.0	14.5
Percent.....	18	18	18	21	22	20
Australia:						
Metric tons.....	5.4	8.3	7.9	8.5	11.1	10.0
Percent.....	9	13	12	14	15	14
Argentina:						
Metric tons.....	1.1	2.2	3.2	5.6	2.6	3.0
Percent.....	2	3	5	9	4	4

Source: USDA/FAS Foreign Agriculture Circulars: World Grain Situation.

C. The data in the preceding two tables is self-explanatory. It raises questions about the advantage to U.S. wheat growers vis-a-vis growers in other countries about either implied or actual sharing of world wheat markets in either limited exporter or genuine international arrangements for affecting world wheat prices. Another set of data will augment the view that any approach by wheat exporting countries to artificially fix wheat export prices might well also fail.

D. Although the five major wheat exporting countries account for an overwhelming percentage of the volume of wheat in world trade, their aggregate production is only about one-third of world wheat production and their aggregate trade is even less significant as a percentage of world wheat production.

TABLE III.—WHEAT: WORLD PRODUCTION AND TRADE BY SELECTED COUNTRIES

[Million metric tons; July-June basis]

Year	World		Aggregate production	5 major exporters <sup>1</sup>			
	Production	Trade		Aggregate percent of world production	Aggregate trade	Aggregate trade as a percent of—	
						World production	World trade
1973-74 .....	371.6	62.6	122.6	33	54.2	15	87
1974-75 .....	357.2	63.9	125.2	35	56.6	16	89
1975-76 .....	350.1	66.4	133.6	38	62.7	18	94
1976-77 .....	415.1	62.8	144.0	35	58.1	14	93
1977-78 .....	381.9	73.0	127.6	33	66.3	17	91
1978-79 .....	435.8	72.5	144.9	33	68.5	16	94

<sup>1</sup> United States, EEC, Canada, Australia, and Argentina.

This data reveals the relative inelasticity of price demand for wheat. Although many wheat and other grain factors affect the movement of wheat prices, there are many other non-grain or non-agricultural factors that also enter into the development for world wheat prices. Consequently, in normal seasons, the volume of wheat exports may not be sufficiently significant, particularly to have the desired effect of raising prices through concerted efforts.

### III. INTERNATIONAL COORDINATION OF NATIONAL STOCKS

In a recent leading article in the financial section of *The Washington Post*, dated March 5, 1979, an overall review and assessment of various international commodity agreements for primary industrial and agricultural products was made under the title, "U.S. Adds Another Plan To Doubtful Commodity Agreements." According to *The Washington Post*, this judgment was simply stated.

"All of the world's agreements intended to stabilize production and prices of raw commodities have one thing in common: None of them is working."

International commodity agreements either in place or being negotiated have attempted to use a similar approach to obtain stabilization of production and prices for commodities such as sugar, copper, tin, rubber, coffee, cocoa and wheat. A mechanism of buffer stocks with reference prices to trigger the accumulation and release of stocks, along with other features such as export quotas and production and consumption adjustment measures, have not been able to contain the swing in world prices for tin, copper and coffee. The United States has not yet ratified the International Sugar Agreement, which is contingent upon a higher U.S. support price for sugar. The negotiations for an International Copper Agreement are still underway with little evidence of any progress of reaching an agreement between importing and exporting countries. The negotiating sessions for an International Cocoa Agreement recently ended in a stalemate, as is also the case for the effort to reach an International Rubber Agreement. The two existing commodity agreements, the International Tin Agreement and the International Coffee Agreement, are in complete disarray according to *The Washington Post* simply because world prices for both commodities are exceeding the upper release trigger price. Consequently, the tin stocks have been exhausted without containing world prices and the coffee stocks have not even been acquired because world prices have never fallen to the price level at which coffee stocks should be released on the market, let alone the lower acquisition price. This history of current international commodity agreements for cocoa and rubber have raised additionally serious questions about this approach of having international coordination of national stocks of either productive or extractive commodities in order to firm up prices or to moderate price movement.

A. The effort to negotiate another wheat agreement on the principle of international coordination of national stocks has proved to be as unsuccessful as in the case of the commodities discussed in the above paragraph. Over the course of four years and over sixty (60) weeks of meetings and/or negotiating session since 1975, the world's trading community in wheat was unable to negotiate successfully the U.S. initiative for such an agreement on wheat. And the United States advanced this initiative in 1975 in response to the declaration of the World Conference on Food Security in Rome, Italy, in 1974 under the auspices of the

Food and Agriculture Organization of the United Nations. The U.S. initiative for negotiating a successor arrangement to the IWA of 1971 called for international commitment to and mutual obligations for the development of fair and balanced stock sharing among both importing and exporting countries in order to insure a greater degree of world food security. In addition, the U.S. effort called for another two-track approach to complement the international coordination of a national wheat stocks policy.

During periods of depressed prices, member countries of such an agreement would acquire their percentage share of a 30 million ton (or 1.1 billion bushels) world wheat reserve, with a percentage share of about five (5) million ton (or 184 million bushels) would have been assigned to the United States. In addition, producing countries would have been required to undertake coordinated and balanced production reduction programs and consuming countries to implement import programs to encourage greater consumption. During periods of sharp rises in world wheat prices, member countries would have released in a coordinated fashion their reserve share on to the market. In addition, producing countries would have been required to engage in coordinated programs to encourage production and consuming countries to moderate increased consumption. Such an approach would have served to provide some firming influence to low prices and some moderating effect on exceedingly sharp rises in world wheat prices.

This U.S. initiative was supported by U.S. wheat producers as a creditable mechanism provided that the price levels for these stocking, production and consumption adjustments were established on the basis of indicative price points and at levels consistent with a fair return to not only U.S. producers, but also efficient producers in other member countries.

B. After almost sixty weeks of various meetings and negotiating conferences over several years, the resumed UNCTAD Wheat Conference in 1979 in Geneva, Switzerland, made little if any progress in breaking the impasse of various issues between exporting countries and between exporting and importing countries. According to various reports, the UNCTAD Chairman of the Conference listed six basic issues on which there was little progress and called for an adjournment of the Conference in early 1979:

1. The level of indicative prices for the acquisition and release of wheat stocks;
2. The size of the international wheat reserve, and respective percentage shares of member countries;
3. Disruptive market conditions caused by wheat export subsidies by some countries;
4. Special considerations for developing countries;
5. Relief from stocking obligations in case of production shortfalls and
6. Annual adjustment of prices vis-a-vis inflation and rising costs of wheat production.

At that time, Secretary of Agriculture Bergland stated that, "The U.S. has held firm to a total stock of 25-30 million metric tons, with the U.S. carrying five million tons of wheat." Moreover, Secretary Bergland said:

"But there are certain issues on which we can move no further. One of those issues is the range of prices for acquisition and release of reserve stocks."

C. It is apparent at this time that officials from other countries did not share Secretary Bergland's views, and pressed the United States to accept both a lower volume of wheat stocks and lower indicative prices for stocking actions. The other four points were not seriously addressed at the recent UNCTAD Conference to negotiate a successor wheat or grains agreement. This impasse in the discussions occurred over the inability to negotiate a grains arrangement along the lines of international commitment to a meaningful national stocks program. This fundamental difficulty with other current negotiating efforts for other commodities has and will continue to raise serious questions about the viability of returning to the negotiations for an international grains arrangement. Moreover, it reinforces the views and opinions of government and industry officials of many countries that the consultative, informational exchange-type commodity agreements such as the International Wheat Agreement of 1971 is the only workable approach for international cooperation in the production and trade of such primary commodities as wheat.

#### IV. SUBSEQUENT INTERNATIONAL EFFORTS ON COOPERATIVE WHEAT EXPORT POLICY

With respect to the inability of other exporting and importing countries to examine seriously a collective and international approach to a more responsive

wheat production, stocking and exporting policy in the recent UNCTAD Conference, several concerns must be raised about the intentions of some countries.

A. The European Common Market wheat export subsidy payments to non-traditional markets for European wheat could well have been the issue on which the UNCTAD Conference reached a deadlock. The Common Market wheat export subsidies broke the international wheat price by US \$10.00 to US \$15.00 per ton (US \$0.25 to US \$0.40 per bushel) during the period in which the UNCTAD Conference was in session. In many ways, it was both paradoxical and loomed threatening to the success of reaching another wheat agreement that the European Common Market continued to make heavy wheat export subsidies at that time lowering world wheat prices while participating in an international negotiation for an agreement to firm up world wheat prices.

B. Agricultural and/or trade officials from the United States, Australia and possibly Argentina will meet with the Canadian Minister in charge of the Wheat Board in Saskatoon, the provincial capital of Saskatchewan in the heart of the Canadian wheat producing Prairie Provinces on May 10, 1979. The apparent purpose of this meeting, coming immediately after two days of meetings of subministerial officials in Ottawa, the Capital of Canada, on May 8 and 9, 1979, is not really very clear. Statements from various Canadian elected and appointed officials indicate that it could be for the purposes of attempting a cooperative arrangement among the four major wheat exporting countries to influence and/or fix the prices at which wheat would be exported by these countries. On the other hand, some Canadian officials have publicly stated that such an approach to an export arrangement would not work for various obvious reasons and that the purpose of such meetings should be limited to exploring possible avenues of cooperation simply on the basis of sustained communication and periodic reviews of the world wheat supply-demand situation. A very high level Australian official has already expressed little if any interest in attempting to move toward a minimum fixed pricing arrangement for wheat exports simply because of the sharp dissimilarities between the various production and marketing systems in these four countries.

In accepting Minister Lang's invitation to meet on May 10, which is only twelve (12) days prior to the Canadian national elections for the Parliament, Secretary of Agriculture Bob Bergland commented that his purpose in attending the meeting was to (1) discuss measures to achieve greater food security for the developing countries; (2) review the status of attempting to resume the international negotiations for another wheat agreement; and (3) explore the alternatives for the coordination of the production and marketing policies of the four wheat exporting countries. The pressures for Secretary Bergland to attend this Canadian meeting could well be emanating from some Congressional sources that are promoting either the concept of a wheat export marketing board in the United States or other proposals for the United States to increase unilaterally income support payment for U.S. wheat production in return for some assurances from the other three exporting countries that they would not "directly" cut their wheat export prices to gain a greater share of world wheat trade. While most observers believe that increased and more formalized cooperation among the major wheat exporting countries would be useful and beneficial, they point out, however, the efforts to either move toward a world wheat market sharing basis by these four countries, to establish export prices or both would only accrue to the advantage of the other three countries and not to the U.S. wheat farmers.

C. Mr. Doug Anthony, the Australian Deputy Prime Minister, commented about some meetings of representatives from a limited number of wheat exporting countries that one of the major problems resulting in lower prices to wheat producers is the issue of wheat export subsidies. He was reported to have stated that:

"We [Australia] believe that their [the European Communities] subsidy program is nothing more than international vandalism and that they [the European Communities] have caused disastrous consequences for many agricultural producing countries.

"I cannot accept the massive dumping of highly subsidized surplus production around the world and they [the European Communities] have got a lot to answer for because of this."

Consequently, the main item on the agenda for any meeting of agricultural and trade officials from the United States, Canada, Australia and Argentina should be to develop a cooperative approach to effectively improve and modify

the international trading rules to prevent and/or penalize such disruptive agricultural exporting practices such as the European Communities that result in further declines in world prices for wheat, coarse grains, sugar, dairy, etc., products all of which are highly subsidized by the EC Commission into third-country markets.

#### CONCLUSION

Due to the difficulties of reaching any reasonable compromise on a whole host of issues at the recently adjourned Geneva Conference, there would be little if any prospects for overcoming such a series of impasses within the next year or two. It should be emphasized also that the U.S. officials both in Geneva and Washington made substantial concessions during the last six months leading up to the final negotiating session in order to reach an agreement and break the intractable impasse created by other countries. The U.S. position on negotiating another agreement to replace the IWA of 1971 includes a major concession to the European Economic Community to include a separate convention of a consultative nature on coarse grains. With respect to various importing countries, the U.S. officials expressed a willingness to consider a smaller world wheat reserves and at indicative price levels for both the acquisition and release obligation that would have been somewhat lower than U.S. wheat producers would have desired. Moreover, these U.S. officials also expressed concern about the obligations that such a proposed agreement would have placed on the developing importer member countries.

In making a final judgment on the inconclusive ending to the prolonged attempt to reach such an agreement for not only wheat but also including coarse grains, it is apparent that the importing countries rejected any creditable mechanisms based on fair and balanced obligations to both exporting and importing countries with a view towards obtaining any additional degree of world food security or some measure of moderation of declining or rising world wheat prices. The U.S. officials were not prepared to make any additional compromises simply for the sake of obtaining an agreement that would have only been a facade in terms of the purposes for which it was negotiated. This is the point that Secretary of Agriculture Bergland was making, that the United States would not go any further under the pressures of either importing countries, exporting countries or both with respect to indicative price levels for the acquisition and release of wheat from a meaningful world wheat reserve either coordinated or balanced commitment to both exporting and importing countries.

Consequently, a multi-year extension of the IWA would allow the International Wheat Council to continue its functions of providing a forum for international cooperation, discussion and review of an everchanging world wheat situation under the Wheat Trade Convention of the IWA. If the next meeting in London in June results in the IWC including the work of the UNCTAD Conference with respect to food aid, a multi-year extension of the IWA would also permit the Food Aid Convention to continue in force but with an appreciably increased commitment for wheat donated to developing countries. Against the backdrop of the reasons for the adjourned Geneva Conference, a single year extension of the IWA would only result in increased pressures for a resumption of the negotiations in the coming year and with little hope for progress. A single year extension would simply require the IWC to meet again at about this time next year to extend again the IWA, a process that can be accomplished by a multi-year extension of the International Wheat Agreement at this time, and this course of action is unanimously adopted by the GPW Board of Directors.

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#### PREPARED STATEMENT OF CARGILL, INCORPORATED, MINNEAPOLIS, MINN.

Cargill, Incorporated urges that the 1971 International Wheat Agreement be extended for two years. This extension is necessary for several reasons. It would maintain the International Wheat Council. That council provides for valuable information gathering and serves as a forum for discussion of world wheat issues. Extension would also preserve the agreement's Food Aid Convention, one of the few areas where real progress was made during the recent negotiations. We believe a two-year extension is appropriate because the chances of reaching any alternative agreement in a shorter period are remote.

A brief review of the negotiations—their original objectives and their final collapse—shows that extension of the 1971 agreement is the most reasonable course for this nation to pursue.

## U.S. OBJECTIVES

The U.S. had several objectives in the negotiations on a new international wheat agreement. First, the U.S. wanted the burdens of reserve holding to be shared. A U.S. statement issued in June 1977 urged an agreement in which "all major grain-trading nations—exporters and importers—would accept meaningful obligations for reserve stocks." Those reserves would have to be large enough to allow the agreement to function successfully, and the U.S. suggested 30 million metric tons.

Second, the U.S. sought a real sharing of necessary adjustments in national production and consumption policies. That same statement supported an agreement in which: "the participating nations agree to measures to facilitate adjustment of consumption and production in response to world supply conditions."

Third, the U.S. wanted the price band between acquisition and release of the reserve to be wide enough to allow the market adequate opportunity to discipline itself. Obligatory floor or ceiling prices were opposed as both inequitable and unworkable.

Fourth, the U.S. wanted to liberalize world trade by bringing discipline to bear on export subsidies.

## THE NEGOTIATIONS COLLAPSE

Early in the negotiations, it became apparent that production and consumption adjustments would not be adopted. Drafted language required members simply to meet to discuss or agree upon such measures. There was also little support for a subsidy code.

Nevertheless, the U.S. decided to continue to pursue an agreement. This country was willing to compromise some of its negotiating objectives in the hope that some agreement would be better than none.

As the negotiations progressed, however, it became impossible to achieve U.S. objectives. Developing countries were unwilling to carry their share of reserves unless developed countries financed this stockholding. That meant the first U.S. objective—shared reserve burdens—would not be met. Developing countries also objected to a U.S.-EC compromise on the price band, feeling it was too high and too wide. This meant the third U.S. objective—a wide price band—would not be met. At this point, U.S. negotiators began to wind down the negotiations rather than accept a bad agreement.

It became evident that the only possible agreement would have included: a small, narrowly-held reserve; no sharing of production/consumption adjustments; a narrow price band; and a weak subsidy code or none at all. Cargill is absolutely convinced that this type of agreement, the only agreement that could have emerged from the faltering negotiations, would have been disastrous. We view the negotiators' failure to achieve such an agreement as a success.

## A WHEAT CARTEL

Following the collapse of the negotiations, a number of people—including several Congressmen—have begun to call for a wheat cartel or other price-fixing arrangement to replace the IWA. The desire to build upon the rapport and good will developed among major exporting countries through the negotiations is laudable. The urge to enhance producer income is also understandable.

However, a cartel would not accomplish either objective. Cargill strongly opposes the formation of a cartel-like arrangement among the major wheat exporting countries. It is difficult for us to comment on this issue without appearing self-serving. We have an obvious stake in the way this nation exports grain. Yet, it is that stake, that day-to-day involvement, which leads us to conclude that there are sound economic arguments against a wheat cartel.

The case for an Organization of Wheat Exporting Countries (OWEC) or any other price-fixing arrangement rests on the assumption that revenue gains from raising prices would exceed revenue losses from reduced sales. Proponents of a cartel argue that, since demand for wheat is inelastic, customers would be forced to pay the cartel's price. And, they point out, the four major wheat exporters—Canada, Australia, Argentina and the United States—account for around 80 percent of world wheat exports.

This analysis unfortunately ignores the fact that price and quantity sold are determined by both supply and demand. The ability to force people to pay an artificially high price depends not only on the response of demand to a price boost, but on the response of supply as well. When we consider supply responses, the case for an OWEC breaks down.

The four major exporters may bulk large in world trade, but they are a much smaller component to total world production. They collectively produce slightly over 20 percent of the world's wheat. Roughly 80 percent of the world's wheat production, then, lies outside the control of the four exporters. An artificial price boost would stimulate increased production of wheat and wheat substitutes in the rest of the world. Cartel members would control an ever smaller portion of the world's wheat and would be unable to maintain price or volume.

A cartel would also face organizational problems. Exporting countries' interests and circumstances vary. Canada, for example, can store wheat but would find it difficult to expand exports because of logistical problems. Australia and Argentina have fluctuating production and almost no storage capacity. The United States, in contrast, has adequate storage and the capacity to expand production and exports. While the other exporting countries can gain primarily through price increases, U.S. farmers can earn important benefits from increased trade.

A cartel would have to agree on a price level, divide the market among exporting countries, control production and enforce these arrangements. Cartels historically fail because any one member can profit from secret price concessions. A cartel would also lack the flexibility to adjust to a constantly changing world wheat market. Past wheat agreements have failed to withstand the stresses that change introduces; it is unlikely a price-fixing arrangement could succeed where these less ambitious undertakings have failed.

Finally, a wheat cartel or similar arrangement contradicts widely held notions of equity. More than half of the world's wheat imports go to the relatively less developed countries. Large wheat importers in this group are Egypt, Brazil, China, India, Morocco, Bangladesh and Pakistan. These countries would be severely burdened by a cartel-induced increase in wheat prices. This Committee, with responsibility for foreign relations, should be concerned about the transfer of wealth from poor nations to the rich that a cartel would create.

#### CONCLUSION

It is our firm belief that the U.S. should continue its participation in the 1971 International Wheat Agreement by extending that agreement for two years. The distance between what the U.S. wanted from a new wheat agreement and what it would have gotten from the only possible agreement was immense. The U.S. would have had to compromise every one of its negotiating objectives. In these circumstances, we should not ask what went wrong, but rather congratulate our negotiators for what they did right. They successfully resisted a bad agreement.

At the same time, we must oppose misguided efforts to fill the perceived gap the negotiations' collapse has made. Proposals to establish a wheat cartel or cartel-like arrangement are unworkable, both for economic and organizational reasons. They are also inequitable. We urge this Committee to reject such arrangements.

NORTH AMERICAN EXPORT GRAIN ASSOCIATION, INC.,  
Washington, D.C., May 7, 1979.

SENATE FOREIGN RELATIONS COMMITTEE,  
Dirksen Senate Office Building,  
Washington, D.C.

GENTLEMEN: The North American Export Grain Association is an organization comprised of thirty of the leading exporters of U.S. grain, both private firms and cooperatives, associated for the purpose of expanding exports of U.S. grain. We feel this is a goal compatible with the public interest, for U.S. agriculture must depend on exports in order to continue to produce adequately for the U.S. consumers and provide one of the best sources of foreign exchange. Grain exports have, during the past several years, contributed approximately \$14 to \$15 billion annually on the plus side of the U.S. trade balance. Our interest in the International Wheat Agreement is obvious, and we have been privileged to have served as advisors to the U.S. delegation to the International Wheat Council and during the negotiations on such agreements.

We have actively supported U.S. participation in the International Wheat Council and continue to fully support its work. We feel it has served as a very effective forum for international cooperation in world trade in wheat, and we very strongly support ratification of the extension of the International Wheat Agreement which provides for its continuation.

The International Wheat Agreement has been successful, we feel, because it has not pretended to control trade or impose stringent economic provisions on its members. Efforts to introduce such provisions in wheat agreements in the past have proved impossible to negotiate, or when they were negotiated, have led to failure. Burdening a wheat agreement with the type of provisions which members would in time find too onerous to bear would expose all participants to the risk that at some time we could find ourselves with no agreement at all and, therefore, no basis for the continuation of the International Wheat Council.

We were opposed to the negotiation of a new wheat agreement as was developing in the negotiations in Geneva and London, principally on the grounds that it was not an agreement which was designed to expand trade. It was honestly described by the Administration officials as a "stabilization" agreement, some of the provisions of which would have tended to control trade in grains. We feel the U.S. negotiators, recognizing the danger which it would have posed to U.S. trade in grains, wisely refused to compromise their position and elected to return from the negotiations without any agreement, rather than return with a poor one. They are to be congratulated for their courage.

We are firmly convinced that the United States trade in grains would be severely prejudiced if the United States were to attempt to enter into any agreement which would even suggest the possibility of anything like market sharing or which would grant any foreign nation or group of nations authority over U.S. marketing efforts. The agreement under negotiation in Geneva contained such elements.

A current proposal for an International Marketing Commission is even more explicit in this regard. The Commission, as proposed, would, very simply stated, place all decisions regarding U.S. trade in grains in the hands of its chief competitors. It would not only compromise—it would completely surrender—all U.S. sovereignty over U.S. grains, making it impossible for the U.S. to expand its trade without the approval of the other three members, all of which would hope to expand their share of the world grain markets at the expense of the United States.

There are various reasons why such a Commission could scarcely be negotiated much less be able to function properly. The interests of the nations which would participate in such a Commission are diverse, and it would be virtually impossible to come to an accord on the details of the agreement. Each nation would be forced to act in its own national interest, subjected to domestic pressures within its own borders, and these interests are not always compatible. The Canadians and Australians have, for example, long sought to have the United States raise its support prices, so that they could promote their own grain agriculture under the umbrella which would be provided for them by the United States. They apparently do not recognize the fact that this might be of benefit to them in the short term—and obviously to the detriment of the U.S., which would find itself pushed even further into the role of residual supplier to the world markets—but would then very seriously prejudice the grain exporting interests of all participants. For any artificial increase in world prices would provide a price umbrella also for all the other nations in the world now producing wheat as well as any which might not be producing it. It would very quickly encourage the production of any other commodity which might serve as a substitute for wheat. We cannot forget that wheat is the second major food grain—the first is rice. The four major wheat exporting nations of wheat might appear to be formidable when one considers merely their share of the world wheat export market, but together they are responsible for no more than about 20 percent of the total world wheat production. The figures become even less impressive when one considers also the world production of rice, all the world's root crops and other commodities which could easily and very quickly be substituted for wheat. It would not take much of a reduction in the U.S. wheat export level to destroy our markets—a shift of 100 to 200 million bushels in any given season can mean the difference between a relatively good year and a very poor one.

An international commission is being described to farmers as a means of raising their prices. This is, unfortunately, a definite illusion, for an artificial increase in prices such as might be envisioned by U.S. farmers and those in the other countries would run counter to the interests expressed by a consuming public through the U.S. Government. Anyone who doubts this should merely note the attitude of the Administration toward a proposed 7 percent increase in the grain target prices and Administration efforts with regard to the support prices for milk. Such a commission would, furthermore, place control of U.S. grain

exports in the hands of not only the U.S. Government but the governments of the other participating countries as well. Our experience of the past several years should prove conclusively how that control would be used should commodity prices continue to climb, raising stronger concern about inflation and the cost of living.

We do not suggest that there should not be some dialogue between nations interested in the export of wheat. The exporting nations have long been competitors, and they should continue to be competitors, with the efficiency such competition always brings with it. They should work together to help expand trade through trade liberalization, working to overcome trade impediment in their own and other countries. Only in this way can their own interests and the interests of the rest of the world be best served. They should not be conspirators in an effort which would reduce efficiency and restrict grain trade by making it subject to strict Government regulation.

There is something terribly inconsistent about having a group of nations which have participated in the long and determined Multilateral Trade Negotiations, designed to expand world trade, now become involved in an effort to restrict trade by forming a cartel. There is also something very inconsistent in having a group of nations which profess keen interest in attempting to feed the world, conversely, become engaged in an effort which would serve to keep food supplies out of the reach of the poorest of the world's citizens.

There is currently some discussion about the need to seek alternative solutions following the inability of the Geneva negotiations to produce a new wheat agreement. As we have indicated in this statement, we are thoroughly convinced that the failure to negotiate the type of agreement under discussion was a plus, not a minus for the American farmer and, hence, the American public. We fail to understand the need of the nation to seek an alternative for the loss of a poor agreement.

The nation has really two alternatives in determining what should be its agricultural policy. It can choose to restrict markets, artificially raise prices and obligate the taxpayer to compensate the farmer for his loss of markets. Or it can choose to liberalize trade, take advantage of the rapidly expanding world demand for grains, thereby permitting the farmer to make more efficient use of his land and equipment. He could thus improve his income through a healthy, naturally derived higher price for his grain and greater unit sales, without requiring recourse to public funds. Under this latter alternative the taxpayer would also receive the benefits which expanded foreign trade would bring him through the improvement in the U.S. economy, whereas the former alternative would, at best, restrict such benefits to the extent it would restrict trade.

We do not feel an enlightened public should find this to be a difficult choice to make.

Sincerely,

JOSEPH HALOW, *Executive Director.*

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#### TRADING HUNGER FOR GRAIN

(By Richard Gilmore, Visiting Fellow, Overseas Development Council)

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#### PRESENT GLOBAL CONDITIONS

There is currently a surplus of food and feed grains in the United States and around the world. The U.S. has withheld a substantial portion of its production from export markets, creating a sizable national stock and bolstering American farm prices. Other principal exporting countries have developed alternative approaches for dealing with what they identify as the "surplus problem." As a result, importing countries have profited from their improved purchasing power and access to grain markets at reasonable prices. Since the most recent scares of 1974/75 when prices skyrocketed as supplies dwindled, the world has moved closer toward a stabilization of supply and demand.

Even at the macro-level this approximation of world equilibrium in staple food commodities is deceiving. USDA projections for the marketing year 1978/79

show consumption exceeding production in deficit regions<sup>1</sup> of 116.4 million metric tons for wheat, rice and coarse grains combined. Without U.S. production the world's deficit position is substantial—77.2 million metric tons. Extending this forecast out to 1987, the gap is even greater based on current production and consumption levels: 159.3 million metric tons for the "deficit regions" and 111.4 million metric tons as the world total, absent U.S. production. For less developed countries, FAO projections for 1985 (using the period 1969-71 as the base period) show demand exceeding production by 76 million metric tons in "cereals."<sup>2</sup>

Under the most optimistic set of assumptions the FAO shows small margins of export availabilities over import requirements in wheat and coarse grains adding U.S. exports. Even this set of projections, however, points to "developing countries" increasing their demand for wheat and coarse grain imports at a much higher rate than the corresponding growth of available exports. In short, most statistical analyses point to persistent global shortages of food and feed grains in the immediate future. At the regional and country levels, the chronic shortfall between consumption requirements and domestic production capacity is more dramatic. Once the calculus is expanded beyond conventional criteria of local supply versus actual, effective demand in LDC's, the discrepancy widens.<sup>3</sup>

Improving food production, distribution and utilization within a country is certainly a sine qua non to closing the gap. But it is not enough, nor will it satisfy minimum consumption requirements at subsistence levels in the LDCs. The World Bank shows that the growth rates of wheat, coarse grains and rice have fallen off to the point that between 1969 and 1974 they were at 1.18 percent for developing countries. The International Food Policy Research Institute forecast in December 1977 that food production will grow in "the developing market economies" during the next 15 years at the 1960-75 rate. The average rate during this period was 3 percent, declining to 2.4 percent between 1967-75. This same study concludes that even with rapid increases in food production in the LDCs, there will still be a pressing need for "food imports \* \* \* well in excess of recent levels \* \* \*."<sup>4</sup>

Surplus regions will be called upon to make up the differences. Commercial trade and assistance are the only way to transfer valuable resources of raw and semi-processed food grains to deficit regions. Although exports of wheat and flour account for only 18-19 percent of total world production and consumption,<sup>5</sup> they dictate the international terms of trade for wheat as well as other grains. Moreover, traded grains have a multiplier effect on both domestic and world prices. Commercial and food aid transactions are instrumental in determining consumption and production trends worldwide. No matter how protected a national agricultural economy is, it cannot divorce itself from international price and supply trends particularly when it is a net importer of grain. Even when a country is completely self-sufficient, the costs and benefits of its agricultural programs in economic and social terms must be measured against access to grain from foreign supply sources.

Despite this interconnection, there is no assurance that grain which is available for export is actually exported; nor that when it is purchased by a foreign buyer it will be the buyer who needs it the most. Trade is a means of allocating resources but in itself does not accommodate goals concerned with equitable distribution of grain. The latter are determined by the nature of different marketing systems, commercial and government enterprises responsible for handling grain, and the relative purchasing power of different groups within any country. An increase in production will not in itself insure a reduction in hunger. Similarly, holding grain reserves will not automatically secure access to grain at reasonable prices. Raising exports from surplus regions does not necessarily lead to imports in regions where the shortages are the most severe. Equalizing both sides of the equation is attendant upon the very structure of the grain trade.

<sup>1</sup> W. Europe, E. Europe, U.S.S.R., East Asia, Mainland China, South Asia, Middle America (Mexico and Central America), Africa and the Middle East.

<sup>2</sup> In all instances FAO statistics are based on effective level of demand. If consideration were given to a broader definition of potential demand, the deficit forecasts would be exponentially greater.

<sup>3</sup> Population growth, income changes, urbanization and low agricultural productivity are among the principal factors which inflate demand over available supplies.

<sup>4</sup> International Food Policy Research Institute. *Food Needs of Developing Countries: Projections of Production and Consumption to 1990*. Research Report 3, December 1977.

<sup>5</sup> U.S. Department of Agriculture, Foreign Agricultural Service, *Foreign Agricultural Circular: World Grain Situation Outlook for 1978/79*, FG 3-79 (Jan. 26, 1979), p. 4.

## STRUCTURAL ISSUES

Potential oligopolies among food and feed grain producing countries and among commercial traders are counterbalanced by monopolistic enterprises in several countries accounting for the largest portion of imported grain. Together, grain exporting nations could control world supplies and prices, particularly in wheat and soybeans. Because of differences in their economic and political objectives, however, they rarely perform as an effective oligopoly. Their divergences are rooted in their marketing systems, the effectiveness of which are frequently undermined by outside commercial and political forces. The result is not competition among grain exporters in the constructive sense of the term.

On the contrary, the absence of harmonization in national export policies is likely to induce an international trade war in times of surplus, accompanied by production and distribution dislocations. Under a setting of gyrating commodity prices, scarcities and skyrocketing inflation predictably ensue. The climb upwards in prices and downward in supply in large part may be exaggerated through an inevitable ratchet effect created by counterproductive national policies. With such a scenario à la 1972, the maintenance of an effective suppliers' cartel is unlikely without any savings from the break-up passed on to consumers or producers.

A structural oligopoly does exist, however, in the private sector among grain exporters. The number of companies involved in handling the world's major share of grain transactions had dwindled to six. These companies which make up the existing oligopoly, not only dominate commercial grain markets, but play an increasingly important role in grain-related sectors as well. This trend is explained by the high level of vertical and horizontal integration in the industry. Their present size and operations raise questions about the role of private firms in servicing domestic and world requirements in food and feed grains. The profitability of the grain trade depends upon price instability and supply irregularities. Very frequently, the major grain trading houses have heightened differences in national approaches to production, marketing, and distribution. Notwithstanding the efficiencies these companies offer, their interests rarely coincide with governmental efforts to achieve greater stabilization and security.

Monopolistic importing agencies like the Soviet Union's *Exportkhleb* or China's *Cerolfoods* do not yet have the power to destabilize international market conditions over an extended period of time, but their short-term impact is significant. Soviet grain purchases in 1972 and again in 1974 are the most dramatic recent examples of how such an organization can precipitate crises which extend far beyond normal boundaries of the marketplace. With private traders executing their purchases at favorable prices, the USSR was able to siphon off enough supply to cause prices on American and world markets to skyrocket. The larger the demand which this kind of importing monopoly commands, the wider its impact on the market. Current trends suggest that these state enterprises are expanding and integrating their operations, giving them a firmer hold on their domestic economy and potentially a greater influence on agricultural commodity trends worldwide.

## OBJECTIVES

(1) *Food security.*—All countries should be able to have access to an adequate level of food grains at all times. Consumption requirements should be reviewed to include equity considerations whereby there is greater availability, distribution and utilization for greater numbers.

(2) *Food stabilization.*—Producers and consumers gain from food and feed grain prices which are stable and non-inflationary; otherwise grain surpluses or scarcity can produce the same results—wide swings in prices, disruption of markets, and consequent misallocation of precious resources.

(3) *Increased productivity for LDC's.*—To close the gap between supply and demand over time, LDCs will have to move toward greater agricultural self-sufficiency. Food imports must be synchronized with comprehensive agricultural production programs within LDCs.

(4) *Harmonization of marketing systems.*—Unless marketing systems in the principal importing and exporting states become more uniform, goals 1-3 will be extremely difficult to achieve.

## ROLE OF THE UNITED STATES

The U.S. is the world's largest exporter of grains and soybeans. In marketing year 1977/78 it exported approximately 53 percent of total wheat and coarse grain exports and held 44 percent of world stocks in grains.<sup>6</sup> In wheat and wheat flour, U.S. exports accounted for at least 43 percent of total exports, 39 percent of total exports, 39 percent of stock and only 15 percent of production.<sup>7</sup> Equally important is the fact that the United States is the world's largest commercial wheat exporter as well as donor. In percentage terms, 73.5 percent of its total wheat exports for 1975 were commercial and 10.7 percent under PL 480 and straight grant programs.<sup>8</sup> LDCs accounted for the largest share of U.S. commercial sales—49.9 percent.<sup>9</sup>

These statistics underline the fact that the U.S. is the preeminent force in the world grain market on the supply side. LDCs together are the largest group of buyers. Notwithstanding their low income levels, they will import whatever their needs are no matter what the price.<sup>10</sup> In times of food grain scarcities resulting in spiralling world prices, their foreign exchange expenditures for grain imports will increase. They will then face cost-push inflationary effects in their own economies. Without reliable external supplies at non-inflationary prices, efforts to stimulate and assure a market for local production will also be hampered.

For both LDCs and developed countries, the United States is the largest source of supply. Its export sales, therefore, determine international grain prices. There are, as a result, only marginal differences in other suppliers' and the United States' export prices. Moreover, grain prices worldwide are pegged either directly or indirectly to U.S. cash and futures prices. The United States can, accordingly, do more to effectuate change in keeping with food security, stabilization, equity, and marketing harmonization objectives than any other country.

## PLAN OF ACTION: U.S. AND MULTILATERAL INITIATIVES

*United States*

(1) Harmonization of its marketing system. The United States should, given the structure of the grain trade, take legislative and regulatory steps which would change the role of the private sector as exporters. A major reform program must include the following:

(A) Establish an export licensing system whereby companies (private and co-op) would register with the U.S. government as authorized exporters of U.S. grain. Licenses would be issued at an adjustable fee basis as a function of market prices at home and abroad. Revenue derived from fee payments would be used to pay for the administration of this and other parts of the program. Registration would include the implementation of a new, comprehensive export sales and shipment reporting system. This licensing and reporting system would be designed as a substitute to the present erratic and inefficient export control system.

(B) Tighten oversight and regulation of commodity markets. The Commodity Futures Trading Commission (CFTC) is hamstrung in its ability to monitor and regulate trading or exchange transactions under its jurisdiction. It is all too often in the position of reacting to market disruptions rather than preventing their occurrence. If hedging has any commercial utility related to reducing risks for buyers and sellers, then it must be conducted under the least restrictive circumstances. The role of government should be to maintain conditions which insure relative price stability and reliability in the market. Hedging activities ideally should tend to level trend lines in prices. However, the temporary halt in March wheat trading and the Hunt case in soybeans dramatize the inadequacies in the current system. At the moment, the exchanges do not provide in a consistent fashion the additional reliability and stability which they could provide given the property guidance and oversight. The CFTC still lacks requisite authority and expertise to exercise this role.

<sup>6</sup> *Ibid.*, p. 2.

<sup>7</sup> *Ibid.*

<sup>8</sup> U.S. Department of Agriculture, Economics, Statistics and Cooperatives Service, *Wheat Situation*, WS-247 (February 1979), p. 18.

<sup>9</sup> *Ibid.*

<sup>10</sup> Research has established that LDC demand for wheat is relatively inelastic. Refer to: Lance Taylor, Alexander H. Sarris, and Philip C. Abbott, *Grain Reserves, Emergency Relief, and Food Aid* (Washington, D.C.: Overseas Development Council, 1977), p. 32.

At present, a major weakness of the CFTC is that it has no means of monitoring cash markets. In the absence of regulation cash markets have become just as important as futures markets and potentially the most costly from the point of view of the American consumer and farmer. Foreign traders using U.S. commodity exchanges are not subject to the same reporting requirements as are American traders. An initial report of the Advisory Committee on Export Sales Reporting to Secretary Bergland, dated February 15, 1979, recommended that all firms should be subject to the same reporting provisions.<sup>11</sup> Furthermore, the Commodity Futures Trading Commission should require comparable uniform information on transactions in U.S. commodity exchanges.

The present trend toward deregulation in U.S. commodity markets should be reversed: (a) Speculative limits, recently rescinded, should be restored. (b) Distinctions between hedging and speculation should be tightened. (c) Mechanisms for quoting daily prices should be formalized. (d) New criteria should be established to determine bona fide transactions and price categories. (e) Principal responsibility for disseminating price information should be assumed by a federal agency.

(2) Establishment of a domestic food bank in anticipation of an international counterpart institution. The mechanisms for such an institution will be described in detail in a forthcoming study, but the general principle would be to operate acquisition and sale procedures in conformity to a price band. The program would be designed to replace the current U.S. agricultural loan, target, set-aside reserve programs. Because it would generate its own revenue, it would be less inflationary than the current program.

(3) Reform the foreign assistance program so that foreign aid shipments are drawn from the domestic food bank. The purpose would be to separate foreign aid from domestic agricultural production and pricing concerns. It would link food aid more directly with agricultural production incentives in recipient countries.

(4) Terminate all bilateral grain agreements in favor of a domestic/international food bank. By definition bilateral accords provide preferential treatment, usually at the expense of those who need grain on reasonable terms the most. They distort the market and do more to solidify inefficiency and inequity than they do to contribute to general food security and stability.

#### *International*

Establishment of an international food bank styled after the International Monetary Fund for food and feed grains. Mechanisms for this institution will also be outlined in detail in a forthcoming study, but in general the institution would assign tranches of grain for participating countries. Drawing quotas would be calculated on a set of criteria which identify welfare and humanitarian needs as well as effective demand. "Deposits" would be in the form of grain, stored and held in reserve at fixed locations. Just as gold was stored under the gold exchange standard in Fort Knox, earmarked for individual countries, one alternative is to store the grain in surplus regions. The location of such reserve would in no way affect accessibility for participating countries.

To maintain "deposits" at fixed quantities, account will be taken of changing values in convertible currencies. A food tranche will, therefore, be both a currency and commodity quota to ensure the dual objective of food security and stabilization. The first tranche will be large enough to allow for conditions of disaster and humanitarian relief.

Exporters of Food Bank grains must become registered agents of the Bank. Government enterprises handling grain shipments will also have to register. Failure to do so will disqualify a country from participating in Bank-originated transactions.

This system is conceived as a substitute for current initiatives on a new wheat agreement. Short of this plan, it is recommended that the U.S. initiatives take precedence over any such multilateral reserve accord.

<sup>11</sup> *Report of the Advisory Committee on Export Sales Reporting to Secretary of Agriculture, Bob Bergland, Feb. 15, 1979, (Draft Report), p. 15.*

