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EMERGENCY AGRICULTURAL ACT OF 1980

GOVERNMENT

Storage

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

S. 2199

A BILL TO AUTHORIZE THE SECRETARY OF AGRICULTURE TO MAKE PRICE-SUPPORT LOANS AVAILABLE TO PRODUCERS ON THEIR 1979 CROPS OF WHEAT, CORN, AND FEED GRAINS WITHOUT REGARD TO WHETHER THEY PARTICIPATED IN THE FEDERAL PROGRAMS IN EFFECT FOR SUCH COMMODITIES, TO AUTHORIZE THE SECRETARY TO ANNOUNCE AND CARRY OUT A CROPLAND SET-ASIDE PROGRAM FOR THE 1980 CROPS OF WHEAT, CORN, AND FEED GRAINS, AND FOR OTHER PURPOSES

S. 2258

A BILL TO ALLEVIATE THE ADVERSE EFFECTS OF THE SUSPENSION OF TRADE WITH THE UNION OF SOVIET SOCIALIST REPUBLICS ON UNITED STATES AGRICULTURAL PRODUCERS; AND FOR OTHER PURPOSES

S. 2264

A BILL TO AMEND SECTION 110 OF THE AGRICULTURAL ACT OF 1949 AND SECTION 4(h) OF THE COMMODITY CREDIT CORPORATION CHARTER ACT

S. 2277

A BILL TO PROVIDE EMERGENCY RELIEF TO FARMERS ADVERSELY AFFECTED BY THE EXPORT EMBARGO ON GRAIN SALES TO THE SOVIET UNION, AND FOR OTHER PURPOSES, AND

S. 2315

A BILL TO AUTHORIZE THE SECRETARY OF AGRICULTURE TO ESTABLISH RESERVES OF AGRICULTURAL COMMODITIES TO STABILIZE FARM PRICES WHENEVER EXPORT SALES OF AGRICULTURAL COMMODITIES ARE SUSPENDED FOR REASONS OF NATIONAL SECURITY OR FOREIGN POLICY AND THE PRICES PRODUCERS RECEIVE FOR THE COMMODITIES INVOLVED ARE, OR WILL BE, ADVERSELY AFFECTED BY SUCH SUSPENSION

FEBRUARY 25, 26, 27, AND MARCH 6, 1980

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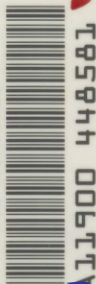
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EMERGENCY AGRICULTURAL ACT OF 1980

MONDAY, FEBRUARY 25, 1980

U.S. SENATE,
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 324, Russell Senate Office Building, Hon. Herman E. Talmadge (chairman of the committee) presiding.

Present: Senators Talmadge, McGovern, Zorinsky, Young, and Jepsen.

STATEMENT OF HON. HERMAN E. TALMADGE, A U.S. SENATOR FROM GEORGIA

The CHAIRMAN. The committee will come to order. We are holding hearings this morning on S. 2199, S. 2258, S. 2264, S. 2277, and S. 2315. I will ask that all those bills be inserted in the record.¹

The committee this morning begins the next step in helping President Carter keep his January 4 pledge to minimize the impact of the Russian grain embargo on the Nation's farmers. On several occasions since the President suspended grain shipments I have commended the administration on the steps it has taken to carry out the President's pledge. I do so again this morning.

But I also have stated on several occasions that I feel more should be done than is presently being done or has been announced. I reiterate that position today. There is no question but that American farmers have been hurt by the embargo. The only question is how severe is the injury. This will not be known until the results of this year's crop are in, if then.

We do know that prices of the affected commodities, by and large, have not recovered to their preembargo levels, and that the price outlook for this year's crop is scary at best.

This cloudy and uncertain outlook is contributing to the general stress and concern that has run throughout the agricultural economy. This concern and stress are written large in the Department of Agriculture's preembargo forecast of a 20-percent reduction in net farm income this year.

On January 22, the committee heard Secretary Bergland's assessment of the impact of the embargo. I, and I am sure other members of the committee, were impressed by his presentation and by his characteristic sincerity and frankness in discussing the problem.

¹ See pp. 168-197 for reprints of the above-referred to bills with accompanying staff explanations and summaries.

However, I and several other members of the committee were not convinced then, and we are not convinced now, that everything that ought to be done is being done to ease the embargo burden on farmers. As a consequence, we now have a number of bills before the committee that propose a variety of new actions that the authors believe the administration should take to augment the steps already announced.

As author of one of these bills, I believe that in order to carry out fully the President's pledge of January 4, farm income should be restored to where it would have been without the embargo. I hope the committee, in due course, will bring forth a bill to do just that.

The committee will devote the next 3 days to hearing testimony on the pending legislation, and to hear other proposals aimed at easing the embargo's effect. Today and tomorrow, we will hear from public officials, farm organizations, farm leaders, and other interested parties. On Wednesday, we will hear from the administration.

Following the hearings, it is my intention to move into markup in the very near future with the hope that we can report a bill to the Senate as quickly as possible.

We need to move on this legislation with dispatch. Farmers in my State and other southern regions of the country already have planted this year's crop. Producers need to know before the crop year is too far advanced what changes or additions may be made in this year's farm programs so they can make their plans accordingly.

I therefore intend to proceed with these hearings as expeditiously as possible, so that we can move on to the next step of developing a legislative package that will provide farmers all the protection they need and deserve from the embargo fallout.

There are quite a number of witnesses to be heard. I would suggest, if it meets the approval of the committee, that we limit each witness to 10 minutes and each Senator's interrogation of each witness to 5 minutes.

Any objection?

[No response.]

Without objection, it is so ordered.

The first witness is one of our very distinguished colleagues, former Governor of Nebraska and now a Member of the Senate from Nebraska. We are honored, indeed, to have you with us, Senator Exon. You may insert the full statement in the record and summarize it in any manner you see fit, sir.

STATEMENT OF HON. J. JAMES EXON, A U.S. SENATOR FROM NEBRASKA

Senator EXON. Thank you very much, Mr. Chairman, and Senator Jepsen. I am pleased, once again, to appear before your committee.

I would just like to start out by saying the remarks that the chairman made to open the hearing this morning are almost identical in line with the exact position that I take. Today, certainly, the committee begins several days of hearing on legislation which will have one of the greatest impacts on our food plant and its

future. No greater charge can be made to a committee of the Congress than the one that is before this committee at the present time. And I certainly hope that you can act favorably and expeditiously on all, or at least most, of the bills that you are considering this morning.

I appear here today not to take issue with the President's decision on January 4 to embargo 17 million metric tons of wheat and corn destined for the Soviet Union. I suspect that if we just go about rehashing that time and time again, we are not going to be able to get on with the critical matter that faces us today, and to make sure how we are going to insulate this from coming directly out of the pockets of the American grain farmers as so often has been the case in the past.

I would like to submit without objection the entire text of my statement.

The CHAIRMAN. The entire statement will be inserted in the record.¹

Senator EXON. Mr. Chairman, I guess that you and others know that on February 1 I had another meeting with Secretary Bergland. And we came to an agreement on two pieces of legislation at that time that the Secretary said that he would support, said he felt the administration could and would support. And they are embodied in a bill number S. 2264 that is before the committee.

As you know, Mr. Chairman, this bill does two things. First, in addressing the grain—corn, basically, and wheat—in the 1979 program, it would simply raise the support level, the loan level, from \$2.10 a bushel for corn up to \$2.50, and, likewise, wheat would be raised from \$2.50 to \$3.50.

Now, I recognize that this is, in effect, not as much grain as we would like to have come under a higher support program. But I would say, Mr. Chairman, that if we could expeditiously pass out this portion of my bill, certainly I think it is going to help alleviate the serious cash flow situation that confronts us today in the farm belt.

In addition, S. 2264 raises the loan level for onfarm facilities storage loans from \$50,000 to \$100,000 per farm operator. Essentially, Mr. Chairman, those are the two inherent parts of the bill.

I know that, with regard to the onfarm facilities, the storage loan increase, that is also, I believe, incorporated in one of the bills that you have introduced. I do not care who the author of these bills are or what bills eventually go to the floor of the Senate for passage. I just think that those are two steps that we certainly should press forward on with all appropriate dispatch; get passed by the Senate and hopefully passed by the House of Representatives, and signed by the President because, at a minimum, these steps are needed and are needed right now.

Mr. Chairman, I certainly share the concern of what is going on out there at the farm gate with regard to prices. From reviews that I have made and information that I have received, I think, it can still be said without fear of contradiction that per bushel prices of most commodities are 10 to 15 cents below what those prices were on January 4, the date of the announcement of the embargo.

¹ See p. 109 for the prepared statement of Senator Exon.

While the administration has taken some steps, they obviously are not enough. I do have some potentially good news. This morning, as you know, Mr. Chairman—and I have discussed this with you—the matter of the phosphate shipment to the Soviet Union, it made no sense to me at all that, after we were embargoing some 17 million metric tons of grain to the Soviet Union, to turn around and consider shipping them phosphates. It is my understanding that that decision has now been made inside the administration but not yet announced. I have been assured, and I hope that those signals do not change; that they are not going to allow shipment of phosphates or other fertilizers to the Soviet Union.

With those brief comments, I will be glad to respond to any question that any of you have on the whole scope of the situation. And certainly I agree, Mr. Chairman, with the emphasis that you place on what I consider to be an untimely delay on the part of the administration with regard to announcing the 1980 farm program. You know, Mr. Chairman, that with your help and the other members of the Agricultural Committee, we passed, unanimously in the U.S. Senate a resolution that I introduced that urged the administration to establish a wheat set-aside program for 1980.

They brushed that aside, as you know, and went right ahead and eliminated it. Now we are in a situation where I feel that, from what I can see forthcoming out there in the farm belt, unless we have a workable farm program and some set-aside and diverted acres for 1980, we are going to have serious, serious consequences with crop prices in 1980 and the years that come thereafter.

I am sure that there will be additional testimony today with regard to what we are going to be doing in the future about prices. It is my feeling that the family-sized farmer is interested only in seeing that his interests are protected, not excessively, but to the extent that the rest of the economy is being protected. And, indeed, Mr. Chairman, there is considerable talk today about tying the percentage of parity prices for commodity farm products to some type of a cost-of-living increase so that if the farmers again experience a 15- to 20-percent increase in their cost of production, the loan price support programs under the farm program would automatically rise at about the same level.

With that, I will be glad to respond to any questions.

The CHAIRMAN. Thank you very much for an excellent statement, Senator. I agreed with you on the set-aside. I advised Secretary Bergland at that time to have the set-aside. And the Senate advised him in response to your resolution unanimously, but, as you pointed out, he disregarded that advice.

Now, with reference to the embargo. We pointed out that embargoed grains and other agricultural commodities, but not phosphates—it was my thought that, if we were going to have an embargo on commodities going to the Soviet Union, it ought not to be limited to agricultural commodities, but it ought to be completely across the board. Is that your thinking?

Senator EXON. I think I would generally agree with that. Over in the Armed Services Committee, on which Senator Jepsen and I both serve, we have discussed this to some extent with the defense officials. I remember one witness from the Defense Department saying that it makes no sense for the United States of America to

embargo screwdrivers, for example, because screwdrivers could be obtained by the Soviet Union in plentiful supply from some other nation.

There may be some exception to the rule, but it seems to me, Mr. Chairman, that you have made a good point. We have decided to play hardball with the Soviet Union because not only of their expansionist activities all over the world, but particularly with regard to their overt invasion of Afghanistan.

Now, I said, on the fourth day of January, when the President announced the embargo of 17 million metric tons of grain, that we should be embargoing other commodities. I said at that time that if we are going to play hardball with the Soviet Union on 17 million metric tons of grain, it made no sense whatsoever for us to consider going over to participate in their Olympics next summer. It did not make sense, for us to play hardball with grain but softball when it came to the Olympics or other types of embargoes that we should probably institute against the Soviet Union.

The CHAIRMAN. I think that maybe the embargo is likely not to work—I never have known one to work, except in time of war when we had sufficient naval power to sink ships transporting the commodity. It did not work in Napoleon's continental system. And, already, two South American countries—Brazil and Argentina—have announced that they are not going to comply with any embargo. The Soviet Union is the second greatest gold mining country in the world. They have substantial gold reserves.

And my judgment is that if you place an order for grain in Buenos Aires or Hong Kong or Rio de Janeiro and ship it ostensibly for France or Cambodia, and transship it at sea, it will ultimately wind up in the Soviet Union. What is your thinking of that?

Senator EXON. We have been getting along so well, Mr. Chairman, that I hesitate to take issue with you, but I certainly want to take issue with you at least on this particular point. I happen to feel, and have maintained for a very long time, that we have misused our food plant. I think that we should eliminate the international cheap food policy that has permeated the thinking of several administrations.

I do not happen to feel that the Soviet Union can find the replacement of the grain that we have embargoed. I think that when we are facing a situation of an international bully like the Soviet Union we should take every economic step that we can before we have to meet the ultimate possibility or eventuality of sending troops.

Therefore, I feel that we should not only embargo grain, but we should extend the embargo to other products and use the economic might of the United States, to deter the Soviet Union from further aggression beyond the borders of Afghanistan.

What we are talking about here, Mr. Chairman, is whether or not we can and should use food as a weapon. I have been on record for a long, long time saying that the food production plant that we have is the real strength of the United States of America. You can take about anything that you want these days, Mr. Chairman, in the way of hard or soft goods, and you will find that, for the most part, those goods are manufactured or produced in foreign coun-

tries, usually cheaper, and, in most instances, they are about the same quality, if not superior, to the way they are produced in the United States of America.

One way that I see the way we are going to have a chance to balance out our serious deficit of international trade is to eliminate the cheap food policy; use food as an economic weapon when we have to and get tough with it. Otherwise, if we are going to sit around and say that we cannot manage our own affairs, then it seems to me, we are saying that we are going to continue the international cheap food policy, which I think has been the heart and soul of troubles not only in the farm belt but in our general economy.

The CHAIRMAN. With no objection, we will follow the 5-minute rule this morning. Any objection?

[No response.]

The CHAIRMAN. Senator Jepsen, any questions?

STATEMENT OF HON. ROGER W. JEPSEN, A U.S. SENATOR FROM IOWA

Senator JEPSEN. I have no questions, other than to echo some of the statements that have been made, and point out the fact that it has been 54 days since the embargo, and Iowa farmers have seen nothing out of Washington yet to help them. I think, as has been pointed out here, that economic sanctions and embargoes have always failed miserably throughout the history of mankind and it has been documented, at least certainly in this country, after having an economic embargo on Cuba, an economic embargo in China, an economic sanction on Rhodesia, and an economic sanction here and there, that they have not done anything except hurt us.

The embargo had no effect, as it was pointed out in one of the earlier meetings, I think, by Senator Boschwitz from Minnesota; the effect was for the Russians to send in 30,000 more troops in 24 hours.

In the meantime, the thing that I want to make a brief statement on, Mr. Chairman, is to urge and hope that in the next 3 days or 2 days of hearings—whatever this ends up being—that we can get about the business of encouraging and directing, if need be—the USDA to start moving in giving the agricultural people of this country some direction.

It did not take them long to drop an embargo. And, as you know, I liken the embargo to taking out a six gun and shooting the American farmer in the foot and then telling Russia, "Take that." That is about the way it was.

They dropped the embargo overnight. Right now, the farmers in my State, and Senator Exon's and Senator Zorinsky's States, are buying chemicals, fertilizers, seeds, delaying plans, or already planting in their area. You know, the farmers do not have the luxury or the time for committee meetings to meet and debate and postpone and recommend, and so on. There is a time for preparing the ground, there is a time for planting.

So, the purpose of these hearings is to urge the administration to quit dragging their feet so the farmers can get into the planting, I, too, have bills that I introduced. Mine are very simple, a couple of

one-liners: one, they could reopen the 1979 set-aside program so that the 90 percent of the farmers who were not eligible for any assistance could be, and, the other one, to enable and authorize the USDA to open up the 1980 set-aside.

I recommend that these things be done without going into formulas and all types of other things, keeping it very simple because, again, in the interest of time, I think the USDA has a responsibility to make all the adjustments that need to be made and can collectively, with us, and with input from farm organizations around the country, develop programs that will be fair.

And, of course, I understand that special consideration, through administrative avenues, should be given to those who participated in the set-aside program in 1979. They did not plant from fence row to fence row and have a bumper crop, so they should not be penalized if they do reopen it up.

But that is something that commonsense dictates can be handled and handled administratively and, most important, expeditiously.

Before the embargo, the farmers had real hope, not only in Iowa, but around the Nation. And now things are different. And I think that the farmers, first of all, should have at least the option to rethink their position or participate in a program for 1980. And certainly, we have got to make it possible again for farmers to have hope. Regardless of what type of farming they are in, it is big business today, and they must plan. And you cannot plan where you have a stop-and-go, drop-the-guillotine type of operation that you have, and an administration with very insensitive agricultural procedures.

So I hope that out of these meetings we can, if nothing else, we can get somebody to start moving here. It is 54 days; 54 days. They are planting in your area, they are making all their plans, they are buying now, in fact, many of them have already bought. It is an expensive proposition. They ought to be able to have some knowledge of what is going to happen next.

The CHAIRMAN. Senator Zorinsky, any questions?

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. I have no questions. I wish to associate myself with the remarks of Senator Exon and Senator Jepsen. I know the members of this committee are in an expeditious mood to help the farmers of America. I cannot conceive of the indifference that has been shown by this administration.

There was an immediate decision concerning the embargo, itself, but, as Senator Jepsen has pointed out, there has been a tremendous time lag in determining what will happen to those people that are adversely affected by that embargo—the farmers of America.

I join with my colleagues in seeking an expeditious resolution to this problem and will support any effort that will better the economic lot of the farmers of America.

Senator Exon, I compliment you for a very articulate presentation. During your past 8 years as Governor of the State of Nebraska, you have been an avid and very forceful spokesman for agriculture of America, not only in Nebraska. I compliment you for that.

The CHAIRMAN. Senator Young?

**STATEMENT OF HON. MILTON R. YOUNG, A U.S. SENATOR
FROM NORTH DAKOTA**

Senator YOUNG. First, I want to commend the Senator from Nebraska for a very good statement. I heard years before you came to the Senate that you were close to agriculture, and I cannot help but note what you are trying to do for agriculture.

I would go a little further than you, Senator Exon, in helping farmers at this point. The embargo is bound to mean surpluses for a year or two. We could well have expected \$5 wheat, now we will be lucky if we get \$4 for wheat, until we dispose of this surplus somehow.

Undoubtedly, we will have to curtail production this year and pay farmers for diverting land from production.

I would go further on the price support than you do; \$3.50 a bushel for wheat. Inflation, along with this embargo, presents the farmers with a most difficult situation, about the worst in my memory. Diesel fuel prices are double what they were a year ago. By January of next year, diesel fuel is bound to be about three times as high as it was. The average big tractor now burns about 100 gallons of diesel fuel a day. That amounts to about \$100 a day, and higher.

You have fertilizer which, I believe, is almost double what it was a year ago, or it will be by fall, anyway. Fuel and fertilizer are just two big items that affect the farm economy. Almost everything farmers have to buy is in big quantities, and at the worst inflated prices of all. I do not know of any segment of our economy that is going to hurt worse by high fuel prices than farmers.

I would not be at all surprised to see gasoline \$2 or \$3 a gallon. I would be very happy if it did not get beyond \$1.50 by fall. And, again, the farmers are big purchasers, and I cannot help but feel that we should go a little higher on price supports. That seems to be about the only way now that you can insure a higher price for farm commodities. Thank you.

Senator EXON. Mr. Chairman, could I just respond?

THE CHAIRMAN. Senator Exon?

Senator EXON. I certainly agree completely with what Senator Young has said. Please understand, Senator Young, I am not saying that \$2.50 per bushel loan price of corn and \$3.50 for wheat is enough. I am referring to that only for the 1979 crop. If we can get it above that, fine.

There are several reasons that I came about that amount, the principal reason being that that is what the Secretary of Agriculture agreed to. Now, certainly, we know it is fine for us to propose here, in the Congress of the United States, but unless we have some acceptance over on the other side—the people that have to carry out these programs—or unless we introduce something that the administration has previously committed to support, we also have the chance of a Presidential veto.

Therefore, the \$2.50, from \$2.10 to \$2.50 on corn—a 40-cent increase—and \$2.50 to \$3.50 on wheat—a \$1 per bushel increase—is a significant jump from the loan rates now in effect. In fact, I would suggest that if we can get that done, it would probably be the largest jump in loan rates by the Federal Government probably in our history. It should be higher.

All I am saying is that if we go to those figures on the 1979 crop I have outlined, then we are placing our foot on a higher rung of the ladder on which to move prices to a more realistic figure beyond that.

Now, I think that we would have to agree that \$2.50 on corn would probably be in the 58, maybe to 60 percent of parity: entirely too low, but is certainly a whole better than \$2.10.

So I do not mean that that should be the maximum.

Senator YOUNG. I guess I was thinking more about the 1980 crop.

Senator EXON. Well, remember, that is on the 1979 crop.

The CHAIRMAN. Senator McGovern?

STATEMENT OF HON. GEORGE MCGOVERN, A U.S. SENATOR FROM SOUTH DAKOTA

Senator MCGOVERN. Mr. Chairman, thank you for holding these hearings as expeditiously as you have. I want to commend Senator Exon for his statement today. We do not have any stronger voice for agriculture in the Midwest and the upper Great Plains than Jim Exon. What might not be so well known is that he spent the first half of his life growing up in South Dakota, so we regard him as a kind of a third Senator from South Dakota.

Mr. Chairman, over the weekend, we have had news stories indicating that the prime interest rate has jumped to 16½ percent, and that the inflation rate has gone to 18 percent. About the only good news was the American hockey team in Lake Placid.

But juxtaposed against that 16½ percent interest rate and 18 percent inflation is the farm price level that is below where it was 4 or 5 years ago. And I think that, in a nutshell, is a problem Senator Exon and others have underscored in regard to the farm.

Now, on top of this, comes the embargo. It is too late to argue about whether that was wise or whether it was not. We have it. And so the question is what we can do to ease its impact.

I have introduced legislation that I think Senators are familiar with that would raise the loan level on wheat to \$3.90 and the loan level on corn to \$2.50. It provides for a paid diversion program. And in the event of future embargoes proposed by the executive branch, they would have to be approved by Congress before they went into effect. And, second, if they did go into effect, they would automatically require a 90-percent loan level in basic farm commodities. This legislation would apply to the 1979 and the 1980 and 1981 crops. And it is cosponsored by Senator Young, Senator Melcher, Senator Burdick, and Senator Zorinsky.

I am hopeful that we can act, if not on that bill, something close to it because I do think, having made a national policy decision to move ahead on the embargo, the least this committee can do is to report out legislation designed to spread the burden of that embargo on the entire society, not on farmers alone.

I would like to ask you now unanimous consent, in the interest of time, Mr. Chairman, that a newsletter I sent to my constituents on this subject this morning, together with an article from Businessweek magazine for the week of March 3, be printed in the record.

The CHAIRMAN. Without objection, it is so ordered.¹

Thank you very much, Senator Exon, for your contribution to our deliberations.

The next witnesses were to be the distinguished Governors of North Dakota and Nebraska, but they have been delayed——

Senator EXON. The Governor of North Dakota is here.

The CHAIRMAN. Fine. Gentlemen, will you please come around?

Gov. Arthur A. Link of North Dakota, chairman of the Committee on Agriculture, National Governors' Association.

The CHAIRMAN. You come well-recommended, Governor.

Governor LINK. Thank you very much.

The CHAIRMAN. Senator Young has been one of the most outstanding members of this committee since the mind of man runneth not to the contrary. In fact, he was the ranking minority member of the committee when I arrived in the Senate over 23 years ago.

You may proceed, Governor, in any way you see fit. If you like, we can insert the full statement in the record and you can summarize it.

STATEMENT OF HON. ARTHUR A. LINK, GOVERNOR OF NORTH DAKOTA AND CHAIRMAN, COMMITTEE ON AGRICULTURE, NATIONAL GOVERNORS' ASSOCIATION; ACCOMPANIED BY HON. ALBERT H. QUIE, GOVERNOR OF MINNESOTA AND HON. THOMAS L. JUDGE, GOVERNOR OF MONTANA

Governor LINK. Thank you, Senator and members of the Senate Agriculture Committee. In the interest of the very heavy schedule that some of our members have, I have a prepared statement that I would like to share with the committee. I will, however, at this time, defer to Governor Quie, who must return to the conference earlier than the rest of us.

The CHAIRMAN. Governor Quie, you are recognized and welcome back to the field of agriculture.²

Governor QUIE. Thank you. Senator and Mr. Chairman, I remember many of those when we were in conference over agricultural matters in years past.

Senator YOUNG. When did you first go on the House committee?

Governor QUIE. In the beginning of 1958. I was on the House Agriculture Committee for 9 years.

We are talking today from the States that are heavily hit by the grain embargo, and we recognize that there are other matters that came into consideration than just the needs of the farmers.

We are at the end of the whip in Minnesota. The Duluth-Superior terminals provide an access to the foreign markets not only for Minnesota but for North Dakota, and many other Midwest and Great Plains States.

What I have suggested here today is five things to alleviate this situation. First, would be the extension of the emergency credit to all grain farmers impacted by the embargo. Right now only 22 percent of our corn farmers and 42 percent of our wheat farmers currently qualify for commodity loans.

¹ See p. 110 for the prepared statement of Senator McGovern; p. 111 for a reprint of the article from Businessweek; and p. 112 for the newsletter.

² See pp. 113-130 for the prepared statement and additional information furnished by Governor Quie.

Second, to reduce the rate of interest on farm storage facility loans from the current rate of 11 percent to last year's rate of 7 percent.

Third, to increase the release and call level prices. Fourth, to increase the loan levels to allow for increased cost of production, and fifth, to aggressively pursue alternative markets.

I believe that this combination would be a tremendous help for us. I have submitted some supporting information as well, and from the University of Minnesota's agricultural extension service, I believe an excellent piece on "The Partial Suspension of Grain Sales to the U.S.S.R." An interim analysis, if that will be helpful to you.

I appreciate the opportunity to make this presentation to you, because, as said by others, the farmers will do their share, but we do not believe that they ought to be burdened more than other parts of our society and our economy.

The CHAIRMAN. Thank you, Governor. We welcome you back. Any questions?

[No response.]

The CHAIRMAN. Thank you very much, Governor Quie.

Governor Link?

Governor LINK. Thank you, Mr. Chairman.

Mr. Chairman and Committee on Agriculture, Nutrition, and Forestry of the U.S. Senate, it is a privilege for me to be here today to discuss various actions including at least five bills before this committee designed to offset the suspension of sales of U.S. agricultural products to the Soviet Union.

I am appearing before you on behalf of the National Governors' Association Committee on Agriculture, which I chair. It is the strong conviction of our committee that further action must be taken at the Federal level of Government if we are to avoid a sharp drop in farm and ranch income.

The NGA Committee on Agriculture has expressed its views concerning the sales suspension in a letter dated January 31, 1980, to Secretary of Agriculture Bergland. I would like to offer for the record of this committee a copy of our letter, and that has been presented to you.

The CHAIRMAN. Without objection, that will be inserted.

[The following letter was received by the committee:]

NATIONAL GOVERNORS' ASSOCIATION,
COMMITTEE ON AGRICULTURE,
Washington, D.C., January 31, 1980.

Hon. BOB BERGLAND,
Secretary, U.S. Department of Agriculture,
Washington, D.C.

DEAR MR. SECRETARY: We take this opportunity to offer some thoughts regarding possible administrative and legislative actions in the wake of the suspension of sales of agriculture products to the Soviet Union. Our comments, which represent the views of the committee on Agriculture of the National Governors' Association, have to do with both wheat and feed grains.

We preface our comments by stating our concern that agricultural producers are facing a harsh set of economic circumstances. Even prior to the embargo, economists had projected that farm income would drop 15 to 20 percent in 1980. Rapidly increasing energy costs, record interest rates, and the high costs of other inputs cloud the outlook for America's farm families.

We appreciate and recognize the actions taken by Administration leaders, including the President, Vice President, and yourself, in trying to offset the potential

impact of this sales suspension. Nonetheless, we believe that further actions by the Administration are in order if we are to preserve economic viability for the nation's agricultural producers.

Our comments deal with both wheat and feed grains. For wheat, we believe that the U.S.D.A. should attempt to program as much as possible of the four million metric tons (mmt) through the Public law 480 "Food for Peace" program. We certainly understand the need for a Food Security Reserve as urged by the Administration for two years. However, we do not believe that the U.S. should establish such a reserve without similar action by both exporting and importing nations.

We have four specific comments about corn:

(1) We support removal of 10 mmt from the marketplace that will not be re-marketed until the spring of 1981. This corn should be remarketed in a gradual manner that does not depress farm prices.

(2) We support removal of 2.5-3.0 million acres of land from corn production during the 1980 crop year. We believe that these acres should be put into conserving use and should not be put into the production of other crops. The amount of this acreage would equal the amount of land needed to produce 10 mmt of corn. Farmers should be compensated for these lost production opportunities.

(3) We support Administration efforts to strengthen our foreign market development programs. We encourage U.S.D.A. to aggressively implement provisions of the Agricultural Trade Export Expansion Act of 1978, and we encourage efforts to strengthen our commercial financing programs.

(4) We support efforts by the U.S.D.A. to increase the ceiling on the storage Facility Loan Program from \$50,000 to \$100,000. However, we are concerned that this important program will not achieve maximum effectiveness at the current high rates of interest.

The fundamentals of this program are sound. We believe that feed grain production must be reduced in order to maintain farm income. We believe that the surplus accumulated because of the suspension should be maintained on the farm to the extent possible. With increased efforts in foreign market development and in the Storage Facility Loan Program, coupled with the other actions recommended above, we believe that the potential economic hardship created by the suspension of sales can be reduced.

We thank you for this opportunity to comment.

Sincerely,

GOVERNOR ARTHUR A. LINK, *Chairman.*
GOVERNOR CHARLES THONE, *Vice Chairman.*

Governor LINK. I also present for the committee's consideration a statement from Governor Thone, a former Member and colleague in the U.S. Congress who was unable to accompany our delegation here this morning.

The CHAIRMAN. Without objection, your statement and the statement of Governor Thone will be inserted.¹

Governor LINK. Thank you very much, Mr. Chairman.

Further, I would like to advise you that we believe still further legislation would be desirable to clarify what actions should be taken if another sales suspension, based on national security concerns, were to occur.

We need such a statute so that market disruption which would depress farm prices will be kept to an absolute minimum. The need for positive action in the wake of this embargo should be clear to all of us.

The need lies in the fact that only 1 of 25 Americans earns his or her livelihood from farming or ranching, and despite this small ratio, agriculture constituted a two-thirds share of our exports to the Soviet Union. Given these facts, I believe it would be fundamentally unfair if we asked the farmers and ranchers of this Nation to share this entire burden.

¹See p. 130 for the prepared statement of Governor Link and p. 132 for the prepared statement of Governor Thone.

We must also acknowledge that there are some fundamental differences between the trade of agricultural products and other goods. Agricultural products are highly perishable, financed largely through cash transactions and our ability to export agricultural products is related to the functioning of our transportation system. Further, the producers of agricultural products are unlike the producers of other goods in that they have very little control of their ultimate market. It is for these reasons that we must be sensitive to the needs of American agriculture.

At this point, I would like to comment on our communication with the Secretary of Agriculture. Our letter was directed to wheat and feed grains. We did not cover other agricultural products, but we acknowledged provisions in your legislation, Senator Talmadge, that will rectify problems in this area.

First, regarding wheat. We encouraged the Secretary to program as much wheat as possible through the Public Law 480 food for peace program. We acknowledge that this program could not absorb the 4 million metric tons surplus that has been created. It is our understanding that we program only about 1.3 million metric tons in Public Law 480 at present and that Senator McGovern's bill, S. 2277, would increase that to 1.6 million tons.

Our concern is that we do not establish a food security reserve without corresponding action by a significant number of exporting and importing countries. I believe that we must be sensitive to the problem of world hunger and how these needs can be met. But I would hope that we would not hold stocks for the world as we have done so often in the past.

On corn, we suggested a three-step plan. First, we believe that 10 million metric tons must be isolated from the marketplace, an amount that would not be remarketed until the spring of 1981. Senator Exon's bill, S. 2264, would accomplish this by establishing a separate loan level for corn and wheat that are already in the reserve.

The second step would be to reduce plantings of corn by $2\frac{1}{2}$ to 3 million acres for the 1980 crop year. This would be enough land to produce about 10 million tons of corn.

The final step would be to remarket the 1979 corn during the final quarter of the 1980 crop year or in the spring of 1981.

Our program is designed around the fundamental of adjusting supply to meet anticipated demands. The 10-million-ton surplus that has been created because of the sales suspension must depress prices unless we isolate that amount of grain effectively now and reduce production in 1980.

We had two other provisions in our letter that I would like to share with you. First, we support efforts to increase the ceiling on the storage facility loan program from \$50,000 to \$100,000. However, we would encourage the committee to determine if anything can be done to decrease the interest rates that are charged in this program.

Second, we would like to see aggressive implementation of the Agricultural Trade Import Expansion Act of 1978, legislation that was the creation of this committee. The recent sales suspension must not deter us from the task of building markets throughout the world. We have to move to implement the intermediate credit

program, to establish new trade centers overseas and to promote our agricultural officials to a level appropriate to their duty.

Finally, I would like to inform this committee that we believe that legislation should be passed which would establish procedures to be followed if another embargo were to occur for national security reasons short of war. We believe that such procedures should be codified so that we can avoid market disruption. Legislation, we believe, should be designed to work with market fundamentals. That is, grains should be isolated in an amount equal to the supply embargoed with a reduction in the supply during the following crop year. I realize there is some danger in prescribing these steps. Nonetheless, it is important to remember that the objective of such a statute would not be to enrich American agriculture but keep farm and ranch income at the level that income would have been without a sales suspension.

Mr. Chairman, I thank you for this opportunity to share these thoughts with you and the members of this committee.

The CHAIRMAN. Thank you, Governor.

Governor Judge?

Governor LINK. Governor Judge, of Montana.

Governor JUDGE. Thank you very much, Mr. Chairman and members of the committee.

Suspension of grain sales to the Soviet Union ordered by the Carter administration in response to the Soviet stroke of aggression into Afghanistan is subjecting agriculture, which is our State's most important industry, to significant economic impacts.

Grain prices declined immediately after the embargo and then recovered most of this lost ground. In the past week, however, the price has fallen again and the latest quotations represent a significant financial loss for Montana producers.

On December 26, the price of ordinary Hard Red Winter wheat at Power, a typical, centrally located Montana grain terminal, was \$3.94 a bushel. This past Wednesday the price at Power was \$3.59 a bushel, which is a loss of 35 cents, or almost 10 percent. At the time the embargo was imposed, there was an upward momentum in the grain market and the analysts projected future prices 50 to 70 cents per bushel higher than the December quotations. And this additional income will be lost to our farmers. If this loss of 35 cents on the wheat price is multiplied by 170 million bushels of grain stored on farms in the State, the total negative impact on grain producers is in excess of \$37 million. This is a lot of money for a sparsely populated agricultural State like Montana.

I believe the people of my State support the objective of the embargo from a patriotic perspective and as an expression of the Nation's commitment to oppose Soviet military aggression. If grain farmers are going to be the foot soldiers of American foreign policy, however, they must be protected against future economic consequences of the embargo.

When the grain sale suspension was announced, I immediately recommended increased funding for Public Law 480, the food for peace program. This policy would have four advantages. It would make it possible for nations like India, Pakistan, and Cambodia to feed their starving people, it would be a signal of humanitarian concern from the United States to developing countries of the

world, it would cost less than the Government purchase of embargoed commodities, and would put grain into the distribution system rather than holding it in reserve where it will work to depress the market.

In recognition of these advantages, I support Senator McGovern's Senate bill 2277 which would increase the amount of grain available through the food for peace program to 1.6 million metric tons.

I recommended immediate increase in the target price of wheat from the 1979 level of \$3.40 per bushel. The National Association of Wheat Growers estimates the cost of production for wheat at approximately \$4.05 per bushel. The target price must be increased to this level to represent the cost of producing wheat and to protect the economic interests of our farmers. There must also be a corresponding increase in the loan rate and a 20-percent crop diversion that will compensate farmers for losses resulting from lower end product values.

I also support the recommendation of the National Association of Wheat Growers that the Federal Government take title to the surplus grain and corn resulting from the embargo, and to isolate it from the market for alcohol fuel production.

This policy must be supported with a program to make financing available immediately to expand alcohol fuels production to the capacity necessary to absorb large volumes of grain. It is essential, however, that this grain is securely isolated from the market rather than being held in a strategic food reserve by the Federal Government.

The suspension of sales to the Soviet Union should not signal the end of the Nation's foreign market development programs for farm commodities. Conversely, the embargo should represent the beginning of new and more aggressive policies to expand sales around the world to replace the Soviet market. Agriculture is our most competitive industry in export trade. An increased support of agricultural commodities is the most realistic prospect of reducing the massive trade deficits of recent years. We must capitalize on the spectacular productivity of the American farmer to help compensate for the exorbitant cost of imported foreign oil.

I also support a policy developed by the National Association of Wheat Growers that would set a price support loan rate at 90 percent of parity for a period of 12 months if export controls are imposed for national security, foreign policy or other purposes.

In a recent poll taken in Montana, 68 percent of the participants indicated their support for the suspension of grain sales to the Soviet Union. Montanans are strongly committed to the national interest, but we also believe that policies similar to those I have recommended must be adopted by the Federal Government to protect our farmers from the economic consequences of the grain embargo.

The CHAIRMAN. Thank you very much, Governor, both of you gentlemen, for very excellent statements.

Senator Jepsen, any questions?

Senator JEPSEN. Yes. First of all, I would like to thank Governor Link and Governor Judge for appearing before the committee. It is like old times. Governor Judge and I have served together some years ago as Lieutenant Governors of our respective States.

In the State of Iowa we find the farmers do have contracts, producers have contracts, implement dealers have contracts, elevators have contracts, landlords have contracts, food and fertilizer—seed and fertilizer companies have contracts; they are all contracts that must be paid. The farmer has to pay off his seed and fertilizer, pay off the elevators, pay off the bankers.

And what we are finding is a very drastic slowdown of the economy. Elevator accounts receivables have never been higher. Contracts from implement dealers that have been made for combines and farm implements have been canceled, either by the producer himself or by the banker and the producer together.

Those who say that this is not affecting agriculture or the farmer—and we hear some say that back here—frankly just do not know what they are talking about.

My question is, Governor Judge and Governor Link, if you would respond, please, to the question: Has the embargo caused cash-flow difficulties in your State, and are your farmers reluctant to sell their products?

Governor LINK. I would certainly like to respond to that, Senator. Your question could not come at a more timely basis. Three days before coming to Washington for the National Governors' Association annual midwinter meeting we are attending now, I received a very urgent telephone call from a member of the State legislature, Jim Brokaw. Senator, you may know him, he is in your part of the State, in your district.

State Representative Jim Brokaw said:

Governor, is there anything you can do? A large local cooperative farm fuel distribution organization has found it necessary to withhold the normal credit that they were extending to their farmers for fuel and fertilizer, and that is also imposed by the local bank which had carried the paper for the local cooperative association.

In other words, the normal pattern of financing and the yearly plant crop planting costs of fuel and fertilizer were on a yearly credit basis. And the farmers could place their orders and pay in the fall.

And they had issued a statement to their customers that these obligations must be met on a cash basis. I do not know how we can answer the question any more clearly than that. And they are simply beside themselves. They said, "We do not know what to do." They are just a lot of operators that cannot carry that load themselves. They have no place to turn. They cannot pay for these items on a cash basis. That is the credit crunch that we are beginning to feel. Now, that is in my State of North Dakota which is also Senator Young's State.

Governor JUDGE. I would say the same thing, Senator Jepsen. In the State of Montana, we are beginning to see a very serious problem of farm credit. Inflation has been devastating to the farmer in costs of fuel, in costs of interest rates that are going up enormously.

The CHAIRMAN. Would you yield on that point, Senator Jepsen? This committee reported out last week an emergency credit bill to extend the act which expires May 15, this year, to make available another \$2 billion for emergency credit to agriculture. Thank you, Senator.

Governor LINK. I might further share with your committee, Senator Talmadge, in this Saturday issue of the Bismark Tribune—that is February 23—"Farmer union head says farm income to drop 25 percent. State farm income will drop 25 percent." This is a Grand Fork AP story:

In 1980, the president of the North Dakota Farmers' Union predicts. Stanley Moore, of Jamestown, said the U.S. Agriculture Department of last fall predicted a 20-percent drop in farm income this year compared with 1979. He said that figure has been revised upward following the Soviet grain embargo.

And the story continues, but that is further indication of what they are visualizing in terms of farm income. And this is in the face of all other costs doubling. Like, the cost of fuel, that has become one of the No. 1 problems of our farmers.

The CHAIRMAN. Senator Zorinsky?

Senator ZORINSKY. I want to welcome and thank the Governors for their articulate presentations before this committee today. I, like you, have been getting correspondence, not as much lately from the farmers as from bankers. They have gotten the wrong signal from the embargo, regarding the stability of the agricultural economy. I fear that the bankers have lost faith in their ability to recover money loaned in that particular market.

That is why I feel, although we are doing some things to assure and increase the amount of dollars available for loans, I do not see this as the ultimate solution to this problem. You do not help the alcoholic to stop drinking by giving him more alcohol, nor do you get someone out of debt by providing more dollars at a higher rate of interest. I think the resolution of this problem, as you Governors have pointed out, and as many of the members of this committee are fully aware, is to allow the farmer to receive a fair profit on his labor. That, in itself, will send a credible message to the bankers of America about the ability of the farmers to repay their loans, and that will generate the money market, in itself.

So, once we solve this situation and the family farm income covers the cost of production and, provides a decent living and profit for the farmers of America, I think we can all join in and say we helped resolve the problem. Thank you.

The CHAIRMAN. Senator Young?

Senator YOUNG. I have a comment. I want to express appreciation to the Governors appearing here today. They lend a lot of support to a serious problem that we face. I think it is far more serious than most people realize. Farm commodity prices are going down while everything else a farmer has to buy is going up. There does not seem to be any end in sight unless Congress, itself, takes action.

The credit situation which the Governor mentioned, and in my own district, is very bad because there is a lot of grain on hand and the transportation problem is very serious. The banks have loaned all the money they had and a lot of farmers were not eligible for loans.

You have this kind of situation in relatively good crop years and good prices. So I can only see a very serious situation in the future unless we do something to address it.

The CHAIRMAN. Senator McGovern?

Senator McGOVERN. Mr. Chairman, I do not think we could have found three Governors better informed on agriculture than Governor Link, Governor Judge, and Governor Quie. I noticed, Governor Link, in your statement, you say, "I would like to inform this committee that we believe that legislation should be passed which would establish procedures to be followed if another embargo were to occur for national security reasons."

As you doubtless know, Governor, under the existing law, the President can invoke an embargo for any one of three reasons: domestic shortage, foreign policy reasons, or national security reasons. If he uses either of the two first reasons—domestic shortage or foreign policy—the Congress has a 30-day reaction time in which we can overturn that if we think it is not in the national interest. On the other hand, if he invokes it for national security reasons, there is no congressional recourse.

Now, given that situation in the law, it seems to me what happens where the President announces that, for national security reasons he is invoking an embargo, it puts Members of the Congress and the general public—I think, even the farmers—in an impossible political situation, because you appear to be advocating, of course—it undercuts national security if you oppose the embargo. I do oppose the embargo, and said so at the time, in fact, even before it was invoked because I do not think it advances the security of the United States.

But I am wondering, in line with your suggestion that we look ahead to future legislative procedure, what you would think about the proposal in my bill which would require congressional approval before an embargo could be invoked for any reason. If, in fact, this Nation's security is involved, it is all the more important, it seems to me, for Congress to be involved in the decision. Theoretically, at least, we do not let a President declare war without the approval of Congress. Congress has the warmaking power. I think the Founding Fathers were right to lodge that power in the Congress.

But why would not the same considerations argue with regard to a national security decision that effects the economy of the country?

Governor LINK. I suppose that, to begin with in answer to whether the President should have the authority to impose an embargo without congressional consent, it would be a matter of considerable debate. I could personally conceive of situations of such an emergency that would be desirable and proper for the President, as the Chief Executive, the Commander in Chief, to have that authority. I hope we did not present the opinion here that we were taking strong sides—at least, my testimony did not indicate that we were here in finding fault with the imposition of the embargo.

Senator McGOVERN. I did not really want to beg that question, either, Governor. I think we are here to try to ameliorate it. But as long as we are looking ahead to future actions of this kind, what I am getting is whether, in the future, we ought to have some kind of congressional say-so.

Governor LINK. Certainly, that is a matter of congressional—national debate that is very properly in order.

The proposal here is that we would set up the provisions so that, when an international situation, for whatever reason, invites or

results in the imposition of an embargo, that we would not call on one segment of the economy to disproportionately share the burden of that embargo, and that that percentage, or that portion, of a crop that is embargoed, of a farm commodity that is embargoed, should be taken off the market to preclude and eliminate the serious disruption that resulted for the first few months following it, notwithstanding Secretary Bergland's assertions that the market has picked up and we have almost effectively gained back the loss of these embargoed goods; that that view is not entertained across the Nation and in the farm economy. And there is a feeling that that embargoed commodity continues to weigh heavy on the market. That portion should thus, in a program that we recommended, be isolated. And then the following crop year there should be a corresponding reduction so that that much less grain would be produced. And then, in that crop year, let the embargoed grain come back into the market. That is essentially what the proposal would call for.

Governor JUDGE. Senator, I would support your proposal. I think it is a good proposal.

The CHAIRMAN. Thank you very much, Governors. We appreciate your contribution to our deliberations.

Governor JUDGE. Thank, you, Senator.

The CHAIRMAN. Our next witness is Jack Felgenhauer, president, National Association of Wheat Growers, Fairfield, Wash.

STATEMENT OF JACK FELGENHAUER, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, ACCOMPANIED BY CARL SCHWENSEN, EXECUTIVE VICE PRESIDENT

Mr. FELGENHAUER. Thank you, Mr. Chairman. I will try to summarize my statement as much as I can.¹

I am Jack Felgenhauer, Fairfield, Wash., wheat producer, and currently president of the National Association of Wheat Growers, and accompanying me here today is the now executive vice president, Carl Schwensen. And we appreciate this opportunity to appear before you today, Mr. Chairman, and we also appreciate the many bills that the Senate Agriculture Committee has presented, and for the most part, we are in full support of these bills.

There has been a lot of rhetoric about the embargo, and there will continue to be, and I would like to address that part that affects the wheat industry. It was expected that a total of 8½ million metric tons of U.S. wheat would have been exported before October of this year and prospective shipments of 6 million metric tons during the 1979-80 marketing year represented 16 percent of the preembargo projection of U.S. wheat exports and of this it is mostly Hard Red Winter wheat, and my understanding is about a third of Hard Red Winter wheat exports would have gone to Russia had it happened.

And this level of trade can hardly be viewed as insignificant. Nevertheless, Secretary Bergland told this committee on January 22 that Soviet grain imports are a lot more interesting than they are important. We find this statement incredible.

¹ See p. 133 for the prepared statement of Mr. Felgenhauer.

I appreciate the previous comments on the phosphates being cut off, and we also concur with you fellows that embargoes should be across the board and not selective.

Mr. Chairman, with the anticipated Soviet wheat sales and record exports, USDA announced a no-set-aside program for wheat and feed grains for 1980, and in December, announced a projected carryover of 850 million bushels. We consider this to be an adequate figure.

So with these sales in mind and with the carryover that we anticipated, farmers planted 10 percent more acres of winter wheat, and at the present time, wheat prospects are good to excellent for another bumper crop.

With increased production and a large carryover, it means lower prices during the period of staggering production cost increases. In addition, the USDA is anticipating honoring the fifth year of our agreement with Russia of 6 to 8 million metric tons. This has to be naive thinking on their part or else somebody knows more than I do.

Even if the Soviets are willing, will the American longshoremen handle this grain or will the grain exporters let themselves be caught again as they were on January 4?

It seems to me it will be a long time before trade with Russia resumes to the levels of the 1970's. USDA is using this grain in their projection of sales for 1980 and 1981.

When the Agriculture Department announced offsetting actions in January to minimize the impact of Soviet sales on wheat producers, we stated that the proposed steps were totally inadequate. Our view has not changed.

The loan reserve and storage program changes announced by USDA are, at best, nominal. They have failed to respond to the severe increases in production costs farmers have experienced, and they are insufficient to attract excess grain into reserve storage.

Moreover, the \$2.50 loan level is virtually meaningless as an interim financing tool under current economic conditions. The intended purpose of 4 million metric tons of wheat by USDA's CCC merits special consideration as an offsetting action since this step directly relates to Government reserve legislation which is before the Agriculture Committee.

On February 15, CCC assumed contracts from 12 exporting firms covering 15 million metric tons of wheat, corn and soy beans which had been denied the Soviet Union. The acquired contracts included 10.8 million metric tons of corn, 4½ million metric tons of wheat and 710,000 metric tons of soybeans.

Now, while the USDA has not clearly outlined its intention for this FOB grain, it is believe that it will be retended at port locations and that offsetting purchases will be made at interior points in the case of wheat.

The period during which these sales and purchases will take place has not been indicated. We understand that various classes of wheat will be purchased and that the entire 4 million metric tons acquired will be placed in reserves if Congress adopts the proposed Food Security Act.

The Food Security Act would establish a permanent 4 million metric ton stockpile under Government ownership which would be

released when U.S. supplies are too low to continue the Public Law 480 food assistance.

Additionally, 300,000 metric tons could be released annually to provide urgent humanitarian relief based on a decision by the President. The NAWG opposes this permanent Government reserve and we see no humanitarian or foreign policy need for its establishment.

Administration spokesmen cite 1974 experiences in describing the need for this continuing reserve. It should be remembered, however, that a great deal has changed since the early 1970's when there was no control of Soviet access to U.S. grain markets.

In 1975, a 5-year agreement was concluded between the two nations which regulated trade in grain through 1981. In other words, Soviet demand is controlled. Additionally, USDA has an ongoing export reporting mechanism which closely monitors sale of U.S. grain and publicly reports cumulative sales on a weekly basis.

Furthermore, the United States has successfully established a farmer-owned grain reserve which now holds over 6 million metric tons of wheat and could increase given adequate program incentives.

On a worldwide basis, the United States holds 31 percent of the carryover stocks or 26½ million metric tons. The U.S. carryover stocks have averaged 26.4 million metric tons during the 1975-80 marketing seasons.

If Congress feels persuaded to adopt wheat reserve legislation, we urge that it amend the administration's proposal to isolate 4 million metric tons for one time only. This would make the reserve self-liquidating.

Action should also be taken to remove the 300,000-metric-ton annual relief provision. Additionally, the committee and the National Association of Wheat Growers seeks answers to questions such as how and when will the grain be acquired, will it be bought before Soviet contracts are retendered, simultaneously or sometime later, could the grain be purchased in the next marketing year and perhaps during the 5-month period when producer deficient payments are determined, how will the grain be isolated initially assuming Budget Act compliance requires an October 1, 1980, effective date for the legislation, at what price level would the grain be acquired, and what happens to the 1½ million metric tons of wheat already in CCC hands.

Mr. Chairman, I would now like to refer the committee to the NAWG's embargo policy statement which is attached to this testimony and also the policy recommendations for 1980 which are in my written testimony.

Governor Judge was so very kind to include in his testimony most of our policy recommendations so I will not go through them again. I do want to expand a second on the dire need for a revolving fund on commodity credit short-term export credit programs.

I understand that you fellows had bills to address this situation last year, and I think that this year we really should address it because it certainly should not have to be appropriated every year for this type of program.

Mr. Chairman, Agriculture Department statistics project a 25-percent decline in net farm income for the 1980 season, and it is

possible that the level could fall by one-third. Primarily, this is by lost sales to Russia, but most importantly by the increased production costs that we face this year.

We feel a strong action should be taken immediately to offset this development through the effective use of the price support loan program. By substantially increasing the loan rate for wheat, the call and release levels under the farmer-owned reserve program become an attractive incentive for farmers to move additional stocks into the reserve.

Present levels will fail to accomplish this aim, because cash realized by participants is insufficient for debt service. This is particularly true to young, low-equity farmers.

The need for a higher wheat loan rate is urgent. It will provide a needed level of increased financing for producers, relieve stress on rural lending institutions, signal markets that the loan and reserve programs will be used to improve price levels in the face of increased production and the loss of Soviet demand and it will give producers confidence in the price and income outlook for 1980.

We appreciate the opportunity to present testimony before your committee, Mr. Chairman, and we will be pleased to respond to questions at the appropriate time.

The CHAIRMAN. Thank you for an excellent statement. Any questions? Senator Jepsen?

Senator JEPSEN. No, Mr. Chairman.

The CHAIRMAN. Senator Young?

Senator YOUNG. I just want to say you do a pretty good job of representing the thinking of the wheat farmers I know.

Mr. FELGENHAUER. Yes, we have 16 States in the National Wheat Growers, and this is the consensus of all of the States involved. We have to compromise our position occasionally, but this is our feeling at this moment.

The CHAIRMAN. Senator McGovern?

Senator MCGOVERN. Mr. Felgenhauer, you state on page 2 of your statement, "It is apparent that no set-aside or acreage diversion program will be implemented for the 1980 crop year."

In the legislation that I have introduced, it does call for a mandatory diversion program on the 1980 crop year. If we could move quickly on that we could implement it for 1980, could we not?

Mr. FELGENHAUER. Yes, I would appreciate if you could do this. We have asked for a diversion, a paid diversion, but from what we get from the administration, it looks like a long shot or something that is going to be too late to implement this spring. It is something we have to move on pretty fast, because the spring wheat producers are planning now what they are going to do, and it is something that we have to move right away on.

Senator MCGOVERN. Well, I agree with you, and I also recognize the administration has not been enthusiastic about it, but I think they are dead wrong. I do not see how we are going to handle that 17 million tons that we lost in sales to the Soviets without some kind of diversion program on the 1980 crops.

Mr. FELGENHAUER. Well, this is our concern.

Senator MCGOVERN. So I think Congress has to take matters into their own hands on that score with or without the administration's enthusiasm.

Further down on page 2 of your statement, Mr. Felgenhauer, you indicate that the administration's hopes or predictions that the Soviets will resume the purchases of some 8 million tons next October is probably wishful thinking, that is, the atmosphere having been created here that it is a threat to national security to export grain to the Soviet Union. If nothing else, it will probably provoke the longshoremen into saying no deal. If it is wrong to sell them 17 million tons, it must be wrong to sell any.

Is that what you are thinking about?

Mr. FELGENHAUER. Well, we would support starting sales with Russia as far as the farmers are concerned.

Senator MCGOVERN. Well, I agree, but I was trying to get at the reason you are predicting that will not happen.

Mr. FELGENHAUER. Well, I just do not feel that this thing is going to be turned around that quick, and that the embargo is not something that is not going to go away overnight unless they do move out of Afghanistan which is doubtful.

And my concern is that the USDA projection figures for exports plugs in this 68 million metric tons, and we feel that that is a long shot that it will happen, and if it is not, why, it will be an additional carryover that is not projected.

Senator MCGOVERN. I agree with you on that. I think your analysis is realistic, but the 8 million tons that you are referring to is not 8 million tons that the administration wants to embargo, but as I gathered from your statement, you are saying that either the Russians will not be interested in carrying on that sale at a time when we are embargoing the rest of the wheat they want or the rest of the grain they want or even if they were interested in buying it, that it is questionable whether the U.S. longshoremen would load it.

Mr. FELGENHAUER. That is correct. I know if I was a Russian, personally, and I had access to other markets, and maybe they will not have those, I would not come back to the United States and start doing business this soon. I would let us cool a little bit also.

Senator MCGOVERN. This is one of my deep concerns about the use of the embargo. I think if we are going to be the world's leading supplier of grain, we have to be a dependable supplier. You cannot oscillate with political and foreign policy twists and turns that we are going to have with us as far as we can see into the future.

And it seems to me that the export of our grain has to be separated out from the particular diplomatic doctrine that just happens to be moving at any given time, because I think the thrust of your statement is quite right, that we may have lost these markets for a long time to come.

Just one more question, Mr. Felgenhauer. On page 3 you say the \$2.50 loan level is virtually meaningless as an interim financing tool under current economic conditions. And I thoroughly agree with that. What do you think about the level that is proposed in the legislation I have introduced with a number of other Senators that would set that loan level at \$3.90 on wheat and \$2.50 on corn?

Mr. FELGENHAUER. Yes, I would fully support it. If I read our resolutions, we support even more than that. It is around \$4.32, is it not, Carl?

Senator McGOVERN. On the loan level?

Mr. FELGENHAUER. On the loan level that is in our resolution. So, yes, we do support it, and we think it should be higher and it has to be higher, because the \$2.50 is just not enough to even come close to getting the costs that go into the grain to get a farmer buying, and this year especially with the increased costs that have been mentioned before. Credit is just hard to come by. And this is one area that farmers could get the money needed to put into their crops this spring.

Senator McGOVERN. Thank you very much.

The CHAIRMAN. Senator Jepsen?

Senator JEPSEN. What is the price, estimated cost, of production per bushel for wheat now?

Mr. FELGENHAUER. It was mentioned, by Mr. Judge, I think—Governor Judge, that we are saying \$4.05. We were saying \$4.05 for last year, for 1979. With the anticipated increased costs this year, we do not have any reliable figures to back up my statement at this moment, but we are looking at somewhere between \$4.50 and \$4.75 a bushel for cost of production this year, with the increased costs in fertilizer, fuels, and chemicals.

The CHAIRMAN. Thank you very much, Mr. Felgenhauer. We appreciate your contribution to our deliberations.

The next witness is Mr. Frank Ray, first vice president of American Soybean Association, Baker, Fla.

Senator Stone is one of our most able members of this committee and, unfortunately, he could not be here. He asked me, in his behalf, to extend his welcome. We are delighted to have you. Your entire statement will be inserted into the record, and you may summarize it as you see fit, sir.

STATEMENT OF FRANK RAY, FIRST VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, BAKER, FLA., ACCOMPANIED BY JOHN BAIZE, WASHINGTON PROGRAM MANAGER

Mr. RAY. Thank you, Mr. Chairman, members of the committee. It is a pleasure for us to be here today to discuss soybeans with you. As you know, soybeans are now the No. 1 cash export, the No. 1 crop in terms of export harvested acreage. And with me today I have John Baize, who is the ASA Washington program manager.

I appear here today in my capacity as first vice president of the American Soybean Association. I am a farmer from Baker, Fla., where I raise soybeans, peanuts, cattle, and small grains.

The outlook in the immediate future for soybeans is not as bright as it has been in the past. In 1979 U.S. farmers harvested a record 2.2 billion bushels of soybeans, a 20-percent increase over the record 1978 harvest. The 1-year increase in U.S. production approximates the total production of Brazil, our largest competitor. The large 1979 crop of soybeans occurred because farmers saw an economic advantage to growing soybeans over corn, cotton, and other crops. We were also blessed with an unusually good growing season. In fact, the national average yield was an all-time high of 32.2 bushels per acre compared with 29.2 last year and 30.6 in 1977.

It is expected that carryover stocks on October 1 will approach 450 million bushels, more than double that figure in 1979. As a result, current soybean cash market prices are somewhat lower

than a year ago and expected to decline further as the impact of a record Brazilian crop is felt in the world oilseed market.

In January the Department of Agriculture estimates farmers will plant 71.6 million acres of soybeans in the United States in 1980. However, the current soy-corn price ratio is approximately 2.4 compared to 3.2 of a year ago, and it is very likely that, as farmers in the Midwest approach planting time, they will again scale back their soybean planting by as much as 10 percent.

In the Southern States, a high market price for cotton will also likely result in a significant shift from soybeans to cotton. Barring unforeseen changes in market prices, ASA expects the 1980 soybean crop to be somewhat lower than the 1979 crop.

Although the short-term outlook for soybeans is not as bright as we would like, we do feel that additional Federal income protection for soybean—we do not feel that additional Federal income protection for soybean growers is warranted at this time. The United States soybean industry has expanded rapidly in the last decade based on rapidly increasing world demand for soybean products. This year's soybean exports are expected to reach 22.2 million metric tons with additional exports of 6.35 million metric tons of soybean oil.

The value of exported soybeans and soybean products for the current marketing year is estimated to reach \$7.9 billion. The long-term demand for soybeans and soybean products is almost limitless.

The American Soybean Association is opposed to any increases in the loan level for soybeans beyond the current \$4.50 per bushel level. ASA feels that the \$4.50 level is sufficient to provide soybean producers with capital to cover their current out-of-pocket costs in putting in their 1980 crop, but not so high as to interfere with the orderly marketing of our 1979 crop.

Such actions could cause the United States to be the world's residual supplier of soybeans. Any higher loan rate could interfere with the export of soybeans and cause a higher level of production in 1980 and in future years than is justified by world market prices. For these reasons, ASA must oppose the \$6.50-per-bushel loan rate provided for in Senate bill 2277.

The American Soybean Association does support the provision in Senate bill 2258, introduced by Chairman Talmadge, which provides for soybean producers not complying with the 1979 feedgrain set-aside to be eligible to participate in the soybean loan program.

The American Soybean Association, in January, asked Secretary Bergland to eliminate cross-compliance provisions under the authority available to him under the Food and Agricultural Act of 1977. However, to date, the Department of Agriculture has not chosen to take this important step in providing soybean producers with an import marketing tool. ASA is of the opinion that removal of a cross-compliance is justified by the fact that soybean producers should not be penalized by overproduction in the feedgrain sector.

Removal of the cross-compliance limitation would allow thousands of producers to obtain needed financing while maintaining marketing control over their soybeans. The change should not result in any net cost to the taxpayers.

The American Soybean Association is very strongly opposed to the establishment of a reserve program for soybeans similar to that in effect for feedgrains and wheat. ASA is convinced that such a reserve program is neither justified by current market conditions, nor would it provide any long-term benefits to soybean producers.

ASA is convinced that a soybean reserve would serve to distort normal soybean production and marketing by creating a false market beyond that justified by world supply and demand. Moreover, a soybean reserve would serve to stimulate increased production by Southern Hemisphere nations competing against the U.S. producers.

American soybean producers and processors have always maintained adequate carryover stocks without Federal assistance or expenditures, and they are prepared to do so in the future, even though the stocks are substantially larger than in the past. While rumors persist that the Department of Agriculture plans to offer such a proposal against the wishes of soybean producers, ASA continues to oppose a soybean reserve.

Aside from opposing a soybean reserve and an increase in the soybean loan rate, ASA is also opposed to establishing a target price for soybeans or granting the Secretary authority to impose a set-aside for soybeans. With over 55 percent of U.S. soybeans destined for the world market, the world market can and must be the prime factor influencing U.S. soybean production. Artificial Federal support or control programs would reduce the impact of the world market on U.S. soybean production and ASA feels that would be a step in the wrong direction.

While ASA is opposed to expanded Federal price supports for soybeans, we do feel that the Federal Government should provide increased assistance in developing world markets for soybeans and soybean products. Whatever else the Soviet embargo represents, there is no doubt that it represents the loss of an important market for soybeans.

ASA has projected that the Soviet Union, by 1985, would have been the largest market for U.S. soybeans and soybean products. With the loss of this market, we must now develop expanded markets in other areas. U.S. soybean producers have a strong commitment to market development as exemplified by our collective investment of \$4.8 million of growers' own money this year in foreign market development programs around the world.

In 1980 the Department of Agriculture is contributing \$2.8 million to soybean market development in cooperation with ASA. While ASA very much appreciates the cooperative funding of USDA, we question whether it is sufficient in light of the current market situation. ASA would like to see Federal market development contributions for soybean equal to that contributed by soybean producers. While the additional \$2 million which would be required to match grower funds is no small amount, it is much less than the approximate \$35 million the USDA seems determined to spend as storage payments for an unwanted soybean reserve. Expanded foreign markets for soybeans and soybean products are the best insurance against price declines in the future. And we urge USDA to increase its assistance in developing these markets.

The Department of Agriculture can take several other important actions to assist in developing the expanded foreign markets; specifically, ASA has urged the administration to expand its direct Commodity Credit Corporation export credit program beyond the \$800 million authorized in the current fiscal year. The CCC GSM-5 export credit program has been an important tool in expanding foreign markets without any net cost to U.S. taxpayers, yet no additional direct loans have been authorized in the current fiscal year. And the President's fiscal year 1981 budget calls for the elimination of such loans in lieu of a less effective loan guarantee program.

It makes little sense for the Federal Government to be cutting back on the funding for a moneymaking loan program at the time when the need to expand foreign markets is great. ASA urges you to give special attention to establishing a revolving fund for direct CCC loans as provided for in S. 2183, legislation introduced by Senator Morgan and cosponsored by 11 other Senators. A revolving fund would greatly improve the effectiveness of the direct CCC loan program by allowing more long-term strategic planning in market development programs.

ASA is also very disturbed that the administration has failed, to date, to implement the intermediate-term credit program authorized by Congress in the Agricultural Trade Expansion Act of 1978. Were the program implemented, loans could be made to key importing countries for the construction of infrastructure facilities such as offloading elevators, storage bins, feedmills, and processing plants which would greatly enhance market potentials in these nations.

This program would be a moneymaking proposition for the Commodity Credit Corporation. However, until the administration moves ahead to implement the program, many market opportunities will be lost.

In conclusion, Mr. Chairman, the American Soybean Association realizes the short-term outlook for the soybean industry is not as bright as we would desire. However, free market forces must continue to be the prime determinant of U.S. soybean production and demand.

We would ask that the Federal Government expand its market development assistance to help in ASA's efforts to expand world demand for soybeans and soybean products. However, with the exception of allowing all farmers to participate in the soybean loan program, further changes in the price support program should be avoided at this time.

The CHAIRMAN. Thank you, Mr. Ray. Where is Baker, Fla?

Mr. RAY. It is about 35 miles north of Destin, which is reputed to be some of the best fishing in the world, sports fishing.

The CHAIRMAN. How far south of the Georgia line?

Mr. RAY. Well, about 10 miles south of the Alabama line, and I am about 60 to 70 miles due east of eastern Georgia.

The CHAIRMAN. East Georgia or west Georgia?

Mr. RAY. I am sorry, west Georgia.

The CHAIRMAN. How far from Thomasville?

Mr. RAY. Well, Thomasville, I am about 200 miles, by road.

The CHAIRMAN. Then you are almost down to the citrus belt, then, are you not?

Mr. RAY. No, I am near Pensacola.

The CHAIRMAN. Oh, yes, I see.

Mr. RAY. I am in the far west panhandle.

The CHAIRMAN. In the northwest panhandle?

Mr. RAY. Yes.

The CHAIRMAN. How many acres of soybeans do you raise?

Mr. RAY. About 650.

The CHAIRMAN. What is your average yield in a normal year?

Mr. RAY. Well, this year, we averaged a little better than 39 bushels.

The CHAIRMAN. That is good.

Mr. RAY. Yes, sir.

The CHAIRMAN. What is your cost of production?

Mr. RAY. In my area, with my land costs; a lot of the land is paid for, but we figure in the neighborhood of \$150, in that area.

The CHAIRMAN. And that is about \$4.50 a bushel?

Mr. RAY. \$4.50.

The CHAIRMAN. Senator Jepsen, any questions?

Senator JEPSEN. Most of them have been answered under the question of wheat, but I want to doublecheck some things. The Soybean Association is opposed to farmer-held reserve or any other reserve for soybeans, is that correct?

Mr. RAY. No, sir; not farmer-held reserve. We have had farmer-held reserves for soybeans for a number of years. We are opposed to a federally financed farmer-held reserve, however.

Senator JEPSEN. Indications are that we are going to have the largest soybean carryover in a long time, is that accurate?

Mr. RAY. Yes, sir.

Senator JEPSEN. Is it also accurate that the Brazilian soybean crop projections are very good?

Mr. RAY. It is very good, about 15.5 million metric tons.

Senator JEPSEN. But even with these things—and I just want to make sure that I got your emphasis right—even in light of these things, we should not consider a paid diversion program for soybeans or raise the loan rates. Did I understand you correctly?

Mr. RAY. A paid diversion for soybeans is something we do not have a policy on, but ASA's executive committee and board of directors will meet here in Washington next week to discuss that issue and others. I would think that we would be opposed to it, because, generally, we have been against a soybean set-aside program in the past.

Senator JEPSEN. But you are against raising the loan rate?

Mr. RAY. Yes, sir.

Senator JEPSEN. Has the administration given you the assurance that you will receive any funds for additional market development? You spent quite some time on this.

Mr. RAY. In a meeting at the Department of Agriculture, ASA was told that the administration would like to match grower funding for market development on a 50-50 basis in the future. We were hoping that this could be done because, as we indicated, if this happens, then we would be entitled to another \$2 million since

ASA is currently spending about \$4.8 million on market development for soybeans versus only \$2.8 million for USDA.

It has been the very strong policy of the American Soybean Association, rather than coming here and saying, "Raise the loan level, impose a set-aside for soybeans, or increase supports for soybeans," we have established a market development program in 75 countries of the world. We have 170 of those at present. We want the world market to be the provider of farmer income, not Federal subsidies.

Senator JEPSEN. I might compliment you on that. The marketplace you provide to the farmer has always been my theme, and I think that the Soybean Association has really led the way over the years. I really congratulate you on that in what I consider to be a rolling up of sleeves, going out and doing the job that needs to be done; and that is developing markets, developing the use of new products. You have encouraged the research and done a great job.

Of course, George Strayer happens to be a neighbor of mine and our family farms and, as you know, several others, and we do grow a lot of soybeans on our farm. I like your style.

Mr. RAY. Thank you, Senator.

The CHAIRMAN. Thank you very much, Mr. Ray. We appreciate your contribution.

The next witness, Mr. Edward Bottoms, could not get here. I understand he is scheduled to testify tomorrow morning.

The final witnesses for today are Mr. Melvin Peavy and Mr. Roy Garland, Randolph County, Ga. Both long friends of mine. I am delighted to welcome you to the committee, Mr. Peavy. Is Mr. Garland here?

STATEMENT OF MELVIN PEAVY, CUTHBERT, GA.

Mr. PEAVY. Mr. Garland is not here, Senator. This being the last week for filing the farmers' tax return, his commitment would not let him attend. He sends his regards to you and the committee.

I certainly would like to say that I appreciate the opportunity to appear here today. As you know, I have appeared before. I will make a brief statement. I think most of everything I was going to say here has been covered, especially by Senator Young.

The trouble with the whole situation is the cash basis of our farmers. I met with you and talked about our letter of January 19. We have another letter dated February 5 concerning this. February 12 is the third letter.¹ We went to the executive department, Mr. Garland and I, and met with the Deputy for Domestic Policy and Representative Charles Schultz' office with Bill Bain and also officials from OMB.

We certainly appreciate the price support increase recently granted by the Secretary of Agriculture. However, I feel that the selling price for all farmer commodities are out of balance. You should consider the model below and support information contained herein, immediately, and to act to get the needed price increases before the situation deteriorates further. This model is from the ASCS Preliminary 1980 Report, published December 1979.

I will not read these figures. They have been gone over. I certainly concur with Senator McGovern and his price support raise

¹ See p. 136 for the letters referred to by Mr. Peavy.

on loans for corn and wheat. Secondly, we would like to see in our area of south Georgia—of course, our most important crop is peanuts.

Senator, please refer to the letter dated January 19, 1980. These statistics are results of a survey of 112 tax returns on file with the Internal Revenue Service which show conclusively the difficulty encountered by the average farmer who has to live, pay his income taxes, retire debts from net farm income which decreased in 1978 to \$5,308 from \$32,650 in 1975, a decrease of \$27,342 in 3 years or a total decrease of 83.7 percent.

The total contents of these letters should be closely considered by your committee in your study of the needs of the price situation increases requested.

On January 5, 1980, we filed with you a five-point program which covers some short-term and intermediate needs to the farmers of our area. I would like to expand on the February 5, 1980, letter to say that I feel that the five-point program will be a benefit to the farm industry nationwide and those who do business with the farmer. In addition, accounts and notes could be brought to a current status which I, and many other farmers, have not been able to do for over 3 years.

Agriculture and food commodities form the major contribution to our balance of trade. Farmers produce all the agriculture and food commodities of this great Nation and seem to be going broke in the process.

Price increases are the answer. It boils down to the fact that the burden of feeding the Nation and many other nations as well is no longer worthy of the hard work and effort that has gotten us this far.

If a profitable arrangement cannot be made with our international trades, why then should the farmer bear the burden alone? Should it be shared by the taxpaying citizens who eats the food we grow, work at the job or profession of their choice and do not go broke?

We see no reason why any representative of the people should have any reservations about shifting some of the load to the others.

Senator, I will enter into the record all the letters plus his statement, and again, I want to say that I concur with the testimony here this morning prior to my presentation, and it seems that I have quoted to you on several occasions it is not a matter of borrowing any more money. We have done borrowed too much now.

I have in my pocket a letter or bill for diesel fuel purchased December 1978. It cost me 43.3. Also in my pocket a bill, invoice of January 1980 of 79.9 or 83.4-percent increase.

I also have in my hand a letter from the bank of Dawson who I bank with. I have very close friends on the board of directors of the First State Bank of Cuthbert, Ga., and have had for several, 35, years. I saw the bank grow from \$3 million to \$15 million, a small country bank.

I am unable to borrow from the Bank of Cuthbert, because it is not able to loan me the money that I need. Presently, I borrow from the Bank of Dawson which is a larger bank. I would like to read this letter into the record.

Melvin Peavy, Route 2, Cuthbert, Georgia.

Reference Loan Number 5003. Credit Line \$300,000.

Dear Melvin. No doubt you are aware of the recent increase in the prime rate to 15% and the increased rates that we must pay for savings deposits. We are concerned and want you to know that even the above line is tied to the prime rate, we are keeping your rate at 15 percent and will do so until further notice. You will be notified when you ever have a rate change.

Thank you for banking with us.

Sincerely, W. J. Birdsong.

Senator, I think I have said enough in the last 4 or 5 weeks in Washington. I do think we had a very productive meeting with the executive department, and I hope that this will accomplish something. Thank you.

The CHAIRMAN. Thank you very much, Mr. Peavy. Now, let us get down to peanuts. I assume that is your principal crop.

Mr. PEAVY. Yes, sir.

The CHAIRMAN. That is the principal crop of the people in your area?

Mr. PEAVY. Right.

The CHAIRMAN. Now, what did the executive department say about raising the loan level of quota peanuts? They recently raised it, as you know, from \$4.20 to \$4.50, I believe.

Mr. PEAVY. \$4.55.

The CHAIRMAN. \$4.55. What did they say about raising it further?

Mr. PEAVY. They said they wanted someone to help them develop a new peanut program. They did not like the one we had, except they did say that our cost of production figures were within \$9 of their cost of production.

The CHAIRMAN. Let us put them in the record.

Mr. PEAVY. Our cost of production included land management \$671. Theirs was \$9 less. They did not understand why their cost and ours was so near. But I assured them that I did not see their cost until January 11, 1980, and this information was prepared by myself and my accountant in the middle of January 1980.

We did a lot of work on this. I made the statement over at the executive department to Mr. Daft, Mr. Bill Bain of Mr. Schultz' office that I was buying my land the second time. When I finished making my presentation, the gentleman asked me what did I mean. I said, "Well, in 1977, I owed \$9,000 on 1,600 acres of land." I had my briefcase there, and I offered to show him a financial statement dated January 31, 1980. I owed \$800,000.

I have income taxes that show a 3-year loss from a high of \$105,000 down to a low of \$28,000. Senator, I have been on the farm, as you know, for 38 years. I have my two sons and myself. That is my only income.

I have 10 other employees. We are planting corn today. The only way that my people can buy seed, fertilizer, and chemicals is to pay the accounts that are past due, and they have no way to pay them.

The CHAIRMAN. What did the executive department say about raising the loan level on peanuts, for the peanuts?

Mr. PEAVY. They did not seem to be—did not want to discuss that very little because of the low oil market, Senator. I am, as you know, president of GFA Peanut Association, and I see the bid price on a quantity of peanuts every week.

We sold 15,000 tons of additional peanuts last week. I received a copy of the bid price or delivery sheet on Friday, and I believe the highest was \$440 per ton for additional peanuts.

Of course, the crush in oil stocks, the domestic oil will bring them about 13 to 15 cents.

The CHAIRMAN. Thank you very much, Mr. Peavy, for your contribution, and I am particularly impressed with the figures that you submitted which is supported by an auditor who examined your records and the farmers in your area.

Thank you very much.

The committee will stand in recess until 9:30 a.m. tomorrow.

[Whereupon, at 11:52 a.m., the committee recessed to reconvene at 9:30 a.m., February 26, 1980, in room 324, Russell Senate Office Building.]

EMERGENCY AGRICULTURAL ACT OF 1980

TUESDAY, FEBRUARY 26, 1980

U.S. SENATE,
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY,
Washington, D.C.

The committee met, pursuant to notice, at 9:30 a.m., in room 324, Russell Senate Office Building, Hon. Herman E. Talmadge (chairman of the committee) presiding.

Present: Senators Talmadge, Leahy, Zorinsky, Helms, Young, and Dole.

The CHAIRMAN. The committee will please come to order.

Our first witness this morning is Mr. Edward Bottoms, a soybean farmer from Molena, Ga.

We welcome you, Mr. Bottoms. Mr. Bottoms is a personal friend, and it's a pleasure to welcome you here.

STATEMENT OF EDWARD BOTTOMS, MOLENA, GA.

Mr. BOTTOMS. I am a rowcrop farmer from Georgia, and I guess all rowcrop farmers are concerned about the prices today. I have listed with me the cost of production prepared by the University of Georgia against the price that we receive today. If anybody would like to see that, I have it available.

[The following was received for the record:]

CORN, 90 BUSHEL YIELD, 1979

Item of expense	Units	Estimated cost per unit	Estimated cost for item rounded to nearest dollar
Estimated operating costs:			
Lime	¾ t.....	\$17.50	\$13.00
Seed	12 lb.....	.76	9.00
Fertilizer (5-10-15 or equivalent)	6 cwt.....	5.22	31.00
Nitrogen	150 lbs.....	.19	29.00
Herbicides.....			15.00
Machinery—preharvest:			
Fuel—diesel.....	7 gal.....	.688	5.00
Repairs and maintenance			5.00
Machinery—harvest and hauling:			
Fuel—diesel.....	3 gal.....	.688	2.00
Repairs and maintenance			6.00
Labor	3 hrs.....	4.00	12.00
Interest on operating capital	11.86 percent per 6 mo		8.00
Total operating costs per acre			135.00
Operating costs per bushel.....			1.50

CORN, 90 BUSHEL YIELD, 1979—Continued

Item of expense	Units	Estimated cost per unit	Estimated cost for item rounded to nearest dollar
Estimated fixed costs:			
Machinery—preharvest			\$13.00
Machinery—harvest and hauling			21.00
General overhead			13.00
Management			7.00
Land (see 2d page)			35.00
Total fixed costs per acre			89.00
Fixed costs per bushel			.99
Total estimated cost per acre			224.00
Total estimated cost per bushel			2.49

SOYBEANS, 30 BUSHEL YIELD, 1979

Item of expense	Units	Estimated cost per unit	Estimated cost for item rounded to nearest dollar
Estimated operating costs:			
Seed—including inoculant and molibdenum	0.8 bu	\$12.50	\$10.00
Lime	1/3 t	17.50	6.00
Fertilizer (0-10-20 or equivalent)	.25 t	101.60	25.00
Herbicides			14.00
Insect control (average 2 applications custom ap- plied and \$2 scouting fee)			15.00
Machinery—preharvest:			
Fuel—diesel	9 gal	.688	6.00
Repairs and maintenance			6.00
Machinery—harvest:			
Fuel—diesel	3 gal	.688	2.00
Repairs and maintenance			4.00
Labor	3 hrs	4.00	12.00
Interest on operating capital	(11.86 percent per 6 mo)		6.00
Total operating costs per acre			106.00
Operating costs per bushel			3.53
Estimated fixed cost:			
Machinery—preharvest			13.00
Machinery—harvest			16.00
General overhead			11.00
Management			6.00
Land (see 2d page)			35.00
Total fixed costs per acre			81.00
Fixed costs per bushel			2.70
Total estimated costs per acre			187.00
Total estimated costs per bushel			6.23

Mr. BOTTOMS. I am very concerned about the young farmers of Georgia, being from Georgia. We have had 3 bad years of inflation. Being able to have adequate financing is becoming more and more difficult. The bankers are now wanting to see profits on paper before they will issue money.

I feel, as a farmer, that what is going to have to be done in some way—I don't know whether through support prices or in what way—but the farmers are going to have to have more money for their crops. At the present time, soybeans are around \$6 locally, and it costs \$6.23 a bushel on a 30-bushel yield to produce it.

The same figure with corn. It costs \$2.49 a bushel at a 99-bushel yield to break even.

As far as the Russian embargo, if Mr. Carter feels that is the step to take, I totally support him. But we are also going to have to turn around and have some form of moving this grain or the farmers are going to suffer the whole consequences.

The CHAIRMAN. I believe you were designated as "Young Farmer of the Year" in Georgia this year, were you not, Mr. Bottoms?

Mr. BOTTOMS. Last year, in 1979.

The CHAIRMAN. Congratulations.

How were you chosen?

Mr. BOTTOMS. We were interviewed by a panel of six judges, all at different times, and chosen from in the district—

The CHAIRMAN. What group sponsored you?

Mr. BOTTOMS. The Georgia Farm Bureau.

The CHAIRMAN. Congratulations, sir.

You touched on a point that I have been gravely concerned about, regarding young farmers. Particularly, I spoke to young farmers in Georgia, in Macon, about 3 weeks ago. Were you there?

Mr. BOTTOMS. I was.

The CHAIRMAN. You remember that somebody asked me a question, how could you get started in the business of farming. I told them I didn't know but two ways: One was to marry it; the other was to inherit it. [Laughter.]

How did you start?

Mr. BOTTOMS. I guess I got started a little bit before times got quite that hard. I started off farming, working a night job from 4 to 12, and farming 400 acres in the daytime. I don't advise anybody else to do it.

The CHAIRMAN. It's a hard way to make a living.

Mr. BOTTOMS. Right.

The CHAIRMAN. Did you buy your land or inherit it?

Mr. BOTTOMS. I am buying land and I'm renting land.

The CHAIRMAN. What did you pay for your farm?

Mr. BOTTOMS. Around \$335 an acre.

The CHAIRMAN. That's when the land was cheap. What is land selling for in Pike County today?

Mr. BOTTOMS. Large tracts, \$800 to \$1,000 an acre.

The CHAIRMAN. There is no way on Earth you can amortize that unless you're growing heroin or marihuana on it, is there?

Mr. BOTTOMS. That's exactly right.

The CHAIRMAN. Yet, unfortunately, some people are paying that sort of price for it. And 12 percent interest on that would be over \$100 before you get to taxes and the cost of production.

What are you paying for the land you rent?

Mr. BOTTOMS. Around \$20 or \$30 an acre.

The CHAIRMAN. In other words, you can rent it much cheaper than you can own it?

Mr. BOTTOMS. Correct. It's much cheaper than when you're paying the interest.

The CHAIRMAN. Right. That's what I have advised young farmers to do.

Mr. BOTTOMS. The thing that is hurting the farm family right in my area is that we are centrally located between Columbus, Atlanta, and Macon, and your larger profit companies, for instance, are coming out and buying our property, taking it out of production and playing with it. I can't compete because I'm after it for a living.

The CHAIRMAN. Thank you very much.

Any questions, Senator Young?

Senator YOUNG. I just wanted to congratulate you for your outstanding award. It is a most difficult time to be starting out farming. A young farmer has many problems right now.

The CHAIRMAN. Any questions, gentlemen?

Senator ZORINSKY. No questions.

Senator LEAHY. No.

The CHAIRMAN. All right. Thank you very much, Mr. Bottoms.

Our next witness is Mr. Marvin Meek, chairman, American Agriculture Movement, Plainview Tex.

STATEMENT OF MARVIN MEEK, CHAIRMAN, AMERICAN AGRICULTURE MOVEMENT, PLAINVIEW, TEX.

Mr. MEEK. Thank you, Mr. Chairman.

I commend you for calling these hearings to review the ramifications of the recent embargo. The American Agriculture Movement was founded on the principle of parity pricing for agriculture. Last year at this time thousands of farmers were on the Hill petitioning Congress to enact the 1977 farm bill to its fullest. They returned home with an indication that possibly they would receive a 7-percent increase in target prices. This has not happened yet.

In my opening statements about the embargo I must remind you that even before the embargo, prices for grains were established below the cost of production. The embargo should not receive the credit for destroying a market that was already in ruination. We have once again slapped the producer in the face and the entire Nation will suffer because of economically depressing the largest industry in the United States.

Must we remind ourselves that both political parties have endorsed parity pricing for agriculture? This policy was established by those assembled at their party conventions. I can assure you that the farmers and ranchers across the Nation are no different than the general population and will, indeed, vote their pocketbook in the next election. Either, or hopefully, both parties, should make agriculture the primary, number one issue in the next election. I feel that the party taking the leadership role in promoting agriculture will be successful in acquiring the rural vote.

I also feel the urban legislators must consider the amount of manufactured goods their agricultural sector consumes annually. Also, every American should become active in improving our trade negotiations. It is a lesson in ignorance to hear economists who encourage the United States to export grains at the same prices received during the 1960's. At that time we were importing oil at

\$4 a barrel, and now we are importing oil at \$30 a barrel. We import Toyotas for more than their value and export our food and fiber at less than their value.

When we analyze the condition of bank liquidity at the present time, which is at an all-time low, and the value of the U.S. dollar in comparison to other countries, you must question the qualifications of USDA economists to set policy.

In the old days, you legislators did set policy. However, I now feel that you, along with the farmers of this Nation, have slid into a rut leading to total monetary destruction of the U.S.A. and its dollar.

The Secretary of Agriculture tells you that we will jeopardize our export markets if we increase prices and we cannot set the world market. I say that this concept not only insults your intelligence, but insults all the grain producing nations. We export one-third of our production and there is no way the world can exist without our production. To say that the Canadian Government would continue to sell wheat at \$4 a bushel, while the United States moved its price to \$6, is an absolute insult to their intelligence.

The price of food in America is still the best bargain consumers can find anywhere. We farmers could donate our products to the food industry and the price would not go down 1 cent to the consumer. The food cost increase is due to the hidden interest cost or the cost of money for food processors and distributors. Every time the cost of money goes up, the food handlers just adjust their price to compensate them on their increase in input cost. Gentlemen, interest is definitely a costly input item.

In conclusion, American agriculture feels that 90 percent of parity on Commodity Credit loans are justifiable for the farmers and for the Nation. As legislators from both parties, you must make a giant step forward in achieving this ultimate goal of both parties as written by the people assembled in both party conventions.

In regards to your legislation that you have introduced, we appreciate the efforts that the Senate Agriculture Committee is taking in trying to alleviate the problems of the American producer. We're in a 12-foot hole, and we need a 12-foot ladder to get out of that hole.

The American Agriculture Movement feels very definitely that we need parity pricing in order to compensate us for the drastic inflation that is about to occur to us, this year and in following years.

Again, we thank you for these hearings and your concern. I know that you people on the Senate Ag Committee are not our problem.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Meek.

Your last statement I think summarizes the situation. As you know, only about 3 percent of the people in this country farm for a living. Over on the House side, they have 435 Members, and only about 10 percent of those Members have any substantial agriculture in their district. The majority of them don't have a single farmer in their district, so their interest is toward consumers and not agriculture.

Legislation is the art of the possible. You mentioned the 7-percent increase in support prices. We have just reached agreement in the conference committee on that last week. Both bodies will approve it within the next few days. But that's how legislation around here works. It's long and sometimes difficult and those who are farmers and hurting can't understand the delays and can't understand why they can't get all they want.

But we who have been around here trying to deal with the problem for years and years recognize that we have to get a majority in the Senate, we have to get a majority in the House, and we have to get the bill approved by the President of the United States. Unless you can get all three of those objectives accomplished, you're "Don Quixote" jousting with the windmills.

Are there any questions? Senator Young.

Senator YOUNG. About what was the price of diesel fuel a year ago?

Mr. MEEK. About half what it was. It was about half as cheap as it is right now, last year. It has just about doubled.

Senator YOUNG. Do you expect it to go up more in the next year?

Mr. MEEK. We can be assured that it's going to go up.

Senator YOUNG. How about fertilizer, how much higher is fertilizer now?

Mr. MEEK. Practically doubled.

Senator YOUNG. And the interest rates 1 year ago? Do you borrow mostly with the banks?

Mr. MEEK. I'm still with the bank. I don't know how long I'm going to be able to stay there. But last year I paid 10 percent for my money, and this year it's going to be around 16 percent.

Senator YOUNG. We're headed for serious trouble.

Mr. MEEK. And not just the farmers, Senator Young. The entire Nation is headed for trouble.

The CHAIRMAN. Any further questions?

Senator Zorinsky.

Senator ZORINSKY. Mr. Meek, I just want to briefly take the opportunity to compliment you on your articulate presentation.

I notice this is the third year you have come back. I think it's a shame that you have to come back to teach your own Government the economics involved in putting the American farmer out of business, and to have to defend your own livelihoods in that manner.

I do want to say that you are becoming more effective, and I encourage you to continue these annual pilgrimages. I hope they're not necessary in the future, but in the realities of life back here, it seems the wheel that squeaks the loudest seems to get the oil. Agriculture's wheel is long overdue in telling its story. I appreciate your presence in doing that.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Leahy?

Senator LEAHY. Mr. Chairman, I might add that even if the various goals are met, even if the things that have been asked for here are met, I would hope the people who testified before this committee in the past would still come back. For one thing, I think this is probably the most receptive committee that you're going to find on either side of Capitol Hill.

Mr. Chairman, I think you are to be commended for the fact that you have made this committee available as a forum, on such relatively short notice, and in such a complete fashion. I think that, if anything, underlies your own concern and the ranking member's concern for these problems.

If there comes the time when some of these problems are solved, I would hope we would see these same people back to tell us what programs have worked. If we pass something that helps the situation, let us know that, too, because we need to know which programs are working and which programs are not working, or where a program helps or a situation is hurt by the absence of a program. Because this is the most receptive committee you're going to find on the Hill. If we don't have the testimony and all that is needed to keep that leadership position, then you are hurt all the way across.

I appreciate your coming here today.

Mr. MEEK. Thank you very much.

The CHAIRMAN. Thank you, Mr. Meek. We appreciate your contribution.

Our next witness will be Pamela Frecks of Wilsonville, Nebr. Welcome.

STATEMENT OF PAMELA FRECKS, AMERICAN AGRICULTURE MOVEMENT, WILSONVILLE, NEBR.

Mrs. FRECKS. Senator Talmadge, and my own Senator Zorinsky, and other Members of the Senate and the press, and, of course, my colleagues in the American Agriculture Movement.

I appreciate the opportunity to speak today. I will be addressing the purpose and the effects of the grain embargo.

What would the effect be on you if for 2½ years President Carter had been telling you that if you asked for a raise, you would be fired? So you continue to work without a raise, and then he fires you anyway. The effects? Panic, disgust, helplessness, hopelessness, and finally, anger. Need I continue?

In simple terms, a 10-cent-per-bushel decrease in the price of grain accounts for a \$78 million loss in the State of Nebraska alone. Multiplied by the quantity of grain in the other grain-producing States, it accounts for a \$7 to \$10 billion reduction in farm income. Conversely, this increase would amount to the same. This loss, coupled with a possible 45-percent increase in the amount paid for supplies that we need on the farm, it explicitly states the status of agriculture.

Selling cheap commodities to the Russians has allowed them to divert the money that they would use for foodstuffs to armaments and aggression tactics such as we're seeing in Afghanistan at this very time. In essence, we have subsidized their military. Agriculture could be a strong tool, if it were used properly, to fight the deficit and inflation. The Russians will get our grain anyway through intermediaries, and probably at parity prices.

A partial embargo such as we have, improperly used as it has been, has one end result, and that is lower farm prices.

Embargos aren't new to this Government. It is the purpose behind such embargos that constitutes the real issues that we are addressing here today. So long as this administration promotes

policies advocated by the Committee for Economic Development, better known to us farmers as the CED report, embargos and comparable extermination practices will continue.

Mr. Dale E. Hathaway, listed as an advisory committeeman to the 1965 edition of the CED, is now serving as an assistant to Secretary of Agriculture Bergland.

Appearing in this report are methods of reducing the number of farmers. Among the 80 persons preparing this report, not one farmer appears on the roster. The great majority of those listed are economists, Mr. Hathaway included.

Probably none of these economists could grow 1 bushel of grain, and yet they're telling you that a few corporate superfarms, operating on a small-profit margin, could feed this country cheaply. Not considered in this report are the displaced farmers and how to acquire workers to take the place of retiring farmers and the young farmers who are discouraged from going into farming, none of the methods are explained in this report.

Also not considered in this report is the efficiency of the American farmers in comparison to the unskilled laborers that these superfarms would employ. However, the implications are in the report. In simple terms, corporate ownership and slave labor are called collective farms.

When you remove all the possible incentives of profit from the farmers, you and everyone in this room will be hungry. Now that the farmers know their way to Washington, we'll be back. Even though we couldn't afford to come in the capacity of farmers, we'll come. We may stage a repeat performance of the poor people's march, asking for welfare instead of cooperation. Do you want us in our tents or do you want us on our tractors?

The appearance of such people as Mr. Hathaway in the USDA is no coincidence. Economics departments of this Nation's colleges and universities are saturated with texts published by the CFR, the Council of Foreign Relations. They advocate deficit spending and inflation. This country is doomed to a declining economy so long as these people are writing the textbooks, and we will be in a position to form an interdependent world government. These are the goals of the CFR and, more recently, the Trilateral Commission. Spotlight magazine and Senator Barry Goldwater have written publications attempting to uncover this conspiracy. Among Congressmen at this time, there are 30 Members listed and among President Carter's Cabinet, it lists over 20.

To form a one-world government, three things must be controlled—the food, the energy, and the monetary system. The Trilateral Commission, in attempting to gain control of these things, has its membership list of key personnel of the news media. In addition to controlling what we read, there is also a control of education and the police force.

Until the economy of this Nation is healthy and able to locally support education, Federal grants will force compliance and we have become blackmail victims of socialism and, ultimately, communism. Until this administration completely controls the food, we will continue to have embargos, and also employees such as Mr. Hathaway.

We farmers aren't ignorant to the administration's reluctance to grain alcohol production. At this very time this morning in the House there's a proposal to try to kill a 4-cent exemption on gasohol. They are fearing we might escape their restrictions on our lives.

As for control of the monetary system, your continuous efforts to loan us more money, instead of encouraging a fair market price, is self-explanatory. We are not ignorant of your goals or even your methods; we are only lacking in numbers, but not courage, to expose this preposterous, hideous situation.

Every farm dollar generates seven more throughout the economy. This, too, is not speculation but fact. The USDA is full of statistics that are not being used at this time. The Steagal amendment during the 1940's exemplifies what will happen to this country in agriculture if we had parity prices. When 1 in 3 Americans is employed through agriculture, and agriculture remains the largest consumer of steel, rubber, and petroleum products, there will never be a healthy economy until agriculture is paid.

Immediate action required is a 90-percent loan level on agricultural commodities. And may I stress that this is not a subsidy; this is a loan, repaid with interest. The loan would initially be money expended by the Government. However, the market price has always been at loan level. The five multinational grain companies monopolize the grain market, and they pay only what they must to steal grain from the farmers.

The grain companies have previously sold contracts which must be filled, and grain would only be available at the price above the loan level. I can guarantee you that we farmers are not going through the humiliation of a Government loan, the degradation part of a Government loan, if we could receive parity prices at the marketplace. So ultimately it would be cheaper for the Government to set a loan level at a parity price.

Ultimately, the goal of the American Agriculture Movement will remain the same, that of 100 percent of parity at the marketplace.

When my colleagues from the Nebraska American Agriculture Movement asked me to come here, I was overwhelmed with doubts that I could say anything, particularly in such a short period of time, that would warrant their faith and my effort. In search of a place to begin, the first thing I opened was my Nebraska American Agriculture Movement news, and I'll tell you that this message is from my Nebraska AAM people and from every AAM participant in this country: "I am only one, but I am one. I can't do everything, but I can do something. And what I can do, I should do, and by the grace of God I will do it." [Applause.]

The CHAIRMAN. Thank you very much. You are very articulate, Mrs. Frecks. Congratulations.

What size farm do you operate?

Mrs. FRECKS. We farm with my parents, about 3,000 acres. We raise corn and wheat, cattle, some milo.

The CHAIRMAN. Any further questions? Senator Young.

Senator YOUNG. I would just comment that yours is a powerful statement. You have done a very able job.

Mrs. FRECKS. Thank you.

The CHAIRMAN. Senator Zorinsky?

Senator ZORINSKY. I want to congratulate Pamela for a very articulate presentation, and more so than that, for her taking the time from her life—I know you come here at an economic loss to yourself.

Mrs. FRECKS. Very much so.

Senator ZORINSKY. It's not on a tax-paid holiday or a junket which brings you to Washington, and I want to compliment you for being a very articulate speaker and spokesman for American agriculture.

The CHAIRMAN. Thank you very much, Mrs. Frecks. We appreciate your statement.

Our next witness is Mr. Reuben Johnson, legislative director, National Farmers Union. Mr. Johnson has testified before us many times. He's an old friend, and we're delighted to have him back.

Senator DOLE. I would just say briefly that I did not agree with President Carter. Of course, all of us who live in the farming areas are suspect because we, according to some, pander to the desires of the farmers rather than to the national interest. I am more convinced now than ever that it was a mistake, the same mistake that President Ford made, I might add, and will cost the American taxpayers billions of dollars, and not have any impact on the Soviets.

The CHAIRMAN. You may proceed, Mr. Johnson, and insert your full statement in the record and summarize it.¹

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR, LEGISLATIVE SERVICES, NATIONAL FARMERS UNION, ACCOMPANIED BY ROBERT MULLINS, ASSISTANT DIRECTOR

Mr. JOHNSON. Chairman Talmadge, Senator Young, Senator Dole, Senator Leahy, and Senator Zorinsky, I have with me today my associate, the assistant director of legislative services, Mr. Robert Mullins.

The CHAIRMAN. We're delighted to have you, sir.

Mr. JOHNSON. I want him, in a moment, to make some comments about the production forecasts and the carryover problems, and to give my statement a little bit more oomph.

The CHAIRMAN. Fine.

Mr. JOHNSON. The national board of directors of the Farmers Union met here in Washington, D.C., on January 15 and 16. Following a meeting at the White House, and a consultation with officials of the Department of Agriculture, the board adopted a statement of policy which dealt with the uncertain economic future for the Nation's farmers. This statement was adopted out of concern of projections by the USDA Outlook Conference for a net farm income drop of 25 percent.

With costs of production increasing at levels even greater than the general rate of inflation, combined with the carryover of 1979 stocks and projected 1980 production, we believe that the 1980 farm income could decrease even more.

Right here, Mr. Chairman, I would like to ask Bob Mullins to make some comments.

The CHAIRMAN. Proceed, sir.

¹ See p. 140 for the prepared statement of Mr. Johnson.

Mr. MULLINS. Mr. Chairman, in reviewing the ending stocks of 1978 and 1979, with projected production for the 1979-80 crop year, without some action by the administration, I think it's safe to say that the temporary stabilization of prices that we're seeing right now will cease; in fact, with the carryover projected at this time of total feed grains of some 2.3 billion bushels by the end of this marketing year, economic disaster is on the horizon for American agriculture.

We are looking at approximately a 1.8 billion bushel carryover of corn, combined with a carryover of 200 million bushels of barley, 200 million bushels of oats, and about 131 million bushels of sorghum; with anything near decent weather and planting and harvesting conditions, we could end up with a total feed grain carryover of about 2.6 billion bushels. That is in addition to almost another billion bushels of wheat in 1980.

Unless the administration acts to cut back production of feed grains, there is no way the market prices can hold.

Mr. JOHNSON. Mr. Chairman, I might say that the board of the Farmers Union acted on the adoption of the statement that I will briefly outline here, but not solely out of concern over the embargo of grain to the Soviet Union. We were already facing an increasingly difficult situation with a projected decline in net farm return even before the embargo. So I don't want to come here today with a view that we're merely reacting in our response to the corrective action to the effect of the embargo.

The principles adopted by the board of directors are contained in bill form, S. 2277, and I want to commend you, Mr. Chairman, for the camaraderie exhibited when you, in the absence of Senator McGovern and Senator Zorinsky, did take the bill to the Senate and introduced it.

I have attached a copy of the bill.¹ We think it's a practical, reasoned, and realistic approach. Admittedly, our board made some compromises from our long-time position of 100 percent of parity, but we were trying to give the Congress some leadership and direction which we view as being acceptable, that perhaps we might even get those city Members in the House to support it.

Mr. Chairman, I know of your concern about that particular problem, because we have discussed it personally. We in the Farmers Union want to assure you that we are going to exert every effort we can to pick up momentum in the House.

I learned yesterday that Congressman Andrews, Senator Young—and I believe I have an unofficial report that you're beginning to view the bill with some favor—is that correct?

Senator YOUNG. I am one of the cosponsors.

Mr. JOHNSON. Well, I had heard that but I hadn't had it in writing. I am delighted to know that you are, and that Congressman Andrews and the House has also joined in support.

Mr. Chairman, I think this bill is fairly generally understood. There is nothing very complicated about it. It merely would bring price support levels up to preembargo levels for corn, wheat, cotton, and soybeans. These are not figures as high as we would like for them to be. We based them on the average prices in the market in November and December. They are in balance as far as

¹ See p. 184 for a reprint of S. 2277.

the four commodities are concerned, as Bob Mullins tells me, who has been instrumental in putting these numbers together.

We would continue to have some kind of protection against Commodity Credit selling stocks under the market at prices that would be depressive. Perhaps the most significant part of our statement relates to protecting farmers in the event of future embargoes. There was what we call an imperfection in section 1002 of the 1977 act.

This bill corrects that. You wouldn't even know what it was doing in that section if you didn't know the 1977 act very well, and we might as well leave it that way.

The effect of it would be to bring loans up to a level that we feel the farmers would be entitled to in the face of further embargoes.

I might say to you that a part of our board statement that has not reached the legislative drafting stage relates to putting into effect effective safeguards to assure that the embargo is not circumvented by any trading firm or third party countries. Once we have put an embargo into effect—and our board agrees that we shouldn't try to protect the weakest economic link of the Soviet Government—we ought to make it stick.

Mr. Chairman, I want to commend you for your leadership. We are here in Washington, and have been here so many years, and understand the complexities and realize the difficulties. We do have our problems with the money managers downtown. I want to say that the battle you won on the Senate floor on the budget, with the help of Senator Dole, in my opinion was one of the most significant actions that we have had taken recently to give farmers economic protection. And that battle is still being fought.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Johnson and Mr. Mullins, for making your statements.

Mr. Mullins went into detail about the carryover on feed grains and wheat. I urged the Secretary last fall to continue a set-aside program and I think he made a very grave mistake. I understand the administration now is considering some sort of diversion program. Of course, they have already planted in some parts of Texas. They're planting now in Georgia, Alabama, and Mississippi. If they're going to take any action, they ought to have taken it yesterday.

I don't know what they're going to do, but I agree with you. I think we're going to have wheat, feedgrains and corn running out our ears. As I see it, that is bound to break the market even further.

Any questions?

Senator YOUNG. The Farmers Union has always been 100 percent behind the best interests of the farmers.

Mr. JOHNSON. Senator, when the mountain becomes so high that you can't figure out any way to get to the top, you have to settle for getting part of the way up. I suppose that would be one way of putting it.

I might also say that our board of directors is getting progressively more intelligent, particularly in matters relating to tactics. I commend them for that.

I might say to you, though, this action was not taken precipitously, and without a great deal of discussion. As a matter of fact, if we can't get some of this package that we have here, my job may be in jeopardy. I want you to understand that. [Laughter.] My image would improve if we could even get this.

The CHAIRMAN. Are there any other questions?

All right. Thank you very much, Mr. Johnson.

Our next witness is Mr. Edward Andersen, master of the National Grange. We're delighted to have you back, sir.

Mr. ANDERSEN. Thank you, sir.

The CHAIRMAN. We will insert your full statement in the record, and you can summarize it, please.¹

STATEMENT OF EDWARD ANDERSEN, MASTER, NATIONAL GRANGE, ACCOMPANIED BY ROBERT FREDERICK, LEGISLATIVE DIRECTOR

Mr. ANDERSEN. Mr. Chairman, members of the committee, I am Edward Andersen, master of the National Grange, with offices at 1616 H Street, Northwest, in Washington, D.C.

Today I have with me Mr. Robert Frederick, who is our legislative director, who I am sure many of you have met many, many times.

The CHAIRMAN. Many times.

Mr. ANDERSEN. I am pleased to have this opportunity to represent the National Grange before this distinguished committee. Before being elected master of the National Grange last November, I operated a 700-acre livestock and grain farm in eastern Nebraska.

We commend you, Mr. Chairman, and the other Members of the Senate, for introducing legislation that, if enacted into law, would assist farmers in meeting the financial challenge caused by the suspension of sales to the Soviets.

The objective of the administration's program was to assure U.S. producers that they would not bear the full cost of U.S. foreign policy regarding the Soviet invasion of Afghanistan.

The Vice President said in the announcement on January 7 that the administration's actions would assure that the quantities of grain that would have been shipped to the Soviet Union will be isolated from the market and that America's farmers will be in the same position as if the sales to the Soviet Union had gone forward.

In the case of wheat, Howard Hjort told the National Association of Wheat Growers that the 4 million metric tons of wheat under contract to the Soviets is going to be taken out of the market and will not be available to the commercial market at any price.

Further, Mr. Hjort said, "There isn't anyone that has enough money to get that wheat back from us and into the commercial market."

Mr. Chairman, the Grange is supporting the food security reserve as set forth in S. 2258. However, we do have some questions as to the release of 300,000 metric tons of wheat that can be released from the reserve each year to meet urgent humanitarian relief. If wheat is available in the United States, then it should be supplied through Public Law 480 and not taken from the food security reserve. We also favor a sunset provision in the law.

¹ See p. 141 for the prepared statement of Mr. Andersen.

We are a strong supporter of H.R. 3398, a bill that will raise the 1980 target price for wheat to \$3.63 per bushel and give the Secretary of Agriculture the authority to set the 1981 target at not less than the 1980 level. However, consideration should be given to permitting haying and grazing on 1980 wheat acreage and a further increase in the loan levels for 1980 and 1981 crops.

The firm, strong, and swift action by the administration in isolating the 4 million metric tons of wheat under contract to the Soviets from the market has resulted in the recovery of the wheat markets to a level above the pre-January 4 level to a greater extent than the other program changes announced by the administration. The same cannot be said for feed grains.

The administration repeatedly stated that the grain destined for the U.S.S.R. would be isolated from the market. However, in the case of corn, the administration's actions have had a lesser impact on the market, as corn prices still are 10 to 15 cents per bushel below the January 4 price.

The Commodity Credit Corporation offered to assume the contracted obligations from exporters for more than 10.8 million metric tons of corn, 710,000 metric tons of soybeans, and 4.5 million metric tons of wheat. What the Commodity Credit Corporation intends to do with the wheat is clear, and the market has responded. But in the case of corn, the picture is not so clear and corn prices have reacted accordingly.

USDA has stated that if the Commodity Credit Corporation takes physical delivery of the corn, the corn cannot be sold back into the market at a price lower than a level of \$3.15 per bushel at the farm, because the law requires that the selling price must be at least 150 percent of the loan rate. However, if the Commodity Credit Corporation has the opportunity to sell export contracts it has assumed to a third party, either domestic or foreign, that corn will be moved back into the market at or above the January 4 price of \$2.40, the approximate price per bushel at the farm.

We have serious question if this method of resale carries out the assurance the administration gave farmers to isolate the contracted grain from the market. A resale price of \$3.15 is above what anyone anticipated for the 1979 crop of corn and would effectively isolate that corn. But a price of \$2.40 does not isolate the corn and the corn market has received that signal. Nor does it fulfill the Secretary of Agriculture's statement to the House Agriculture Committee that "there is no more grain available for trade than there would have been had the grain been delivered."

In lieu of the failure of USDA to effectively isolate the corn from the market via purchasing of contracts, the other means open to the Department is to take into the farmer-owned reserve the embargo-equivalent quantity, or 512 million bushels of corn. To date, very little of that corn has entered the reserve, sending further price-depressing signals to the market.

Two things are apparent: The price is not right to induce farmers to place corn in the reserve with the announced CCC resale policy, and No. 2, farmers who participated in the 1979 farm program do not have sufficient on-farm storage facilities to store another year's production.

The strategies USDA has employed to offset the effect of the suspension of grain sales to the Soviets have given less protection against downward price pressure on corn than on wheat. Taking direct control of the 150 million bushels of wheat is substantially more precise and predictable than the laundering technique for corn.

The uncertainty is whether there are enough 1979 program farmers who can take another 512 million bushels into the farmer-owned reserve, or will choose to do so. We believe the eligible producers have filled their existing storage.

The statistical analysis done by the University of Missouri indicates that shifting grain from the export market into domestic reserves has a depressing price pressure even if market disappearance remains constant. The University of Missouri suggests that corn prices increase approximately 13 cents a bushel for each 100 million bushels exported, and that prices increase about 11 cents per bushel for the same quantity of corn entering the farmer-owned reserve.

This implies that the price effect of the 512 million bushels of corn exported is about 67 cents. An equivalent amount entering the reserve has about a 56-cent-price effect. To put it another way, grain taken off the market via exports is slightly more valuable to the U.S. farmer than grain put into reserves. On this basis, the season-average corn price for 1979-80 is projected to be 11 cents lower than if there had been no suspension of Soviet sales. This is assuming that all 512 million bushels entered the reserve.

If sufficient grain is unavailable from program participants, then the Grange would support opening the program to noncompliers to obtain that amount of grain, provided that there would be a limit placed on the amount of grain each farmer could place in the reserve and that first preference would be given to farmers who planted within their normal crop acreage.

The National Grange recommends that the following steps be taken to assure feed grain producers that they will not be adversely affected by the suspension of grain sales to the Soviets:

That the grain covered by the export contracts that were assumed by the CCC not be sold at less than 150 percent of the loan rate, or \$3.15 per bushel; No. 2, that the grain acquired by CCC be used in establishing a gasohol feedstock reserve along the lines suggested by several bills pending before this committee—additional Grange views on gasohol programs are included in this report.

No. 3, the loan rate for corn be raised to \$2.40 per bushel, and the loan rate on soybeans be raised to \$6 per bushel; No. 4, that a small soybean reserve be established as a part of the farmer-owned reserve program to absorb the soybean sales lost from the Soviets; and No. 5, that a paid land diversion program of 15 percent be established as a part of the 1980 feed grain program, with a payment of \$1 per bushel being paid on withheld acreage.

If administrative action on a paid land diversion is not announced, then legislation should be passed to mandate a 15-percent feed grain set-aside. A 15-percent paid land diversion will also remove most of the marginal land from row crop production.

Mr. Chairman, we are grateful to you and the members of this committee for calling these hearings and for your continued dedica-

tion to the betterment of U.S. agriculture. Thank you for permitting the Grange to present our views.

The CHAIRMAN. Thank you very much, Mr. Andersen, for a fine statement.

Any questions?

Senator Helms.

Senator HELMS. Mr. Chairman, I find Mr. Andersen's statement very interesting. If we have learned anything from this embargo, I think it is that we should never again allow ourselves to become dependent upon trading with a potential adversary. When we find it necessary to implement embargoes or whatever, we leave the farmers holding the bag.

Now, nobody wanted that. The President didn't want that. Secretary Bergland certainly doesn't want it. But it's just simply a fact of life. This has resulted in a spate of bills introduced, as you mentioned.

Today, Mr. Chairman, or tomorrow, I am going to introduce another one. It might be classified as sort of an omnibus bill to take care of various things—for example, the bill would provide for temporary gasohol feedstock reserves, which others have addressed that alone.

We felt the need to put all this together into one piece of legislation, to give the Secretary authority to open up the loan program, to give the Secretary authority to announce cropland set-asides, to increase the maximum CCC loans and so on, and mandating and identifying ways to expand our agricultural export markets.

Did you state your opinion about giving the Secretary authority to open up the Federal crop program to all producers in order to offset the impact of the embargo.

Mr. ANDERSEN. I did. In case there were not enough eligible producers from the 1979 program to put that much into storage, then we would be agreeable to opening it up to all producers, with some qualifications and limitations. In other words, we want to make sure there's a limitation as to how much each one can put into it. Everyone should have a chance.

Also, we think that those that stayed within the normal crop acres should be given first choice; even though they were not in the program, some of them may have stayed within the normal crop acres. They should be given first choice.

Senator HELMS. What is your opinion of the short term and the long-term effects of making substantial increases in the loan levels of wheat and feed grains?

Mr. ANDERSEN. Well, of course, the short-term effect would be an immediate increase in the amount of money available to that producer. I am thinking in terms of the 1979 crop as well as the 1980 crop.

The long-term effect, of course, would be the overall effects of an increase in the income of agriculture. Of course, this is what we're all looking for. The question is whether you get the loan level too high, as to whether it's going to encourage worldwide production to the degree that it may mean more competition than we can handle. I'm not sure where that level would be, but, as far as we are concerned in agriculture, we meet most competition. As long as we

don't have to compete with subsidized agriculture from a foreign country.

Senator HELMS. Let me just ask you a hypothetical question.

If you could push the button about what this Government could do to increase exports, what would you tell the Government?

Mr. ANDERSEN. I think we have been pretty happy with what the Government has done in the last couple of years as far as legislation, to give USDA the authority to go out and invest funds and also funds from commodity groups, to set up foreign offices, to open up these markets.

I'm not sure I would have any recommendations at this time that would improve on this. I think they're doing a real good job—

Senator HELMS. The Secretary has done a good job, too.

Mr. ANDERSEN. Yes, I think he has. I'm not sure what the figures are at this time, but in visiting with him a couple of weeks ago he told us how many offices they have opened this last year, and I think they're talking about four or six more for this year. I'm not sure how many were authorized a couple of years ago, but I think they are making good headway on getting this done. We're pretty happy with that.

Mr. FREDERICK. Senator, I think the biggest potential for U.S. agriculture export gains lies in the Third World market. I'm glad to see these new offices opened up for trade expansion in such areas. This is very encouraging and a thing that can be done immediately and will help in the long term for U.S. agriculture exports.

Senator HELMS. Senator Zorinsky and I were talking about precisely that. They have a lot of things that we need.

I didn't mean to take so much time, Mr. Chairman. Thank you very much.

The CHAIRMAN. Any further questions? Thank you very much. We appreciate your contribution, Mr. Andersen.

Our next witness is Mr. Vernie Glasson, director, National Affairs Division, the American Farm Bureau Federation. We're happy to have you appear, sir.

STATEMENT OF VERNIE GLASSON, DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION, ACCOMPANIED BY GLEN TUSSEY, ASSISTANT DIRECTOR

Mr. GLASSON. Thank you, Mr. Chairman. I am Vernie Glasson, director of National Affairs Division for the American Farm Bureau Federation. I have with me the assistant director this morning, Glen Tussey.

The CHAIRMAN. We're happy to have you. You may insert your full statement in the record and summarize your statement.¹

Mr. GLASSON. Thank you, sir. I would appreciate that. I will summarize it.

I also have additional material, an economic analysis, that I would also like to be made a part of the record.²

The CHAIRMAN. Without objection, it will be inserted in full in the record.

¹ See p. 147 for the prepared statement of Mr. Glasson.

² See p. 150 for the referred to economic analysis.

Mr. GLASSON. The American Farm Bureau Federation appreciates the opportunity to comment on President Carter's embargo order of January 4, 1980, on exports of agricultural products and other items to the Soviet Union.

At the time of the announcement, some 8,000 Farm Bureau members were gathering in Phoenix, Ariz., for our 61st annual meeting. The embargo order dominated interest during the entire meeting.

The Farm Bureau has traditionally opposed, and continues to oppose, embargoes on farm commodities, except where there is a clear threat to national security. The President has stated that the invasion of Afghanistan by the Soviet Union poses such a threat.

After considerable debate, the following emergency policy was adopted by the voting delegates of the member State Farm Bureau—and I'll quote parts of it:

A threat to our national security exists as a result of the Soviet Union's invasion of Afghanistan. All segments of our nation must share in carrying the brunt of the sacrifices necessary to deal with the current crisis. We urge the President to take the necessary steps to end all cultural and economic contacts with the USSR and should solicit allies throughout the world to do likewise.

Some segments of our nation's economy will suffer and, therefore, steps must be taken by the government to provide equitable compensation for these losses. Agricultural trade should not be sacrificed unless the national security demands a total suspension of all nondiplomatic relations with the U.S.S.R.

We encourage the following seven points: One, increase the CCC export budget to \$2 billion; two, offer the wheat and feed grains loan and target price programs to all producers; three, place the 17 million metric tons of embargoed grains and oilseeds in isolation with staggered release beginning at a point 10 percent above the call levels through the 1980-81 marketing season; four, revise 1980 farm program release and call levels; five, establish acreage diversion programs for feed grains and wheat for 1980 to reduce the 1980 crop size by 17 million metric tons; six, legislate requirements for gradual addition of alcohol to fuels and provide long-term incentives to build needed processing facilities; and seven, provide low interest loans to holders of agricultural commodities not sold due to the embargo.

In addition, there is a policy statement adopted by the delegates which basically states the fact of the embargo, and requests further clarification by the President of the threat that exists, and then states that:

In the event a national emergency exists, all segments of our nation must join in making sacrifices necessary to deal with the crisis. All necessary steps must be taken to end cultural and economic contacts with the USSR, and we ask our allies to do the same.

Steps must also be taken by the government to equitably compensate American farmers who suffer economic hardships as a result of the President's actions.

American farmers will support combined efforts by all segments of our society as well as our allies to resist Soviet aggression in Afghanistan and throughout the world.

Unless the above mentioned actions are taken, the grain embargo should be suspended.

American farmers are concerned over Soviet aggression and expansionism and the possible effects on U.S. security and their lives. We believe it is not unpatriotic to question whether an embargo on agricultural commodities to the Soviet Union is the most appropri-

ate response to Soviet expansionism, or to question whether such action is likely to prove effective in view of the nature of agricultural products and world trade.

Laying aside the arguments on the need for the embargo, and its ineffectiveness, the fact remains that we now have an embargo. Therefore, we would shift to what actions are appropriate for our Government to take and how the effects of the embargo on U.S. farm income can be mitigated.

Farmers should not be asked to carry the brunt of foreign policy efforts to stall Soviet expansionism. Farm Bureau members believe that a gradual "tightening of the screws" will not work with the Soviets, and that such a course will only sacrifice farm exports and, ultimately, farm income. If the security of the United States is threatened sufficiently to require an embargo in grains, this threat is indeed sufficient to justify additional measures to suspend business, scientific, and cultural relationships, in order to send a stronger signal. U.S. policy which would embargo grain shipments to the Soviets while permitting a continuation of exports of U.S. superphosphoric acid for use by the Soviets to increase their domestic grain production would be a policy filled with cross-purposes. Therefore, we support the President's actions of yesterday to suspend those sections, and we had requested such.

The Farm Bureau delegates have recommended seven actions to mitigate the effects of the grain embargo on farm incomes. We recommend that the strongest possible efforts be made to achieve isolation of that grain, coupled with major efforts to move as much as possible of this embargoed grain into alternative markets.

We appreciate the actions the administration has taken thus far, and the actions of the bills introduced by Congress, but we do believe that the actions require further action, including legislation, particularly as it relates to land diversion. We believe that a land diversion program is needed to reduce the 1980 production of wheat and feed grains.

We recognize that futures market prices have recovered since the January 4 embargo announcement by President Carter; however, there is considerable disparity between what has happened in the futures market and the situation in the cash grain market. This confusion reflects many reasons, but we do not believe that the long-term impact of this huge market loss, the resulting stocks, and the possibility that a large portion of the Soviet market has been lost for the foreseeable future has yet been fully reflected in futures market prices.

The Farm Bureau does not believe that it would be prudent to produce grains at current production levels until new markets are found to offset the Soviet market loss. We strongly urge the Secretary of Agriculture to use the authority granted to him by the Food and Agriculture Act of 1977, to establish a land diversion program for the 1980 wheat and feed grain crops with adequate financial incentives to reduce next year's crop by 17 million metric tons. Such action should be taken quickly and, if necessary, we would support legislation to achieve that end.

Relative to CCC credits, one of the quickest and most effective means of moving grain would be to finance additional quantities under the CCC export credit sales program. The administration has

stated that the CCC budget will be increased in fiscal year 1980 to \$1.8 billion. This compares with \$1.6 billion in fiscal year 1979. However, country lines of credit (GSM-5) will be cut to \$800 million, and the remaining \$1 billion will be devoted to credit guarantees (GSM-101) against noncommercial or political risks. This shift in emphasis from country lines of credit to credit guarantees will not achieve the export stimulation which is needed at this time.

The lines of credit to which our foreign customers are accustomed would help meet unfilled requests for financing from a dozen or more trading partners who would like CCC funds to finance over \$1 billion worth of imports of U.S. farm commodities not already covered by lines of credit.

Relative to loan and target prices, we do recommend that the wheat and feed grain loan and target prices that have been announced for 1979 be offered to all producers regardless of whether they participated in the 1979 program. We support the legislation that is needed to achieve this objective.

Relative to resale prices of acquired grain, the Farm Bureau supports legislation to require that this grain not be sold for less than 10 percent above the reserve program call level and that such releases be staggered.

We generally support the administration's announcements on gasohol and legislation which would provide loans, grants and tax refunds to encourage gasohol production.

Relative to low interest loans for other commodities, we support legislation that will give the Secretary legal authority to use the CCC to deal with all agricultural commodities affected by the embargo in the same manner as grain.

Mr. Chairman, in summary, the Farm Bureau calls for a broadening of U.S. actions to increase the effectiveness of those already taken to counter Soviet expansionism. In addition, we ask for action to mitigate the impact of the measures that have been taken on that segment of the economy, agriculture, which has been hardest hit by the embargo action.

I also have a statement that I have furnished, Mr. Chairman, an economic analysis that we believe substantiates the need for a land diversion program for the 1980 crop year. We would appreciate it being made a part of the record.

The CHAIRMAN. I have read both your statement and this economic analysis. I think it's very good.

Any questions? Senator Young.

Senator YOUNG. On page 5 of your statement you state "We appreciate the administration's prompt action on loan and target prices. We do not see the need for further increases in loan rates as higher levels could interfere with the competitive workings of the international market system."

You only increase the loan rate for wheat of about 10 cents a bushel?

Mr. GLASSON. To \$2.50, and it was \$2.40. About 10 cents, yes, sir.

Senator YOUNG. Do you feel that's adequate?

Mr. GLASSON. At this time, yes, sir. We have directed our attention to the need for a diversion program in an attempt to help bring supplies back more in line with demand for the 1980 crop,

rather than toying with the loan rates or the target prices at this point in time.

Senator YOUNG. I don't think many farmers in North Dakota would agree with you.

Mr. GLASSON. I hear you, sir. [Laughter.]

The CHAIRMAN. Senator Dole?

Senator DOLE. I don't have any questions. I think it's an excellent statement.

I wanted to particularly note the CCC credits, and I know Mr. Tussey has done a lot of good work on that. He was a member of the staff of the committee and we appreciate that. We appreciate his influence with the Farm Bureau, and this ought to improve it more.

The CHAIRMAN. Thank you very much.

Senator Helms?

Senator HELMS. Mr. Chairman, thank you.

Don't you think the State Department really needs to get its act together in terms of how far it's going to go, in making the American farmer a pawn in an international chess game? Isn't that really it?

Mr. GLASSON. I think we would agree with that statement, Senator Helms. We have seen many examples of that in the last few years as it relates to embargo actions and what the impact might be on America's farmers. As you say, the State Department seems to have little concern about what that impact might be.

Senator HELMS. Our distinguished chairman has often said he wished we had an American desk down at the State Department, and I agree with that.

Argentina comes to mind. We ran afoul, I hope temporarily, of a natural reaction of the Argentines to our highly selective application of human rights standards. They were just burned up because the State Department stepped in and said, "No, the United States cannot sell two surveillance helicopters to Argentina." They needed them to flush out terrorist groups who were up in the hills, coming down and killing people. We do such things as that, and then we expect them to fall in line on an embargo.

We all understand communism and the rest of it, but I also understand human nature. They say "well, what have you done for us lately?" I just hope that somewhere along the line we can get the Agriculture Department and the State Department to have an understanding that foreign policy and the misuse of the American farmers, throwing the farmers to the wolves, is not in the best interests of the United States and not in the best interests of freedom in the world.

Mr. GLASSON. We would agree with you, Senator.

Senator HELMS. Thank you very much.

The CHAIRMAN. Thank you, Mr. Glasson, and Mr. Tussey, for your appearance today.

Mr. GLASSON. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witness is Mr. Charles L. Frazier, director, Washington office, National Farmers Organization. Mr. Frazier has testified before this committee many, many times. We all know him; we're delighted to have you back.

We will insert your full statement, and you can summarize it, if you will.¹

STATEMENT OF CHARLES L. FRAZIER, DIRECTOR, WASHINGTON OFFICE, NATIONAL FARMERS ORGANIZATION

Mr. FRAZIER. Thank you, Mr. Chairman.

Like others who have appeared before you today, my organization supported the President's partial embargo on grain going to the Russians. At the same time, our national board called on the Government to take some steps to be sure that the farmers of this country did not bear the whole brunt of the action and the whole cost of it.

Unfortunately, we have been disappointed in the actions taken to date. We specifically recommended to the Secretary, and followed it up with conversations, that they purchase grain from farmers through the local ASC offices, to brace up these markets at the local level. I think we all know that markets have gained a little around the terminals, but there are many localities out there where local prices are still low and, in fact, if some farmers really tried to sell grain in volume at many of those local elevators, they can't make the sales today.

When they did finally make an offer to buy some grain, they had 53 million bushels of corn offered, and bought only 281,000.

Now, like others who have appeared before you this morning, we are concerned about the buildup in grain stocks. It appears rather certain that there will be approximately a 40-percent increase in corn and the other feed grain stocks hanging over the market at the end of this marketing year.

We would like to see a set-aside action put in place in feed grains to ward off a dead market for corn and the other feed grains next fall.

Although we realize you took a strong position on this, Mr. Chairman, and made a recommendation in the past on it, I would urge that this committee again express some type of unified action to the Secretary immediately, in the hope that we could get a favorable decision on that question between now and the first of the month. They have promised such a decision and, quite frankly, the longer they drag it out, the more some of us are impressed with the likelihood that they're going to run out from under it again and probably leave us wide open on production.

The CHAIRMAN. I have repeatedly urged the Secretary, last fall, to put in a set-aside program. He did not do so. I have repeatedly urged him this year on the diversion program, and he has not seen fit to do so.

In my judgment, if we don't have a diversion program this year, and we have normal weather this year, we're going to have wheat, corn, feed grains, running out our ears, and it is bound to break the market. It is already disastrously low.

Mr. FRAZIER. Correct. I bring it up only to urge that we all take one more shot at it.

If I might, I would like also to offer another comment this morning. I don't believe I have seen the time when farmers and farm organizations appearing before your committee seem as

¹ See p. 154 for the prepared statement of Mr. Frazier.

nearly unified as they are today in asking for some action to ward off what we clearly see ahead of us over the next 12 to 18 months.

I will close quickly. I know you have much to do here. In addition to the review of the interest rates and costs of operation, with which we're all familiar, and predicting the disastrous problems that are coming on again in the cost-price squeeze on the grain crops, cotton and soybeans, there is one other thing I should like to bring to your attention. It's not fun to talk about, but I think it has become clearly evident that the current efforts of this Government to cope with inflation are, if not a disaster, at least are not successful at this stage in the game.

Some of us are old enough to have been through wage and price controls before. We also have been through decisions made in an election year. I for one am concerned that one of these days this Government may decide to impose wage and price controls at so-called current levels, whatever they may be at the time, and we will be stuck with these high prices—fuels, machinery, taxes, interest rates, everything else facing us out there, and we will also have the price of our commodities frozen as of that date. I think this would be a disaster.

For that reason, I think it is even more important than our current problems in survival on this crop in 1980, to get this "base", if you please, readjusted before we find ourselves frozen into the present position for perhaps 2 or 3 years or whatever it may take to get the economy straightened out.

The CHAIRMAN. If you would yield at that point, wage and price controls have been used from the days of the Roman Empire to the present time. They have never worked except in short periods of time, during war, when patriotism was extremely high, when people were being killed on the battlefield. They usually create distortions, shortages, black markets, create thieves and things of that nature, and then finally the lid blows off and inflation becomes worse than ever. That is merely treating the symptoms of the disease rather than the cause.

We have had inflation now for about 15 years, real serious inflation, that dates back to the Johnson administration, during the war in Southeast Asia, when we were fighting a war and reducing taxes at the same time, and starting the Great Society programs at the same time. Since then we have had budgetary deficits of \$40, \$50, and \$60 billion a year and we have had to resort to printing press money.

When you do that, you devalue the currency. That is the principal engine of inflation that we have in America today. Added to that we've got a lot of other problems of recent origin. We have got blackmail prices for energy, which has increased 1,600 percent since 1973. Barbary pirates have jacked it up to where we are now paying \$80 billion a year to import it in, and then a third factor.

Federal regulations now cost this country, the consumers, a minimum of \$100 billion a year, and I have seen estimates as high as \$150 billion a year.

All of those things are the principal reasons that we have had inflation, which has continued for 15 years and is now running about 18 percent. Until we correct that, we're going to continue to have inflation.

Do you agree with that?

Mr. FRAZIER. Yes, sir; I agree with your whole analysis, and furthermore, that is why I have it in the testimony this morning. I am told we are in such a position in this Government today that it is going to have to borrow another extra \$58 billion out of this money market this year—

The CHAIRMAN. And that applies to everyone who wants to buy a tractor or buy some fertilizer or build a house, or buy an automobile. Treasury bonds I believe hit 15 percent or thereabouts yesterday, and I never did think I would live to see the day when interest rates in this country would be as high as what the Mafia used to charge as loan sharks.

Mr. FRAZIER. That's right.

Mr. Chairman, we're in agreement on the threat of the thing, the origin of the matter. I, for one, just simply cannot pass this opportunity to emphasize that unfortunate even though wage and price controls may be—very inadequate, very ineffective—that nevertheless, one of these days out of pure desperation someone may put them on us. And if they do, it will be just like legislating the farmers off the land.

The CHAIRMAN. They still haven't gotten over freezing the price of cattle on the farm in 1973. It has been 7 years.

Mr. FRAZIER. That's right.

Well, in summary, like some others, I appreciate the efforts that you and the members of the committee are making. I have endorsed most of the provisions in S. 2277 as a minimum action that I would hope Congress would take.

Let me close by urging you to go ahead and put a bill out from the Senate side. Without being personal or critical of people in the other body, I think the record makes it rather clear that some of us waited patiently and long for some action over there last year. Surely, they will take a little better reading this spring.

So if you can see fit to move a bill out of here, some of us will work hard on the House side. Thank you, sir.

The CHAIRMAN. We'll do our best, of course.

Thank you very much. We appreciate your testimony.

Mr. FRAZIER. Thank you.

The CHAIRMAN. Our next two witnesses have been snowbound, Mr. John Stevenson, vice president in charge of education, National Corn Growers Association, Circleville, Ohio, and Dr. Glenn Sullivan, chief economist, North American Car Corp., Chicago, Ill.

Our last witness for today is Mrs. Nita Gibson, national president, WIFE, Women Involved in Farm Economics, Seminole, Tex.

We're delighted to have you with us, Mrs. Gibson. Welcome. We will insert your full statement in the record and you may summarize it.¹

STATEMENT OF NITA GIBSON, NATIONAL PRESIDENT, WOMEN INVOLVED IN FARM ECONOMICS, SEMINOLE, TEX.

Mrs. GIBSON. Thank you, sir.

My name is Nita Gibson. My husband, Charles, is a cotton farmer, and we live west of Seminole, Tex., in Gaines County.

¹ See p. 157 for the prepared statement of Mrs. Gibson.

I am the national president of WIFE, Women Involved in Farm Economics. It is an honor for me to serve as president of more than 2,000 members in 13 States because when I think of WIFE, I think of a tremendous pool of intelligence, foresight, and grassroots dedication.

Of course, we note the Export Administration Act, which gives the Congress the right to review and reverse powers. However, the administration chose not to invoke the 90 percent of parity rule. They did also sidestep the reversal powers by imposing the embargo not only on foreign policy considerations, but also for national security.

It seems like everybody thinks they have a right to get into our lives and our livelihood. Is there always a right to impede, a right to control, a right to interrupt, a right to price, if you please, our income because we produce the necessities of life? We know that we produce things that sustain life, Mr. Chairman, and we're glad to do that. We are honored to have this profession.

But we question the rights for everybody to think they have a right to disrupt our ability and our right to make a living.

We would plead for this committee to—and for the Congress, the administration—to change its attitude and think in terms of the farmer in a different light.

In our remarks here—and I know you're running out of time—we have six proposals here, and you did ask that we summarize. I would like to submit the total situation for the record rather than to read these things to you.

The CHAIRMAN. They will be inserted in the record.

Mrs. GIBSON. Thank you, sir.

I would urge you Mr. Chairman, and I have observed you for years, as well as having been here before and I have always been honored to come here—I would urge that this committee and the Senate, which has responded more to the needs of the farmers than anyone else on Capitol Hill, would heed our plea that the American farmer is in trouble. Heed our plea that the embargo has brought on some of these problems. Mr. Chairman, the suggestions that WIFE has presented are strictly for the short term. We are not looking at a long-range proposal here. We believe we as farmers have the right of free enterprise. As a people in a country we would like to be recognized as having the right to fail, if you please, or the right to make a profit.

We feel that we are all strung out, Mr. Chairman. We do not have a place in the sun in either ideology—the ideology of free enterprise or the ideology of Government mandate. We would rather not have a controlled policy from Government. We would rather make it in the marketplace. We would rather be free to do so.

I plead with everything that's in me. If there's anything in the world that this Congress, this committee, this administration, and the people in this country need to realize, is the fact that we do produce the necessities of life. If the goose is killed, who's going to lay the egg.

I believe that somebody has got to have the judgment and commonsense to work out this situation. I thank you for your time.

The CHAIRMAN. Thank you very much, Mrs. Gibson, for a very eloquent and articulate statement.

Where is Seminole, Tex.?

Mrs. GIBSON. Seminole, Tex., is south of Lubbock, about 89 miles.

The CHAIRMAN. I know where it is. I've been there.

And you do have to irrigate your crops?

Mrs. GIBSON. Yes, we do.

The CHAIRMAN. And fuel is costing what down there?

Mrs. GIBSON. It's terrible, absolutely. Natural gas—

The CHAIRMAN. A dollar a gallon?

Mrs. GIBSON. Yes, sir.

The CHAIRMAN. Do you irrigate with gas or diesel?

Mrs. GIBSON. Natural gas.

The CHAIRMAN. That has gone up also.

Mrs. GIBSON. 320 percent.

The CHAIRMAN. You're growing short staple cotton?

Mrs. GIBSON. Short staple cotton. There's not a better type in the world. You know, it's that denim brand.

The CHAIRMAN. What size cotton farm do you have?

Mrs. GIBSON. We're small, very small. We have 320 acres.

The CHAIRMAN. As you know, and as your organization also knows, anyone who is familiar with farming knows, that farming involves the whole family, not only the wives, but the children also, from the time they're big enough to walk.

Mrs. GIBSON. That's right.

The CHAIRMAN. I remember those days. I was born and reared on a farm. I don't remember eating breakfast except by lamplight. That was before the days of REA, and everybody in the family had their chores. Without that what we call "turn to" in the Navy, without that you couldn't survive under the best of conditions.

I compliment you. I hope you can get the wives of farmers involved throughout the country. All of them I know are.

Mrs. GIBSON. We're trying real hard.

The CHAIRMAN. They couldn't survive without these people's help, not only of the wives but every member of the family.

Thank you very much.

The committee will stand in recess until 9:30 tomorrow morning.

[Whereupon, at 11 a.m., the committee recessed, to reconvene at 9:30 a.m., Wednesday, February 27, 1980, in room 324, Russell Senate Office Building.]

EMERGENCY AGRICULTURAL ACT OF 1980

WEDNESDAY, FEBRUARY 27, 1980

U.S. SENATE,
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY,
Washington, D.C.

The committee met, pursuant to notice, at 9 a.m., in room 324, Russell Senate Office Building, Hon. Herman E. Talmadge (chairman) presiding.

Present: Senators Talmadge, Huddleston, Zorinsky, and Jepsen. The CHAIRMAN. The committee will come to order.

The committee is honored, indeed, to have our distinguished colleague from the great agricultural State of Indiana, Senator Birch Bayh, present this morning.

We are delighted to have you, Senator. You may proceed in any manner you see fit, sir.

STATEMENT OF HON. BIRCH BAYH, A U.S. SENATOR FROM INDIANA

Senator BAYH. Mr. Chairman, it is a privilege to have a chance to testify before your committee which has been a leader in the promotion of alcohol fuels.

I think, perhaps, for sake of time of the committee, it might be profitable if I would just read to you the remarks I prepared. It should not take too long.

Mr. Chairman, I am very pleased to be here today to share my thoughts with you about the Soviet embargo, and as an enthusiastic supporter of S. 2258, the National Agricultural Security Act of 1980, which you have introduced. This legislation is a well thought out response to many of the problems that resulted from the recent suspension of grain shipments to the Soviet Union.

Indiana farmers, like the rest of the farm community, are second to none in their patriotism and their opposition to Soviet aggression. Still there has been a great deal of concern among Hoosier farmers that they were being asked to make a sacrifice that was not being equally shared by other sectors of the population.

I must say. I was very critical of the previous administration when they used food embargoes against our friends, the Japanese, in different circumstances. I have great apprehensions about this particular embargo, although I think the circumstances merit it to a much greater degree than the previous embargo.

The question is now that we have an embargo how do we spread this burden across the entire economy, and not just impose it on the farmers?

The most common concerns of my constituents on the grain embargo are: (1) The announced increase in the loan rate for corn to \$2.10 per bushel is simply too low; (2) most of the farmers being affected by the embargo are not eligible to participate in the announced USDA programs; (3) safeguards are needed to ensure that the embargoed grains do not reenter the market sometime in the future and artificially depress prices.

I share these concerns. It is my belief that the loan rate for corn needs to be raised to at least \$3 a bushel in light of the ever-increasing production costs—most of which are directly linked to the price of imported oil and beyond the farmer's control. It is also essential that those who did not participate in last year's programs, in the belief that substantial sales would be made to the Soviet Union, be protected. I believe that the embargoed grains should be held off the market until they can be used to produce alcohol fuels.

I might just point out, Mr. Chairman, a recent Purdue study which shows that it costs somewhere above \$2.80 a bushel to produce corn in Indiana. That \$2.10, increase in the loan rate for corn is just not going to do the job.

An issue that is just as important to many Indiana farmers as the grain embargo is the threat that the economic emergency loan program will be allowed to expire on May 15, 1980. I am very pleased that this important program will be extended and expanded under the provisions of your bill, and as a member of the Senate Appropriations Committee, I want to work with you to help in this effort.

Yesterday, I introduced legislation which we had been drafting over a period of several weeks, which we call the Energy Independence Grain Reserve Act, referred to this committee, which compliments many of the provisions of the National Agricultural Security Act.

My bill will establish an energy independence grain reserve, which should help stimulate the development of a domestic alcohol fuels industry and provide an ever-growing domestic market for farm products that will not be subjected to the vagaries of undependable foreign markets.

This bill addresses the concern of many farmers that recently embargoed grains will be allowed to reenter the markets at a time when commodity prices are rising and thereby depress the market.

Under my bill, this embargoed grain can be used only for the production of alcohol fuels. This will not only help the American farmer, but will also assure our budding new gasohol industry a dependable source of feedstocks for producing fuel grade alcohol.

This approach will turn the suspended grains from a liability into an asset. Any nation in the world would give many of their resources in order to be able to have our ability to produce tremendous amounts of foodstuffs.

Briefly, here is how the Energy Independence Grain Reserve Act would work:

In the short term the presently embargoed corn could be sold by the Commodity Credit Corporation only for alcohol fuel production. This will remove the threat of this grain reentering the market and depressing prices and will also ensure that alcohol fuel produc-

ers will have a dependable source of feedstocks. Over the next 2 or 3 years, this grain should be used up in producing alcohol fuels.

I do not need to tell the distinguished chairman of this committee the ominous impact of the presence of 10 million tons of corn on the market. Farmers have seen this happen in the past, and so have grain speculators. And it seems to me we need to get this grain out of the normal channels and see that it is limited to being used in alcohol production.

As this grain is removed, a longer range program will begin taking effect. The energy independence reserve will work much like the present farmer-held reserves. Alcohol producers will receive a loan for placing crops into the reserve. This commodity can be removed only for the production of alcohol fuels.

Producers could hold up to 1 year's supply in the reserve. There would be encouragement to build up the reserve when prices were low, which would help to maintain reasonable market prices for farmers, and to withdraw from it only for the production of alcohol when the prices are higher.

For a half a billion bushels per year alcohol industry, capable of producing 1.25 billion gallons of alcohol, the estimated price of the energy independence reserve would be about \$300 million; which is certainly a modest price to pay for stimulating more domestic fuel production and for creating a new market for our hard-pressed farmers. This cost also compares quite favorably to the present set-aside programs, which cost approximately \$1.8 billion in 1978.

And I think that it is critical that we look at what we do now with the acres that are going to be idle this next year unless we have some creativity to be able to use them in a way that will not depress the market while increasing domestic energy production.

I would like to point out if we look at costs of this new program, and the costs were computed at Purdue, \$300 million compares very favorably to the set-aside program costs of the last year. And, to give you some idea of the scope we are talking about the administration is targeting a gasohol goal of 500 million gallons of gasohol by the end of 1981. That is going to take some cranking, but I think we can get the job done. So what we are talking about here is having the capacity for a gasohol industry that is two and a half times the size of that predicted by the administration. This is not an insignificant contribution that the American farmers will be making toward creating energy independence in our country.

Looking into the future, I can foresee the energy independence reserve becoming a dependable new market for farmers, and eliminating the need for costly set-aside and crop diversion programs. Indeed, these programs have been plagued with high costs to the taxpayers as well as low participation by farmers. Last year, for example, less than a quarter of American farmers participated in the set-aside program.

Survey after survey indicates that farmers do not want to be paid for not producing. They would prefer to earn an honest profit from what they do best: farming.

The energy independence reserve will make it possible for farmers to produce as much as they can without sending prices through the floor.

I believe this program will serve in the short term to eliminate the fear that embargoed grains will end up depressing the market, and in the long term, will provide a vast new market for American farmers and a new domestic source of dependable energy—alcohol fuels. The benefits range from stabilizing the volatile grain market to helping to solve our energy problems. This concept fits in very nicely with alcohol fuel provisions of S. 2258.

I hope that the members of the committee will take a close look at this exciting proposal. I would also like to commend Senator Talmadge for his leadership in addressing the problems of the recent grain embargo.

I am looking forward to working with the committee to keep our pledge to the country's farmers that they do not carry a disproportionate share of the consequences of the embargo.

I would like to point out that, even though I am not a member of this committee, I follow closely what you do and appreciate the efforts you make to try to assist my constituents.

I do come at least wearing my hat as Chairman of the National Alcohol Commission, where we are trying to put together the kind of programing that can make alcohol fuel a long-range, permanent part of our Nation's fuel supply. Right now in the face of Soviet aggression and the renewed patriotism which we are all glad to see, there is a movement toward the use of alcohol fuel and gasohol.

I think it is important now that we have this 10 million tons of corn put into an alcohol fuel reserve to help people who want to get into production but who are concerned with the chicken or egg situation that you find now, where producers say, "Well, we can produce it, but we are not certain what we can make it from," and the purchasers say, "We will buy it but we are not certain you people can produce it."

Let us use this reserve as a constant source, a long-term source that can be a foundation for this new grain industry.

The CHAIRMAN. Thank you, Senator Bayh for an excellent statement. While you are not a member of this committee, we consider you an ex officio member thereof. You have certainly worked very closely and very diligently with this committee in trying to protect the interests of agriculture.

And I certainly commend you for all you have done in trying to develop alternative sources of energy.

This committee has been very active in that field and we have had a number of initiative conferences. You know one being on the 40-cents-a-gallon development tax credit which has been agreed to by the conferees and the windfall tax people. I hope that that will give a real impetus to the production of alcohol.

Incidentally, since you have worked so hard in that field, some 2 weeks ago I drove an automobile in Macon, Ga., that ran on alcohol. It took 72 hours to convert a bushel of corn to that 200-proof alcohol. The automobile performed beautifully. It had better pickup than nonleaded gas, which I normally use. The ignition caught immediately. There was no delay, the acceleration was wonderful. We were getting 15 miles to the gallon of alcohol. All we need is a national will to do something about it, as you know.

You have commented on several other things here that we have taken action on. The extension of the agricultural credit bill will be reported by this committee, hopefully today or tomorrow. I hope we can get it passed the early part of next week.

And also the question of the 1979 production of grain, corn, and feed grain being eligible for loans that were incorporated in a number of bills before this committee. And I think it is absolutely essential to protect it.

We will do the best we can to protect the farmers in this disastrous financial situation with respect to this grain embargo.

I share your view that our farmers are as patriotic as anyone in this Nation. They ought not be required to carry the full burden of the embargo. It ought to be shared equitably by the total population.

Senator BAYH. Mr. Chairman, if I could make just one other observation. I know you have an agenda here this morning, and I appreciate being included in it. One of the obstacles that this committee has to face, and that the Congress and the country have to face, is the fact that we have had a series of Agriculture Secretaries who are understandably concerned about being able to raise large amounts of high quality, low-priced foods. And, consistently, whether it has been our Secretary or the other side's Secretary, they have been reluctant, in fact, outright opposed to getting American farmers into production of energy supplies for fear that this would create pressures on the market basket that consumers could not tolerate.

Mr. Chairman, I would like to urge this committee to consider carefully the relevance of this charge in today's world.

Last year, we spent \$1.8 billion to set aside 17 million acres of production capacity, that, by definition, fed no one. There is no reason that those acres cannot be put into production; for the reserve I am talking about. There is no reason we cannot use this tremendous asset we have now, 10 million tons of corn we can put in this grain reserve that will make it absolutely foolproof, that we will have ample supplies of energy and at the same time help our farmers.

I think some of us need to shake up things a little bit and cause people to look beyond the end of their nose and see new ways of creating energy sources and not continue to do the same things we have done over and over again. What we have done over and over again has led to an unbelievable dependence on foreign sources of energy.

Now, I see no reason why we, as people who feel a great loyalty to farmers that are currently looking for markets, why we need to accept the philosophy in the future that we need to send increasing amounts of corn to foreign marketplaces. Now that, on the face of it is heresy. There is no reason for us to sell a bushel of corn to the Russians as far as I am concerned, now or in the future. We can run it through our distilleries and take the alcohol out of it and then sell them the high protein byproduct, and help to lessen our dependence on foreign fuel.

Well, I guess I am just repeating what I have already said, but I feel very strongly that now we have got a great opportunity to take what would otherwise be a burden and turn it into a real asset.

The CHAIRMAN. Senator Zorinsky.

Senator ZORINSKY. Mr. Chairman, I too want to commend the Senator from Indiana for his presentation here today and for the legislation that he is proposing. As you pointed out, though he is not a member of this committee, Senator Bayh does come from an agricultural State. He is a farmer himself. He is very sensitive to the needs of agriculture in this country.

He serves on the Appropriations Committee, and he frequently gets a few licks in for us there which proves to be very helpful.

It seems to me that what Senator Bayh is trying to do and what some of the rest of us have been attempting to do here is to meet two very real concerns in this country and to meet them in a very logical and productive way. One, of course, is to keep up our grain production capacity, and to prevent any future suspension of exports for security reasons from having such an adverse impact on the agricultural segment of our country.

The greatest asset we have is agricultural production capacity. If our farmers cannot make a reasonable living, cannot earn a reasonable return, they are not going to continue in those endeavors. Land that will not produce profitably, will be diverted to other uses. Somewhere down the road, if that trend continues, we will find ourselves without sufficient production, and that is the worst thing that can happen to America. That is worse than paying a few cents more for a bushel of corn now.

In the future, we may get to the point we cannot supply our own needs. In that case this country, will have gotten into the position with its food that it is in now with its oil, and that would be almost the ultimate in reducing our power and reducing our ability to provide for our own citizens.

So that aspect of what the Senator from Indiana is trying to do is, I think, very important. Then, of course there is the question of helping solve our own energy needs. Gasohol is here; it is viable. Nobody can dispute the fact that it works. You can start with a 10-percent mix and, without too much trouble, move right on up to greater percentages as it becomes necessary.

Now, the big oil companies are not going to embrace this and say, "Allah, the magnificent is here, and we can solve your energy problems." As a matter of fact, they are still saying, Exxon, did yesterday and today, that well into the next century we will still be requiring a tremendous amount of imported oil.

Of course, that is the way they want it. Their business is to sell oil. They are not going to voluntarily get into the use of gasohol in a large way, unless it is forced upon them either by economic pressures or by regulation.

Eventually, I think they will have to do it. When they do we will see greater utilization. But, if we can do that, if we can solve the problem of depressed domestic agricultural prices and at the same time help meet this terrible problem of dependence on foreign sources of energy, it seems to me it is a very practical and logical way to proceed.

Senator, I know this committee is going to give very careful consideration to your proposals, along with others. I feel confident that we will come out of here with some practical legislation.

Glad to have you with us.

Thank you.

The CHAIRMAN. Thank you very much.

Senator BAYH. May I make one other observation?

The size of this reserve I am talking about is significant. Some people say, "Why do you need to have a reserve this large"? We are going to have to significantly increase alcohol fuel production in the next year to reach the 500 million gallons of alcohol fuel that the administration wants. I think we can do that. This is going to have to be done basically by increasing production in old facilities or bringing on line small neighborhood distilleries in our farm communities. It takes about 1½ or 2 years, starting right now, to put together a major alcohol facility like the AD plant, which is the largest one in the world, in Decatur, Ill.

There are a number of other plants, like that of Anheuser-Busch that are in the corn manufacturing business right now who want to go that extra step and get into alcohol production.

If we get this Federal excise tax in the windfall profits tax bill, and get that thing signed into law, I predict there will be a dramatic movement of hundreds of millions of dollars of private capital, that is put into the alcohol refining business, because they can see an incentive at least there to the year 1992.

At that stage, when this hits 2 years from now, we need to have a sizable reserve because we are going to have a geometric increase in the production of alcohol when those big plants hit. I want to have that reserve ready, and I think we will be producing all the corn we can get our farmers to plant.

That reserve will get us through that time frame, the year 1983, 1984, and 1985, when I think the waste process will come on line. I think establishing this reserve is critical right now.

Senator HUDDLESTON. That is a good point for those who are afraid we are going to get fuel in competition with food. We can use so many different products and the changeover is not that difficult. A fellow in Kentucky has designed a plant and hopes to begin construction very soon, that will be set up to actually accommodate 14 different byproducts, while he will principally start with corn, if he gets into trouble there, with minor modifications he can switch to other feedstocks.

The CHAIRMAN. Anything that will ferment, including wood.

Senator HUDDLESTON. I think there is enough flexibility there that if we have a short corn crop sometime you will not have to close down alcohol-making facilities.

The CHAIRMAN. Thank you, Senator Bayh, I think you have rendered a real service to our committee's deliberations. We appreciate it.

Our next witness is Charles Guthrie, chairman of the conservation committee, American Agriculture Movement, from Taylorville, Ill.

Mr. Guthrie, we are delighted to have you with us, sir.

STATEMENT OF CHARLES W. GUTHRIE, CHAIRMAN, CONSERVATION COMMITTEE, AMERICAN AGRICULTURE MOVEMENT, TAYLORVILLE, ILL.

Mr. GUTHRIE. Senator Talmadge and members of the Senate Agriculture Committee, I am Charles W. Guthrie of Taylorville, Ill.

My wife, Marilyn, and I are out here to do what we can to save one of the greatest assets America has, the American family farm.

We are a family farm. We farm about 600 acres in Christian County, Ill. We raise about 300 acres of corn, about 260 acres of soybeans, and a few acres of wheat on some rolling ground.

We have one son and two daughters, 19, 17, and 15, any of whom can operate large tractors. They are all in school, but they help out when possible. We hire very little outside help.

We are active in the United Methodist Church. I am currently serving as a lay leader of my local church and am a certified lay speaker for the United Methodist Church in the Decatur district. My wife is church financial secretary; our son and oldest daughter are past presidents of the youth group, and our youngest daughter, treasurer.

We are also American Agriculture Movement members. I currently serve as chairman of the Conservation Committee for the State of Illinois for the American Ag.

The grain embargo has hurt all farmers, agribusiness, and laborers who make their living by providing products used on the farms of America.

I feel the Illinois economy has been hurt more than many others. We are the largest exporting State of corn and soybeans. We depend on foreign markets. Since the embargo, I have asked many people what they feel we lost per bushel by the embargo. I then put some figures together on what it cost my congressional district and the State of Illinois.

I used Agriculture Statistics for Illinois from the Illinois Crop Reporting Service Bulletin 79-1 and 1979 preliminary corn and soybean estimates by counties. I used several different prices so I could show how great an impact even a few cents per bushel can mean. These top few cents are important. Our costs are already established, so any increase would represent profit or reduction of loss to the farmer.

Some of these figures lost in my congressional district, corn at 30 cents a bushel and beans at 50 cents, amount to \$111 million in my congressional district, the 22d Congressional District.

Now, lost to Illinois farmers, at 30 cents on corn and \$1 on beans, we are talking about three-quarters of a billion dollars.

[The following was received for the record:]

22d CONGRESSIONAL DISTRICT, 1979

County	Bushels of corn	Bushels of beans
1. Vermilion	31,251,600	8,407,700
2. Douglas	15,496,600	5,089,100
3. Edgar	20,380,500	5,779,900
4. Moultrie	12,003,200	3,645,000
5. Coles	15,729,600	4,899,900
6. Clark	8,687,300	4,256,600
7. Crawford	8,273,300	3,259,500
8. Lawrence	8,131,800	1,711,500
9. Wabash	4,774,400	1,293,500
10. Edwards	4,493,600	1,523,200
11. Richland	6,313,500	2,501,700
12. Jasper	8,067,900	4,344,400
13. Cumberland	6,086,800	3,029,400

22d CONGRESSIONAL DISTRICT, 1979—Continued

County	Bushels of corn	Bushels of beans
14. Shelby	20,039,100	6,357,700
15. Christian	23,537,600	7,809,500
16. Fayette	7,480,100	4,066,800
17. Effingham	9,550,800	3,249,400
18. Clay	4,627,100	3,159,600
19. Wayne	7,913,400	5,217,800
20. Montgomery 40 percent	6,178,600	2,597,120
21. Macon 12½ percent	2,856,087	743,687
Total raised 22d district	231,872,887	82,952,007
	.10	.50
	23,187,288.70	41,476,003.50
	.30	1.00
	69,561,866.00	82,952,007.00

Embargo costs 22d district

Corn at .10	\$23,187,288
Beans at .30	24,885,602
Total	48,072,890
Corn at .30	69,561,866
Beans at .50	41,476,003
Total	111,037,869

Lost to Illinois farmers over embargo on corn and soybeans

1,358,080,000 bu. corn at .10	135,808,000
374,220,000 bu. beans at .50	187,110,000
Corn at .30	407,424,000
Beans at 1.00	374,220,000
Total	781,644,000

Mr. GUTHRIE. If we can get the price up to where we show a profit an increase of 30 cents on corn and \$1 a bushel on soybeans would mean \$7,374 extra income on the average Illinois farm.

My tax accountant tells me this would represent \$1,300 additional Federal income tax from each farm. This extra income represents \$137,800,000 of Federal income taxes from Illinois. It would generate \$15,600,000 of Illinois State income taxes. There would still be additional sales tax, and other local taxes on top of this.

What we need presently is legislation to remove the clause in the 1977 farm act stating "based upon a determination of short supply". This would then bring the loan rate of commodities to 90 percent of parity.

This would put pressure on the Secretary of Agriculture to announce a set-aside for 1980 crops to obtain higher prices. Or it could force our administration to lift the embargo.

If we have a national emergency, I and most farmers will support our country. But we must have a total embargo of all trade. We cannot support a partial embargo.

The embargo we have now hurts only the poor in Russia. The military and leadership will not suffer much, if any. It does not

make sense to me to stop grain shipments to Russia and continue shipment of American agriculture machinery, truck parts, fertilizer and other things so they can grow more food themselves.

It could be worse yet, if they used those truck engines in tanks and military equipment. They can very easily convert trucks to military use.

I encourage you as a committee to request a set-aside next year and loan rates of 90 percent of parity. A set-aside has many good effects that many do not realize. First of all, we get conservation on the land. We certainly need that in Illinois.

It reduces the fuel used as fewer acres are tilled and planted. It would let long term conservation practices be carried out during the summer when soil is dryer and easier to work with. This reduces costs of conservation work.

It would certainly help each farmer reduce his costs. It would require less chemicals and less fertilizer, both high users of fuel for production and distribution. Less dollars spent for interest. Less dollars spent for crop insurance.

I have attached at the end of this testimony a copy of what my increased costs were already for 1980, as of February 20. They will be higher yet by planting time.

My chemicals are up 9 percent over a 10-month period. My interest rate is up 21 percent over a 6-month period. And this is as of February 20, when I made these figures, and it is a percent and a half higher now.

My diesel fuel has a 68-percent increase in 11 months; gasoline 64 percent in 11 months. Phosphate fertilizer, 27 percent in 5 months. My nitrogen, 33 percent in 10 months.

These prices are actual prices quoted to me by my suppliers February 20, 1980. The percent of increase is figured on the prices I paid last calendar year.

[The following information was received for the record:]

COST FOR 1980 (FEB. 20, 1980)

	Percent of increase over 1979	Months
Interest, 14.5 percent	+21	6
Treflan, 25.00 gal	+9	10
Sencor, 62.79 gal	+9	10
Seed corn, 53.00 bag	+6	12
Seed beans, 14.15 bu.	+8	12
Diesel fuel, 1.014 gal	+68	11
Gasoline, regular, 1.173 gal	+64	11
18-46-0—16.00 per 100#	+27	5
0-0-62—7.00 per 100#	+5	5
82 percent N, 0.16 per #N	+33	10
28 percent N, 0.24 per #N	+20	10
Propane, 0.535 gal	+52	12

Mr. GUTHRIE. Lower prices caused by the embargo, coupled with much higher prices for what we must buy, will put some of the family farmers out of business this year. I believe the American family farmer is our greatest asset that we have today. Our large acreage of rich soil we have is a great asset, but without the family

farmer to be the stewards of that soil, we may lose much of America's wealth.

Thank you, Mr. Talmadge.

The CHAIRMAN. Thank you, Mr. Guthrie for a very excellent statement. You have supplied some statistics that we have not had in our testimony to date. I appreciate it very much.

As pointed out, the cost of everything has increased in 1 year for the production of agricultural commodities. I think farmers and those elderly people who are retired on very modest income, such as social security, and sometimes SSI, are the harder hit by inflation than anyone I know, unfortunately, even prior to the grain embargo. It is estimated that farm income this year would decline by some 20 percent. So this cost squeeze, the cost of production on one hand, and the income from commodities produced on the other hand, is going to put many of our farmers in real binds in this country today.

Thank you very much for your testimony.

Any questions, Senator Huddleston?

Senator HUDDLESTON. No, Mr. Chairman, thank you. I would point out the Agriculture Department has already estimated that net farm income would be down 15 or 20 percent.

The CHAIRMAN. Twenty percent.

Senator HUDDLESTON. Twenty percent prior to the embargo.

The CHAIRMAN. Since the embargo, it has fallen to 25 percent.

Senator HUDDLESTON. Before the embargo there was a 16.5 prime rate a more favorable circumstance.

The CHAIRMAN. The next witness is Mr. John Stevenson, vice president in charge of education, National Corn Growers Association. We are delighted that you got out of your snow yesterday and got here.

STATEMENT OF JOHN STEVENSON, VICE PRESIDENT IN CHARGE OF EDUCATION, NATIONAL CORN GROWERS ASSOCIATION, DES MOINES, IOWA

Mr. STEVENSON. Thank you, Mr. Chairman.

Senator Talmadge and distinguished members of the committee, I am happy to be here representing the corn growers.

I am John Stevenson, vice president, education, of the National Corn Growers Association of Des Moines, Iowa. I farm jointly with my sister some 2,400 acres in south central Ohio. We employ a couple full-time men in addition to my family and some part-time help.

I am speaking to you on behalf of the National Corn Grower members, to try to relate our very deep concern about the precariously low grain prices that resulted from the embargo, and also the effect of the complacency of administration officials as they have watched the Chicago No. 2 Yellow price rebound but have not realized the increased spread between that price and the farm gate price.

This concern has prompted the National Corn Grower board to develop some proposals. And, before we start these proposals, I would like to refer you to the last three pages.

The CHAIRMAN. Certainly, sir.

Mr. STEVENSON. The National Corn Growers Association certainly applauds you on recognizing the inadequacies taken to offset the low grain prices and upon your initiating steps to aid price recovery.

The association would like to express its position regarding each area.

One, opening the loan and reserve to noncomplying farmers. We are certainly in agreement and feel this is of upmost priority. This offers the quickest cash salvation to producers. However, we do not favor waiving the interest to noncompliers.

Two, CCC corn to be sold at the current loan rate when used for making alcohol fuel. The association desires that no corn leave the CCC at less than 150 percent of loan. We prefer the farmer held reserve controlling the corn.

Three, support loans on soybeans.

The National Corn Growers Association has no position on this issue.

Four, security reserve of wheat. Again the association has no position other than to question a wheat price level for release.

Five, increase storage facility loan. Rather than a fixed dollar amount, we favor an operation be funded for 4 years of storage.

Six, extension of emergency loan program. The association has no position.

Seven, establishment of a set-aside program. The National Corn Growers Association desires a minimum of a 20 percent paid diversion with payments equal to the participant's eligible base yield multiplied by 60 percent of the crop loan per year.

Eight, policies that will promote increased foreign and domestic demand. The association definitely favors policies enhancing alcohol use and production. We feel progress should be hastened with:

(a) Direct facility low interest loans on fermentation alcohol plants.

(b) Rapid depreciation of fermentation alcohol plants.

(c) Make permanent the additional 10 percent investment credit on plants.

(d) Make permanent the 4-cent Federal tax exemption.

The National Corn Grower board has developed the following proposals and urges their implementation:

One, immediate expansion of Public Law 480 programs.

Two, expanded CCC credits for use by developing nations.

Three, expansion of ethanol production capacity within the United States.

Four, increased purchases of corn food products and meat for school lunch programs, the military and other public funded entities.

Five, expansion of the food stamp program.

Six, increased funding for FAS overseas market development programs.

Other necessary action:

A. There are several million tons of the 1979 corn crop which are ineligible for deficiency payments, CCC corn loans, and entry into the 1979 reserve. We urge the following steps should be taken:

1. Increase the allowable CCC loan to \$2.35 per bushel and reserve storage payments to 30 cents per bushel per year on all grain

presently in the reserve and participants in the 1979 farm program.

2. Allow ineligible corn access at current storage and loan rates.
3. Create an emergency energy reserve of corn to be used only for the purpose of producing alcohol fuels.

4. Forgive the interest on all CCC loans on corn presently in the reserve and that which will be placed in the reserve from 1979 production.

B. Ethanol production needs to be expanded rapidly using the following stimulants:

1. Direct facility low interest loans for fermentation alcohol plants.

2. Rapid depreciation of fermentation alcohol plants.

3. Make permanent the additional 10 percent investment credit on fermentation alcohol plants.

4. Bureau of Alcohol, Tobacco, and Firearms implementation of an additional classification for alcohol fuels production facilities.

5. Relax Bureau of Alcohol, Tobacco, and Firearms denaturation requirements of alcohol fuels.

6. Make permanent the 4-cent Federal tax exemption.

7. Accelerate the development of markets and new uses for the high protein byproducts of grain alcohol production with Government grants.

C. We urge immediate expansion of the CCC farmer-owned facility credit program:

1. Replace the current maximum loan limit with a program designed to enable an eligible participant to construct grain storage capacity equal to 4 years total farm production utilizing the CCC facility loan program.

2. Allow accelerated depreciation of grain storage and handling facilities and increase the allowable investment tax credit to 20 percent.

3. We recommend the interest rate on all facility loans be placed at a level equal to that of series EE bonds.

D. We urge the following be implemented in an updated 1980 farm program:

1. The updated farm program must be announced no later than February 15, 1980, to accommodate crop planning on all farmers.

2. The USDA should include the following two provisions:

- (a) A minimum of 20 percent paid diversion.

- (b) We urge diversion payments equal to the participants' eligible base yield multiplied by 60 percent of crop loan per year.

To illustrate our concerns, I have included a May corn futures chart with a corn price profile inset. The corn price profile is based on the July futures but very emphatically points out the horribly low basis—spread between futures and local prices—that the Western Corn Belt has been plagued with. The only way they can make anything at all is through long-term storage and the reserve program. But eventually that is going to catch up.

Also included is a copy of my projected 1980 corn and soybean production costs. These costs are extremely accurate and although they include land costs, they contain nothing for my labor or management. They are embarrassing but that is the projection. We definitely need exceptional weather.

Also included is a comparison of 1979 and 1980 input costs for the more popular items. In almost every case, these prices are far below average because of preseason and volume buying as combined with some other producers.

When President Carter curtailed the Russian grain sale, he did exemplify the one great strength of this Nation, namely, its agriculture and more specifically the Corn Belt—the one great resource that gives this Nation world position. Having been a fighter pilot, I was humiliated when I heard of the survey flight over Afghanistan by the 20-year-old B-52's.

Just how great is this Corn Belt agriculture? A recent Purdue University study reveals that a typical Indiana farm has an investment of \$500,000 per worker. The next closest industry is Exxon with \$320,000 per worker and compare IBM at \$64,000 and GM at \$40,000 per worker.

This great influx of capital that agriculture injects into the economy is further evidenced by the fact that although farmers make up only 3.7 percent of the Nation's labor force, they provide jobs directly and indirectly for 27 to 30 percent of the Nation's labor force.

Why is it we must have a Department of Agriculture that apologizes about the high cost of food? We and all consumers are so subsidized by the efficiencies of American agriculture that we are absolutely spoiled. We have had a food policy for years now, why can we not have an agricultural policy?

Some of our overseas markets that have been developed cooperatively by farmers, agricultural industry, and the Foreign Agricultural Service have been eliminated in the national interest. No one could anticipate this. We lost some 18 percent of our export grain sales. We have been hurt. We need help for 2 to 3 years until we can develop new markets.

Please help us keep agriculture healthy because agriculture will keep the Nation healthy with food, jobs, and renewable fuel.

Thank you for your patience and consideration.

The CHAIRMAN. I compliment you on an excellent statement. It was well thought out and supported by statistics from authoritative sources.

A number of things in your statement struck me very forcefully. No. 1, you talked about a half a million dollars invested for each farm worker today, which is the highest in the Nation. I doubt that many people in America realize what it costs to get into the business of farming today.

I addressed some young farmers back in Georgia 2 or 3 weeks ago. One of them asked me how could a young farmer get started in farming today. My response was that I did not know but two ways—inherit it or marry it.

Is that accurate?

Mr. STEVENSON. It is certainly accurate. However, it is surprising the amount of money available to young farmers at the starting age. Things are almost equal.

The CHAIRMAN. Land costs are so high now, I do not see any way they can amortize their investment; do you? What does land cost in your area?

Mr. STEVENSON. \$2,400 to \$2,500 an acre.

The CHAIRMAN. Well, the interest on that loan of \$300 an acre would not amortize the principal. What could you grow, outside of marihuana, and amortize your investment at that price? Nothing.

Mr. STEVENSON. Absolutely.

The CHAIRMAN. There is not much changing hands right now. The prices they are asking for farmland, there is just no way they can pay the interest on the investment, let alone amortize the principal.

Another thing that struck me, you know American agriculture is the marvel of the whole world. It is about the only thing now we are exporting that we get a favorable balance of trade on, \$15 or \$16 billion a year. Without that, our trade deficit would be even more horrendous than it is.

I quote from your statement: "I farm jointly with my sister some 2,400 acres in south central Ohio. We employ two full-time men in addition to my family and some part-time help".

Is that total of 2,400 acres tilled, pasture and woods? How many acres do you work?

Mr. STEVENSON. 2,200.

The CHAIRMAN. 2,200. And how many people cultivate that 2,200?

Mr. STEVENSON. Well, with all the running around, two full-time men there every day.

The CHAIRMAN. Two full-time. What else?

Mr. STEVENSON. My sister part time and myself part time.

The CHAIRMAN. If we added your services and your sister's services together, it would make one full-time employee?

Mr. STEVENSON. Yes.

The CHAIRMAN. In other words, you figure three full-time employees cultivating 2,200 acres. That is over 700 acres per employee. What is it in the Soviet Union? About 10 acres for one employee?

Mr. STEVENSON. Yes.

The CHAIRMAN. That would be about the average for the world. That is the reason America's productivity is a marvel of the world, when you have three people cultivating 700 acres of land.

Thank you very much for an outstanding contribution.

Any questions?

Senator HUDDLESTON. It was an excellent statement.

The CHAIRMAN. We have one final witness today, Norma Hall, who represents Women Involved in Farm Economics.

We are delighted to have you. We had a very articulate lady from Texas testify, representing your organization, yesterday.

Senator JEPSEN?

Senator JEPSEN. Mr. Chairman, why is the administration not testifying at the hearing today?

The CHAIRMAN. I had a call, first, the committee staff had a call from Howard Hjort. They are conducting some high-level deliberations that I assume involves the White House, OMB and others, to respond to some of our legislative initiatives. They have not yet reached a decision.

And then I received a call from Secretary Bergland. It is hoped they can make some decisions that they can present to this committee next week. On that basis, since they could not answer

questions, I thought it best to excuse them until they could answer our questions. We will schedule them just as soon as they can answer questions.

Senator JEPSEN. Fifty-six days.

The CHAIRMAN. I have great sympathy for the Secretary of Agriculture. I have known him since he got enough seniority to represent the House on the conference committees. And I realize the Secretary of Agriculture is in the same position as a sergeant in a military organization. He does not make the ultimate decisions. And when the ultimate decision is made, he will come in.

You may proceed.

STATEMENT OF NORMA HALL, PRESIDENT, NEBRASKA WOMEN INVOLVED IN FARM ECONOMICS (WIFE)

Mrs. HALL. This testimony was prepared for the Subcommittee on Commerce, but Senator Exon asked that we present it to you.

I am Norma Hall, president of Nebraska WIFE, Women Involved in Farm Economics. I appreciate this opportunity to speak in behalf of Nebraska WIFE and express our ideas for the revitalization of rural America.

Daily, we farmers see the swiftly approaching demise of agriculture in the United States unless some solutions are found now to make agriculture a viable industry.

Farmers want to provide you and the rest of this Nation with one of your most basic needs—food. One of the problems is to produce the food at a price the consumer can afford, but not at the expense of the American farmer.

We represent thousands of farmers who are undergoing the unbelievable daily changes for the worse which result from inflation, fuel costs, transportation, marketing, overproduction, and embargo of grain sales. At the same time, conserving our natural resources for the coming generations.

Our bins in Nebraska are full, but our pockets are empty. Nebraska has more corn and soybeans in storage, as of January 1, 1980, than was produced in 1979. Grain sorghum in storage is one-half of the total production in 1979.

These conditions exist because:

One, our narrow profit margin has caused us to go to volume or so-called overproduction in trying to survive.

Two, commodity prices that do not cover cost of production and transportation to terminals.

Three, transportation problems resulting in disorganized and unreliable movement of grain.

Four, inability of Federal officials to make early decisions relating to agriculture.

Farm commodity prices are 0.9 percent higher than a year ago. Yet, expenses have escalated 14 percent. Last year, diesel fuel cost 56 cents per gallon. The projected price for this planting season is \$1.35 or 146-percent increase. Electricity costs or operation of center pivot systems will increase 34 percent.

I realize that other businesses are having the same problems with inflated energy costs. The farmer must absorb all of these higher costs because he cannot pass it on to the consumer as other industries do. If we continue to use our equity to stay in business,

the control of agricultural lands will gradually pass to nonfarming interests. This Nation has two choices: cheap food that is subsidized or higher priced food after the death of rural America.

Few people realize the farmer must pay the transportation from his local elevator to the grain terminal. An elevator in central Nebraska pays \$1.10 per bushel to move grain to the west coast in 25-car unit trains. This cost is deducted from the market price before it is quoted to the farmer.

Generally speaking, we in Nebraska are a landlocked State, and movement of commodities depends almost entirely on rail and truck traffic.

We do have a great disparity in grain prices quoted at the local elevators, due mostly to transportation inequities between rail and truck deliveries. Trucking charges amount to approximately 25 cents above rail charges. When the market price is conducive for the seller and he wants to deliver, many times the elevator can take only x number of bushels because of lack of storage.

The lack of storage is due to unavailability of rail cars. This occurs not only at the peak of harvest, but throughout the year. Much turn-around time is lost at the ports because of the long-shoremen's eccentricities.

Extensive cooperation between government and railroads will be needed to solve the transportation problem. We suggest that orderly scheduling for marketing grain in the reserve be implemented. We also recommend that corn along with wheat and grain sorghum be included in the 1979 prorated hauling charges in the Government loans.

I am here presenting this testimony on February 27, and farmers at home are still uncertain about what Government programs will be offered this growing season. Many have already made farming purchases; such as seed, fertilizer, chemicals, and energy needs. We cannot operate efficiently each year on a hit-and-miss farm program. We need a more comprehensive farm program this year because of the effect the grain embargo is having on agriculture. I feel if a threat to national security justifies a grain embargo, then it also justifies measures such as suspending all business and cultural relationships. All society must share in the protection of our national security, not just 3 percent of us, farmers.

We have covered some of the major concerns of farming today, and now we would like to offer some positive solutions. We in WIFE have been promoting production of ethanol for the past years.

We have seen many figures relating to the cost of producing alcohol, which seem to show that it is not a feasible operation. In my next three statements we have been educating ourselves a little bit, and I do not wish to quote those because we feel there is a little bit of disparity in those.

But we do know that after the ethanol has been extracted, there is protein meal for animal feed and also carbon dioxide.

The expanding support for ethanol in this country provides an opportunity to directly reduce U.S. oil imports now and increasingly in the future. Auto and farm equipment engines can be modified to burn straight ethanol as well.

So what is holding things up? Shaky economics, politics, debates on the feasibility of production, and long-involved regulations to obtain permits.

Runaway inflation is caused in part by the high cost of energy. We have on the farms of America a renewable resource—grain. Through the production of ethanol, we can reduce the control OPEC has on our economy. It would also help diminish some of our stockpile of grain. The embargo was imposed with assistance promised in the form of grain for ethanol fuel. Yet, we face the reality that the plants have not been constructed to handle significant volumes of grain. I believe that ethanol falls in the area of political expedience with very little leadership toward positive action. The lack of coordination between agencies has diluted many efforts that have been attempted.

We can no longer depend on imported oil any more than Russia can depend upon our grain. We must acquire technology to make this Nation energy self-sufficient. WIFE proposes that an all-out effort by Government be implemented immediately.

Continuing, I would like to propose to you a 2NR program—natural nitrogen reserve. The acreage put in this reserve would be planted to legumes or grasses. Through the 2NR program, we could use our natural resource, lime, to enhance the growth of the legumes. This will increase the level of fertility in the soil and lessen the need for additional fertilizers for the next crop. Since most commercial fertilizer products are manufactured from a petroleum base, this would alleviate some of our dependence on imported oil.

The 2NR program would serve as a great conservation tool. With the strong winds that prevail in Nebraska, bare soil needs to be tied down. Many acres of land, when row-cropped, are subject to erosion thus contributing to polluted rivers and streams. This is a good, safe environmental program.

This could also be referred to as a 3NR program—national natural nitrogen reserve.

To cover out-of-pocket costs, cash payments would need to be made for seed, lime, and erosion control to participants in the program at the local ASCS' office.

Monetary provision would need to be given at a high enough rate that producers would voluntarily participate in the program. This program would also help ease the problem of overproduction.

Due to the lack of time, we have not delved into the mechanics of this program. At some future date, we would welcome an opportunity to communicate further on these details.

We as farmers are often criticized for coming to Washington when we are experiencing financial difficulties. I decided to invest my money in coming here before you in lieu of purchasing a much needed grain drill. Perhaps my contribution will help in some small way toward getting agriculture back on an even keel with other industries.

I cannot overstate the urgency of the need for concerted efforts on behalf of agriculture. There is considerable evidence that time is running out for those who till the land.

Again, I thank you for permitting me to have input into the planning for future agricultural programs. May we continue to communicate and respond to one another.

Thank you.

The CHAIRMAN. Thank you very much. We appreciate your contribution. I commend you on a very excellent statement.

Any questions, Senator Huddleston?

Senator HUDDLESTON. I was very interested in the organization you represent. How did it come into being?

Mrs. HALL. We were here in Washington 3 years ago about this time, a group of Sydney farm women. You know, we do a lot of griping without action. And now we in WIFE are doing the griping, but we have action also.

The corn person that spoke before you, I am speaking for Nebraska WIFE. I am a working farmer. My husband teaches school in order that we can farm. We are small farmers. But I think whether we are small or large, it all comes down to the fact we have to have a price in order to produce food.

And WIFE was begun in Nebraska. We have about 600 members that are working farm wives.

Senator HUDDLESTON. That is very interesting. It was a very good presentation.

Mrs. HALL. Thank you.

The CHAIRMAN. Senator Zorinsky.

Senator ZORINSKY. Thank you, Mr. Chairman.

I want to thank Norma Hall for her appearance and very articulate presentation. It is very credible testimony that comes from Women Involved in Farm Economics. It has a lot more credence to this committee than many of the experts who graduate through universities and come up with so-called cost production figures. You are the people keeping the books at home from day to day, and who wonder if you can pay off a bank note; or whether it is necessary to go get a bank loan; and how much interest rate you can afford; or whether boxcars are going to be available in time to move the grain. In fact you deal with the host of problems that goes with the agricultural industry.

Somebody once said that a farmer is not a gambler. A farmer is a bigger gambler than anyone who has ever gone to Las Vegas. I think the rest of society benefits and profits through your labors, and it is about time that you are entitled to a decent profit on those labors.

I compliment you for being before this committee, and for continuing to provide us with information as the need arises. I hope that you do not have to come back each year to defend your ability to stay in business from your own Government, as has been the past.

Mrs. HALL. Thank you, Senator Zorinsky. We plan on visiting you later today. I would just like to say, and I do not know if you made that inference or not, women keep the books. But the women also drive the tractors and haul the grain and do the whole thing.

Senator ZORINSKY. I have seen it happen.

The CHAIRMAN. What size farm do you operate, Mrs. Hall?

Mrs. HALL. 400 acres.

The CHAIRMAN. How large are your children; how old are they?

Mrs. HALL. We have one son who is a vocational agriculture teacher.

I guess the reason that I am continuing on with this farm business, because this son who is a vocational agriculture teacher, once you are a farmer, you are always a farmer, and I feel like someday he will like to come back, but if the present cost-price squeeze continues, there is no way I am going to recommend this life to this young man.

The CHAIRMAN. Who does the farm work when your husband is teaching and your son is teaching?

Mrs. HALL. This lady.

The CHAIRMAN. You run the combine and everything else?

Mrs. HALL. I do not cultivate and I do not sit on a mower.

The CHAIRMAN. Do you raise any hogs and cattle?

Mrs. HALL. No; we are mostly grain farmers.

Senator HUDDLESTON. Farm women have been liberated a long time.

Mrs. HALL. Amen. [Laughter]

The CHAIRMAN. Thank you very much.

Mrs. HALL. Thank you so much. I really appreciate it.

The CHAIRMAN. For the benefit of the committee, Mr. Hjort, of the Department of Agriculture, was excused this morning from testifying because of high-level deliberations going on in the Department of Agriculture and elsewhere, and responding to some of the initiatives of this committee. The report is he could not answer our questions. So I told Mr. Bergland, Secretary Bergland, that as soon as they reach a decision to please let us know and we will call the committee together and hear Mr. Hjort at that time.

We will stand in recess subject to call.

Thank you very much.

[Whereupon, at 10:35 a.m., the committee recessed, to reconvene, March 6, 1980, at 9:15 a.m., in room 324, Russell Senate Office Building.]

EMERGENCY AGRICULTURAL ACT OF 1980

THURSDAY, MARCH 6, 1980

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The committee met, pursuant to notice, at 9:15 a.m., in room 324, Russell Senate Office Building, Hon. Herman E. Talmadge (chairman) presiding.

Present: Senators Talmadge, McGovern, Stone, Zorinsky, Stewart, Pryor, Boren, Helms, Young, Dole, Lugar, Cochran, Boschwitz, and Jepsen.

The CHAIRMAN. The committee will come to order.

I am sorry we do not have better representation for you this morning, Mr. Hjort. We expect to later. There is so much going on around here, there are a lot of committee conflicts, sometimes two or three of us meeting at the same time—conference committees and other things.

You may proceed as you see fit, sir. If you desire you may insert your full statement in the record and summarize it, or proceed in any manner that you see fit.

Mr. HJORT. That is what I would prefer to do, Mr. Chairman.

The CHAIRMAN. Without objection, your full statement will be inserted in the record.¹

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

Mr. HJORT. Let me very briefly summarize where the administration is at the present time on these matters.

First, we do believe that we have the legal authorities needed to fully offset the potential impact of the suspension of grain sales to the Soviet Union on farm prices.

Farmers who participated in the 1979 program are placing corn into the modified reserve. We have announced that we will begin to purchase corn on a regular basis, now effective in mid-March. And the combination of those reserve entries and CCC purchases can tighten up the free corn stocks enough to have prices follow in the path they were on prior to the suspension. But we would prefer to have some additional legal authority to encourage farmers to hold more of that corn in reserve rather than have the Government own it.

An amendment that would authorize the limited quantity of corn owned by farmers who decided not to participate in the 1979 pro-

¹ See p. 158 for the prepared statement of Mr. Hjort.

gram and which would permit that corn to move directly into the reserve, would, in our view, be the easiest way to accomplish this basic objective of seeing to it that the farmers continue to own this corn and benefit from the increase in price that will subsequently take place.

In this special entry into the reserve, we would not favor granting the interest waiver that we have in effect for those who did participate, so that there would be a difference in the net benefit to those that participated in the 1979 program as opposed to those that did not.

We do believe that this approach would also have another benefit. It would make it possible for some cash to flow into the country fairly quickly. We do have a significant credit problem in part of the country.

With respect to some of the other measures, some of the bills pending today, one I think in particular, has a provision that you have already taken care of, and we have testified in favor of, that is the economic emergency loan program. And so that, of course, we favor.

There is also a provision in here that would increase the loan limit on the farm storage facility loans from \$50,000 to \$100,000; and the administration favors that change in law.

Another measure that is covered in the bills before the committee this morning is the food security reserve program. And the administration has repeatedly testified in favor of that program.

Another provision that would permit the sale of CCC owned corn for conversion to alcohol, and we would favor that provision also if the CCC sales price were not less than the release price on the reserve.

At the present time, the release price on the corn reserve is \$2.63 a bushel, and we believe if CCC were moving corn into the market at anything below that, it could be working at odds with the reserve program.

Those would be the major proposals that we would encourage the committee to move forward with. There are several others. A number of the bills have loan rate increases, or general changes that permit all those that were not eligible for 1979—who did not decide to participate in 1979 crops—to now become eligible.

With respect to those, we prefer the approach that we have mentioned, of limited entry of 1979 crop corn for immediate entry into the reserve, under the same terms and conditions as our basic reserve program. We believe that is a preferred strategy with respect to those that did not participate.

With respect to the measures that increase loan prices, there is, in each case, an increase in budget outlays. And, in view of the fact at the present time we are all nearly fully employed here in the Congress and down in the executive branch, trying to identify approaches and programs that can be used to hold outlays down, and to bring the Federal budget into balance, to take some of the heat off of the inflationary pressures in the economy, we simply today cannot testify in favor of any of those measures that increase loan rates.

Anything that has a significant increase in outlays is going to have to be considered along with this entire review of all of the activities of Government, and taken into account in that situation.

So there is very little advice that I can give the committee on all of those. Clearly, there are some of these measures that have very substantial potential increases in outlays, and I think, in the current situation, it should be obvious that the administration would not favor those kinds of increases.

There are some other proposals in here, and I can go through those quickly. Both S. 2277 and S. 2199 would authorize a set-aside for 1980 crops. The administration does not favor that provision.

We have carefully reviewed the need for a diversion program, and concluded that such was not justified.

S. 2277 would waive interest charges after January 10 on any price support loan obtained before January 11, 1980 on the 1979 crops of wheat and feed grains. The administration opposes such a provision.

We have given a special interest waiver on corn to be placed into the new reserve, and we believe it was justified there; but do not find justification for extending that exemption to other grains.

S. 2277 would reduce the minimum levels to be shipped under title II of Public Law 480, and the minimums that would be shipped by voluntary agencies, beginning with fiscal year 1981.

The administration has consistently opposed the establishment of minimum levels for title II.

Another provision would authorize section 9 of S. 2258, would authorize the Secretary of Agriculture to use the funds, facilities and authorities of CCC to purchase and handle agricultural products other than grains that were intended to be exported to the Soviet Union.

While we do not believe this provision is necessary, we would not oppose permissive provisions that clarify existing authority to deal with such similar problems that might be encountered at some future time.

I believe that I have covered most of the provisions that are pending before the committee in a summary form. And, with that, I will try to respond to questions of members.

The CHAIRMAN. Thank you very much, Mr. Hjort. I would suggest, gentlemen, that in interrogating Mr. Hjort the first round be limited to 5 minutes and then as many rounds thereafter as possible. Any objection?

Thank you very much.

Now, one of the things you did not address yourself to is one which is very important in my State and Senator Helms' State, and others, is peanuts. A support level for peanuts now is what, 50-some-odd cents of parity? About that, which I think is about the lowest of any of the farm crops.

I have introduced a bill to increase support levels for peanuts from \$4.50 a ton to \$5.02.

What is the Department's position on that?

Mr. HJORT. I think we are to come up at another time, about a week from now, I believe, and testify in more detail on that; but, as you know, we did increase the loan on quota peanuts this year for the first time since the 1977 act passed. That increase was based

upon an assessment—and a joint assessment, as a matter of fact, with the representatives of the peanut industry—on what the costs of production were in 1979, and what they are likely to be in 1980. And out of that review, the conclusion was that they were very likely to be somewhere between \$450 and \$460 a ton.

It was on that basis that we then selected the midpoint of that range, \$455 a ton as the support price for 1980 crop peanuts.

That seemed to us to be a justified increase. Costs have been increasing rather rapidly, and the price has not gone up. We would have difficulty in finding justification for moving above that level.

The CHAIRMAN. We will go into it in more detail when you come up on March 12.

Mr. HJORT. Yes, sir.

The CHAIRMAN. S. 2258 would authorize the Secretary to make available to any producer who did not participate in the 1979 feed grain set-aside program: (a) Price support loans and; (b) participation in the farmer-held grain reserve program on up to 50 percent of corn produced in 1979, on the producer's normal crop acreage.

What are the Department's views on this provision?

Mr. HJORT. Well, we would offer a substitute for that general approach. And that substitute would be to authorize the Secretary to permit a limited quantity of corn produced by those that decided not to participate directly into the reserve.

Now, we are engaged in a program where those that are eligible are placing grain in the reserve. We modified those reserve terms and conditions, and producers are taking advantage of them. We are also going to be purchasing corn.

The combination of those two can lead to a situation where free supplies are tightened up. But we, as you know, Mr. Chairman, have never favored having large quantities of grain in Government-ownership. We would much prefer to have the farmers continue to own the grain.

And so we would favor an amendment to the laws that would permit, say, a maximum of 10 million tons of 1979 crop corn belonging to producers who decided not to participate in the programs. Such a program would be on a first-come, first-served basis, and producers would be permitted to place it directly into the reserve.

Senator HELMS. Mr. Chairman, would you yield for a second?

The CHAIRMAN. Certainly.

Senator HELMS. Are you familiar with the bill I introduced, S. 2356?

Mr. HJORT. Yes, generally.

Senator HELMS. Would you favor a temporary food security reserve for the purpose of isolating embargoed commodities from the market?

Mr. HJORT. Well, we believe that the farmer-owned reserve and the reserve policy and programs that we have accomplished that basic purpose. We believe the amendments we have made in the present terms and conditions of the farmer-owned reserves, plus this additional authority for nonparticipants, would accomplish the basic purpose that you are trying to accomplish in your measure.

Senator HELMS. What you are saying to me is you favor the concept?

Mr. HJORT. As we have done, the actions we have taken and announced right after the suspension was to modify reserve terms and conditions so that more would go into reserves. And so, from that standpoint, we are seeking the same thing—that excess be taken out of the market and held in reserve.

Senator HELMS. Mr. Chairman, I did not want to take over your questioning but it followed right in line.

The CHAIRMAN. It is all right.

Senator HELMS. You are not quite answering my question, and I can understand you may not want to give an absolute endorsement, but, what you have done is not adequate, in my judgment, at least.

Now, would the Department oppose the concept which absolutely explicitly would resolve the difficulty that the farmers are finding themselves in as a result of the embargo? Now, we are either going to do it, or we are not. Now, is the Department opposed to having that built-in cushion there so that the farmers will not take the full rap on these embargoes?

Mr. HJORT. No, sir, we are absolutely and fundamentally committed to removing from the market a quantity sufficient so that farm prices follow the path that they would have followed in the absence of the suspension.

Now, we have taken some actions. I wish we would have been able to move more quickly on the purchase program. We are going to start purchasing corn on a regular basis by midmonth, and we believe through those authorities, we can accomplish that objective. We believe it would be a preferred strategy, however, to permit some of this excess corn held by nonparticipants, a limited amount, being able to go into that reserve.

But, we do have the legal authorities to live up to that commitment. It is a little more desirable; it is more desirable from the policy standpoint for the producers to hold those rather than the Government. And the fact is that it costs a little bit less in budget outlays. Because it is going to cost us a little more to purchase the grain in the market than to encourage producers to place it directly in the reserve. Not much, but a little.

Senator HELMS. The key word in that legislation is temporary, to offset the things or foreign relations policy—foreign policy purposes, which the administration feels that it must do.

I want you to look at this bill very carefully so that we can discuss it. Do not push it aside casually because I think I am trying to do the same thing that I am sure you want to do.

Thank you, Mr. Chairman. I apologize.

The CHAIRMAN. No problem.

Another provision of S. 2258 would aid in the development of gasohol. Under existing law, the Commodity Credit Corporation may not sell its stocks of corn at less than 150 percent of the national average loan rate whenever the farmer-held grain reserve program is in effect. Current loan rates of corn is \$2.10 a bushel. This bill would authorize the Commodity Credit Corporation to sell at not less than 115 percent of the national average loan rate stocks of corn for use in the production of alcohol for motor fuel at new facilities that can use agricultural or biomass feedstocks other

than corn. The minimum price would, therefore, be about \$2.41 a bushel.

How does the Department feel about this provision?

Mr. HJORT. If you make that not less than \$2.63, we are in business. The reason being that we do not believe that CCC should be selling corn that it owns back into the market at a price below the release price on the farmer-owned reserve.

The CHAIRMAN. Now, the bill would also exclude as a condition of eligibility for commodity loans in the 1979 crop of soybeans. The requirement that a producer's average acreage normally planted in designated crops be reduced by the producer's acreage covered by the 1979 wheat and feed grain set-aside.

Does the Department support this provision?

Mr. HJORT. No, sir, we oppose that.

The CHAIRMAN. The bill also is a ceiling on CCC farm storage facility loans is increased from \$50,000 to \$100,000. The House Agriculture Committee recently reported a bill containing the same provisions. How does the Department feel about this?

Mr. HJORT. We favor those provisions.

The CHAIRMAN. The bill requires the Secretary, in cooperation with the U.S. Trade Representative, to perform a study exploring the ways U.S. agricultural export markets can be expanded and trade agreements can be developed under which U.S. agricultural exports can be used in obtaining natural resources, such as oil needed by the United States. The study is to be completed and submitted to the President and Congress by the end of this year.

Does the Department of Agriculture support this study, and will you be able to meet the December 31st deadline for completion of the study?

Mr. HJORT. We favor the idea. We do not believe that we would need additional legal authority to engage in such a study. And I believe that for a serious study of that matter, the end of this year may be a fairly tight deadline.

The CHAIRMAN. The bill specifically would authorize the Secretary to use the funds and facilities of the Commodity Credit Corporation to purchase and handle nongrain agricultural commodities that were under contract for shipment to Russia, but were not shipped because of the President's suspension of trade in January, in the same manner as you handle grain contracts. A number of commodities other than grain were affected by the suspension, including some 65,000 tons of poultry.

What is the Department's position on this?

Mr. HJORT. We do not believe that that provision is necessary, but we would not oppose having permissive authority that clarified existing authority to deal with similar problems that might be encountered at some future time.

The CHAIRMAN. Another provision would require the President to establish a reserve of up to 4 million metric tons of wheat for use in providing for emergency food needs in developing countries. Wheat in the reserve could be used for emergency food assistance whenever other U.S. domestic supplies of wheat were so limited that quantities of wheat could not be made available except for urgent humanitarian purposes for disposition under the Agricultural Trade Development and Assistance Act of 1954. However, when

needed to provide urgent humanitarian relief in any developing country suffering a major disaster, as determined by the President, up to 300,000 metric tons of wheat could be released from the reserve in any fiscal year for such use.

What is the Department's views on that?

Mr. HJORT. The administration is very strongly in support of that provision, and we are moving forward, beginning tomorrow, to purchase wheat that would be held in such a reserve—specifically earmarked—as soon as Congress completes action on that bill.

The CHAIRMAN. When the administration announced its steps to deal with the Soviet grain embargo, it was clear that the most serious problem would be corn. One of the announced goals was to have about 500 million bushels of corn placed in the producer-held reserve. This would have been in addition to the corn already in the reserve. The Department's release of March 3 indicates its producers had placed only about 158 million bushels in the producer-held reserve.

Do you really feel that an offer to purchase will accomplish the 500 million bushel goal?

Mr. HJORT. It can, but, as I have indicated previously, we would prefer some additional authority to be able to encourage those that decided not to participate in the 1979 program to, on a limited basis, place some corn directly into the reserve.

The CHAIRMAN. Senator Jepsen?

Senator JEPSEN. Thank you, Mr. Chairman.

Mr. Hjort—first of all, did I get your name pronounced right?

Mr. HJORT. Yes, sir; it is like Y-O-R-T.

Senator JEPSEN. Mr. Hjort, let me say first off that I appreciate your comments and your candid remarks. I also appreciate your somewhat uncomfortable position on the rapidly changing series of events that are taking place.

I feel very strongly that you and many other people in the Department of Agriculture, cannot subscribe to some of the things that have gone on, but, with respect to the structure and the institutional way our Government works, you must be doing your job.

Without any further talk along those lines, suffice to say that my questions are not meant to be of a personal nature, but one of a general comment.

First of all, to set the record straight, contrary to what the administration has told the American public about farmers supporting the embargo, on a patriotic basis, there is not one farmer that I know of, and I come from a farm, that says that an embargo is anything except bad news. It does not do anything except shift the American farmer, and it is having its serious repercussions in my State of Iowa today. Banks have tightened up. Accounts receivable are higher than ever. Some young or newer farmers are going out of business. The market that you see in the future is much different than the markets published in the local boards and elevators. And if you can sell your grain at sometimes 30, 35 or 40 cents less than market value, in general, we have some problems.

Now, with biting your tongue, we are all going to roll up our sleeves in the interest of our country and work with it.

We are sorry to see that by sin of omission, the farmers have been misled. The administration had indicated that farmers were not going to be the only ones to bear this burden—and that other countries had been contacted and were going to support the embargo along with us. We know now that was not totally true. We also had indications that there would be economic cash flow relief, but frankly, as we well know, approximately 9 out of 10 farmers in Iowa were not eligible for it. The fact that since that time there were many who felt that there was going to be a paid diversion program, and now, of course, that also turns out to be false. There is concern about the long-range effect of Government holding grain. You are aware of the concerns farmers have on that. And then, yesterday, and now I will get to a question—yesterday, I asked Fred Wells about the fact that CCC financing of exports, by having immediate credit available, is left out of the budget completely by the administration. We need the financing of exports, or immediate credit available, because the embargo came all of a sudden and we are in a cash flow jam. We need to make some sales as quickly as possible. Immediate credit, short-term and intermediate-term credit would help expedite that. All the experts say that anyway.

Now, on that basis, I asked of Mr. Fred Wells, "Do you believe that these things should be utilized, and do you believe that CCC is set up to support and assist the farmer and that these loans would do that?" His answer was, "under the circumstances, no".

And I said,

Well, do you believe in using a method of financing, such as using short-term and intermediate credit, which will be made at commercial interest rates, and which, when paid back, would actually make the Department some money. In other words, the Government would be doing business, helping the farmer, and actually making money on it. That is a pretty good use of taxpayers' dollars."

He said, "Under the circumstances, no."

Now, I feel, I cannot conceive of that. Now, my question is: Did you recommend, as working on the budget, that CCC direct loans or export credit would not be available this year?

Mr. HJORT. What I recommended, and what the administration accepted with respect to export credit, is that we would have a record quantity of funds available this year and next. And that is what is in the budget. We have \$1.8 billion available this year. That is more than has ever been provided for that program. We have \$2 billion available next year. There is an important shift taking place in that program.

Senator JEPSEN. Are they guarantees—loan guarantees or credit?

Mr. HJORT. In the current situation, in 1980, of the \$1.8 billion, \$800 million is direct credit and \$1 billion is under the risk assurance program.

The proposal for 1981 is that all \$2 billion would be on a guaranteed basis.

What we are doing at present is moving to propose changes in the terms and conditions of that risk assurance program, and turn it into a fully guaranteed program. It is not at the present time. But turning it into a fully guaranteed program should mean that that program would be just as useful as direct loans. So we are convinced that that program can be modified, it will be modified in

a way that permits us to have a record quantity of funds available for export credit.

Senator JEPSEN. My time is up.

Let me make sure I understand what I read in the budget. The fact is that the administration and the budget that came down through the USDA to us discontinues the use of direct lines of credit which our foreign customers have been use to and which, on an expedited basis, would provide for quicker marketing. I have been in the sales business for some 30 years of my life and know this to be true.

Mr. HJORT. The phaseout is taking place over a 2-year transition period. Essentially all of the export credit provided in fiscal year 1979 is direct loans. That is moving down to about half the 1979 level in direct loans, and a sharp increase in the guaranteed loans, to where the total is higher for 1980. And for 1981, the proposal is that there would be no direct loans. All would be guaranteed.

Senator JEPSEN. One final question, yes or no, and my time is up. Do you believe that this is a step that will stimulate export purchases?

Mr. HJORT. Yes, sir, as long as we have a record quantity of export credit funds available, I cannot see how it would do other than lead to record activity.

Senator JEPSEN. No comment.

The CHAIRMAN. Senator Helms? I will be back shortly, Senator McGovern.

Senator HELMS. Thank you, Mr. Chairman.

Mr. Hjort, this may not appear to have a whole lot to do with what we are talking about. I think it does.

How closely would you say the working relationship between your Department and the Department of Energy is with reference to gasohol production?

Mr. HJORT. Being a little bit facetious, it has been closer than I would like in the past few weeks because we have had to continuously have meetings. We do continue to work with them on this matter. As you know, Congress is moving forward with legislation in connection with the synfuels bill that has provisions that would affect our authorities as well as authorities of the Department of Energy. So, we have been working with them quite carefully.

We also have a very close relationship with them with respect to research, biomass generally, including alcohol fuels. They are identified as the lead agency for research and development. And some of the funds that they obtain from the Congress are to be passed through to us. And we, frankly, have been having difficulties in specifically identifying the components of that \$12 million or so that is to be passed to us in fiscal year 1980.

Senator HELMS. This relationship then would give you some awareness of the direction in which the Department of Energy is headed.

What prompts my question, sir, is the large number of reports that something is going on to restrain production of alcohol for gasohol. I know you have heard these rumors, reports, and so forth. Do you have any knowledge of any investigation that may be in progress as to the restraints that may be applied to production or to distribution, or the sale of gasohol.

Mr. HJORT. I do not. As a matter of fact, it tends to be the other way around. I believe over the last year the administration's position has significantly changed to one of very strong support. Our practical problem right now is we have earmarked \$100 million in the business and industrial loan program. But, frankly, until one has the assurance of what the provisions and what the subsidy programs will be, until the Congress completes its action, it is difficult to go forward. But we are ready to do so as soon as we know what the Congress provides.

Senator HELMS. Well, I am not talking so much about the Government's activities in this regard. I am talking about a recurring report coming to me that in the private sector, there are efforts being made to restrain the expansion of the production of alcohol for gasohol. Now, you know of nothing going on in that regard in the private sector?

Mr. HJORT. There were reports that I heard that I have no detailed personal knowledge of, that some of the major oil companies were not planning to offer gasohol through their distribution facilities.

It is my understanding, however, that most of those have changed their minds and see the potential in this program, and that more are now moving to offer gasohol through their facilities.

Senator HELMS. Acknowledging that the Department of Energy is on the front line on this and you are cooperating with them, is the Government—the Department of Energy and the Department of Agriculture, and others—playing a role in making sure that this happens?

Mr. HJORT. As you noted, it is a matter, basically, for the Energy Department to handle, but we are—

Senator HELMS. But you have got a stake anyway.

Mr. HJORT. Yes, we do. And, in any way we can, we do encourage them to do so.

Senator HELMS. I guess the bottom line of the question that I am asking you is whether this would be a matter of concern if you had knowledge of what amounts to a restraint of trade?

Mr. HJORT. Yes, it would.

Senator HELMS. Well, I hope that the Department will keep an eye on that in its ancillary position in working on this problem. But we are having in my office literally scores of reports coming to us from people who are absolutely certain that this is so. And I think it would be most unfortunate if all of the resources of our Government did not concentrate on making sure it does not happen.

Mr. HJORT. I will bring that matter to the attention of those in the Department who have direct responsibility.

Senator HELMS. Thank you, sir.

My time is up, Mr. Chairman.

The CHAIRMAN. Senator Boschwitz?

Senator BOSCHWITZ. Let me turn, Dr. Hjort, to the line of questioning that Senator Jepsen was using concerning the loan guarantees as opposed to the direct loans. Who are the principal customers? It is principally Formosa and Korea, Senator Jepsen, I believe, that are using the direct loans; is that correct? Do you know

offhand what percentage of direct loans are being used by those two particular customers?

Senator JEPSEN. I do not know what the percentage is, Senator. I know that Portugal, Bolivia, Cypress, Dominican Republic, Egypt, Greece, Hungary, South Korea, Nicaragua, Pakistan, Philippines, Poland, Peru, and Taiwan would all like to have it.

Mr. HJORT. Korea and Poland have been two of the major users of the CCC credit program. But, as the Senator has pointed out, a relatively large number of countries have used it.

Senator BOSCHWITZ. I consider the whole difference between a direct loan and the use of loan guarantees to have no effect on the credit system of the country. It just looks better on the budget side. So I am not sure that it has any practical effect other than perhaps making the budget deficit.

Does it impact the budget deficit, what you are doing?

Mr. HJORT. It does in terms of the on budget activity, yes, reducing the direct loans, reduces the on budget outlays.

Senator BOSCHWITZ. But it does not, of course, have any effect on reducing pressure on the credit system as a whole?

Mr. HJORT. That is true.

Senator BOSCHWITZ. I notice, on page 7, of your testimony, Mr. HJort, you say you believe it would be very helpful to have authority to open the reserve to very specific amounts of corn from non-participants in the 1979 program.

I missed some of your testimony. Could you just expand on that briefly, please?

Mr. HJORT. Yes, sir. As you know, we modified the terms and conditions of the reserve, and those that participated in the 1979 program have been entering corn in that modified reserve program.

We have also announced that we now will begin purchasing corn on a regular basis.

Senator BOSCHWITZ. That is not the farmer-held corn.

Mr. HJORT. No, that would be Government.

Senator BOSCHWITZ. Pardon me? That would be what?

Mr. HJORT. That would be Government purchases by the Commodity Credit Corporation.

What we are proposing to you is limited authority to permit those that chose not to participate in the 1979 corn program to place corn directly into the reserve, on a first-come, first-served basis.

Senator BOSCHWITZ. Farmer-held reserve?

Mr. HJORT. Farmer-held reserve. These entries would be under the same terms and conditions, except that they would not be eligible for the interest waiver. Otherwise the same basic terms and conditions would apply.

Senator BOSCHWITZ. The difference between this and what I offered here sometime ago, is that it only applies to corn as opposed to wheat? Other than that, what is the difference?

Mr. HJORT. It accomplishes the same basic purpose, but it goes directly in the reserve; it helps isolate a good part of the quantity that otherwise would have been shipped. It also has a beneficial effect of permitting the farmer to continue to own that corn and, therefore, benefit from price rises in the future.

Senator BOSCHWITZ. What is the difference between that and what I suggested?

Mr. HJORT. Yours, I believe, has a broader—is a broader proposal, in addition to the point you made.

Senator BOSCHWITZ. Opening up the program, as I suggested, was commented on by the Secretary as undermining the entire farm program. I am very pleased to see that he is coming all the way.

It would appear to me that the program would have to be opened up if you want to reach 1.1 billion bushels of farmer-held reserves, I believe by October; is that correct?

Mr. HJORT. Well, it looks to us like we will have to have 1.1 or 1.2 billion bushels of corn either in a farmer reserve or in a Government-owned reserve to have a situation where the market prices will be on the path that they would have otherwise have been in the absence of a suspension.

Senator BOSCHWITZ. So the reserve is going to have to be opened up—the program is going to have to be opened up to some of the 1979 crops in order to achieve that; is that correct?

Mr. HJORT. It would not have to be. We do have the authority to purchase, and we can purchase it and place it in Government ownership. But what we are saying is that we would prefer—

Senator BOSCHWITZ. That would have a budgetary impact that would not be particularly pleasing inasmuch as you are trying to achieve a better budgetary policy, which you indicated in response to Senator Jepsen's question. The voluntary diversion program was turned down last Friday by the Administration. My question, Mr. Hjort, is what is the impact of price support loans on deficiency payments? I understand it is going to save the \$300 million that was set by OMB as the cost of the voluntary diversion program. Have you made any estimates on the offsetting deficiency payments on price support loans that will have to be made by virtue of not using the set-aside voluntary diversion program?

Mr. HJORT. The diversion program that would have cost \$300 million in diversion payments would have had essentially no net impact on outlays for the 2 fiscal years, for 1980 and 1981. It would have been higher in 1980 but lower in 1981, or, alternatively stated, the net outlays would be about the same with or without a diversion program.

Senator BOSCHWITZ. One moment. If you are going to look at things that way then you must, in fairness, look at Senator Jepsen's proposal that way too. His proposal of increasing direct loans from CCC is going to bring a net reward in the subsequent fiscal year. The payments will have no offsetting impact just as this years payments will have no impact in the 1981 fiscal year when there will be \$1.163 billion worth of loan repayments and no loans given but many guarantees given.

Mr. HJORT. When we offer a paid diversion program, we usually pay half of the payment in advance and that happens to hit in fiscal year 1980. So, to get a total picture of it, and a fair picture of it, one does have to look at the 2 fiscal years. And the reason there is fairly straightforward.

If you have the diversion program, you make the diversion payments; a little less corn is produced and, therefore, your loan inventory activity is a little less. It turns out in the numbers that

the one offsets the other. Alternatively stated, by not having a diversion program, we will not have the payments, but we will have higher loan inventory activities. And on balance——

Senator BOSCHWITZ. A higher deficiency.

Mr. HJORT. Pardon?

Senator BOSCHWITZ. A higher deficiency payment.

Mr. HJORT. No, I do not believe we will have deficiency payments under the current levels.

The CHAIRMAN. Senator Dole?

Senator BOSCHWITZ. May I make just a closing statement?

The CHAIRMAN. Without objection.

Senator BOSCHWITZ. To say that I also agree with Senator Jepsen that the farmers in our State are certainly not enthusiastic about the embargo. Our State, being further removed from the marketplace than Senator Jepsen's, is experiencing great problems and great difficulties, and so is Senator McGovern's State. Indeed, we hope that some action will be taken to ameliorate the affects.

The CHAIRMAN. Senator Dole. Will you yield to Senator Jepsen?

Senator DOLE. I yield, Mr. Chairman.

Senator JEPSEN. Mr. Chairman, with permission: Senator Boschwitz, for the record, you are recognized in the business world as one of the most successful marketing people in the country, and I would consider you to be an expert. Let us pretend for a minute that I had something you wanted to buy, it is a \$200,000 store. Suppose you really wanted it, so you checked it all out, and found everything to be in order. I then said, don't worry about the financing; I have that ready for you. Would this reassurance influence your decision to move on?

Senator BOSCHWITZ. Sure, it would. You know, I bought a lot of real estate on the basis of a contract of deed, which is similar. In our State, this is where the purchaser gives, in effect, a credit. It helps. Maybe I would be this way too, but I do not understand exactly why sophisticated buyers obtain a loan guarantee, unless the money to guarantee was difficult to obtain; I do not understand why the loan guarantee would not work particularly well from the standpoint of the effect on the credit market, as I pointed out; it makes no difference if it is a loan guarantee. It looks a little better budgetarily. If the credit is readily available, it certainly helps the sale of the real estate.

Senator JEPSEN. So, if you want to buy, and it is agreed upon and I said, "It is no problem; do it right now; we have got the financing; don't worry about it", that would influence your decision?

Senator BOSCHWITZ. Yes.

Senator JEPSEN. As an expert in the market. Thank you.

The CHAIRMAN. Senator Dole?

Senator DOLE. Well, I assume there will be some pressure in the Congress to increase the loan rates and target prices for corn and wheat. As I understand the statement, you are opposed to any increase—you know, I understand how different administrations come up and say those things, knowing there is a bottom line, or at least a fall back position where you might go?

Mr. HJORT. Well, we also detect a considerable effort in the Congress to balance the budget, and, in that overall context, and since that review is underway, and neither the administration nor

the Congress has come to grips with that particular question, we are just simply not in a position to say that the administration would support the measures here that would lead to significant increases in our budget.

In the present climate, it seems to me the entire effort is exactly in the opposite way—an effort to identify areas throughout government where outlays can be reduced.

This review is still underway and at this time I cannot give any more guidance other than to say anything that would come through the Congress that had significant increases in outlays is not likely to be received with favor.

Senator DOLE. I think the key word there is how we might interpret “significant”. What we might interpret as insignificant, someone else might interpret as significant.

I do not quarrel with that. I think there are pressures and counter-pressures. Of course, those of us who come from farm States are sometimes accused of pandering to the farmers in our State when it comes to Federal spending; but I think there is a recognition that it will be tough for everyone; but, again, the farmer finds himself in a little different position this year because of the grain embargo; and I think the pledge made by President Carter that the cost of this disaster would be shared by all Americans, not just the American farmer—now that is going to cost—how much will that cost? How much do you think it is going to cost the American taxpayer?

Mr. HJORT. It looks to us like it will be on the order of the \$2.5 to \$3 billion that we estimated. And I would add that that commitment continues in the middle of the entire review of budget outlays.

There has been no backing away whatsoever from that commitment to use all of our authorities to see to it that farm prices follow a path that they would have been expected to follow prior to the suspension. And we do have the authority to do so, and we are committed to that kind of a program.

I have offered the suggestion here that we do believe it would be useful to have some additional authority for those who did not participate to place a limited quantity of corn into the reserve to help achieve that—to help ensure we can have that objective. But we can purchase it, and we will, if need be, and the funds are there to do so.

Senator DOLE. Then you support the action taken yesterday by the committee to add the \$2 billion to the budget in case we do do something as far as farm programs?

Mr. HJORT. We already have the funds necessary to offset the potential impact of the suspension in the budget. So we do not need any increase to do that.

Senator DOLE. Maybe you had it in the wrong place, or a different place. I am not sure it was the wrong place. Well, what do you think the total cost of the embargo will add—how many billion dollars to the deficit?

Mr. HJORT. Well, over that 2-year period, most of the increase in outlays will take place in fiscal year 1980. In the budget, we had a \$2 billion increase for 1980 and \$800 million for 1981.

Actually, our current review would indicate that the increase for 1980 is likely to be higher than that, and the requirements for 1981 not quite that much. And much of that will be in loan activity. Producers place it in the reserve, and they obtain a loan from us. They also get an advance storage payment. That is an expenditure that will not be recouped. But when those producers take that corn back out of the market or that wheat, after prices are above the release, then we will get a receipt back to the Treasury. And so a very sizable portion of this outlay, this initial outlay, will come back to the Treasury. We judge that at least half of it will. On a per person basis in the economy, the gross is something on the order of \$14 a person, and we believe the net will be somewhere on the order of \$7 a person.

Senator DOLE. On page 4 of your testimony, you state USDA will purchase wheat and corn to carry out the President's directive to maintain prices at levels that would have prevailed absent the export suspension. Now, I am not certain what the prices would be now if we had not had the embargo. What prices does USDA feel would have prevailed absent the embargo; and how were these prices arrived at? Are market prices up to that level now?

Mr. HJORT. Corn prices are below what we expected this to be at this time. Soybean prices are approximately where one would have expected it at this time. Wheat prices keep fluctuating a bit. Two days ago I think that price was a little lower than what we would have expected it to be.

The CHAIRMAN. Senator McGovern.

Senator MCGOVERN. Mr. Hjort, it seems to me the bottom line of what we are up against is contained in the paragraph on page 4 of your statement where you say farm prices in general are not rising as rapidly as farm input prices. Farmers faced rapid increases in costs last year, and they will again in 1980. Some of the price increases are shocking. And then you detail them, fuel prices will be up 40 percent over last year; fertilizer about 25 percent above last year. At the top of the page interest costs up 25 to 30 percent. I heard on the radio coming down to work this morning that Perpetual Savings & Loan here in Washington is going to set a mortgage rate at 17 percent, almost unheard of on mortgage money; but farmers are going to be paying those kinds of rates.

Now, under those circumstances, you conclude in that paragraph that the result will be lowered farm income this year. And every farmer knows that without being told. They know that farm income is going down this year.

I appreciate some of these steps you have taken on the farmer reserve and waiving the interest rates and so on, but it is not going to keep thousands of farmers from going under this year. And I just think we have to pass some of these bills that is going to raise the price supports, the loan level. I know that the cost that you indicate here may be right. While that comes across as a budget outlay, most of that money is going to be repaid. The record over the years is that about 92 percent of what the Government loans to farmers under the price support loan programs is repaid. So at a time when this inflation is as intense as it is and hitting farmers as hard as any group in the country, why would it not be a good investment to loan farmers \$3 or \$4 billion through the price

support loan program, most of which they are going to pay back? It will help stabilize the markets. It will help improve the price level. The world price tends to follow that loan level price of ours. It will help firm up prices all over.

You say the world market is going to be stronger than ever this year. They have got to buy that grain somewhere, and we are the principal producers. So, it would seem to me that, in all due respect, the effort to balance the budget where you are talking about loan money, most of which is going to be paid back, we ought to be able to live with this bookkeeping arrangement, where you get a temporary increase in the budget. That is not going to add much to the inflationary pressures. What is going to hurt the country is the bankruptcy of our commercial farmers. So, while I do not dispute the cost figures which you cite here with reference to the bill I have introduced. I would hope that the administration would approach this with a little more urgency about trying to save the farm families that might otherwise go under.

Mr. HJORT. As you know, Senator, not only are interest rates high, but, particularly, in certain parts of the country there is concern over the supply of credit; particularly among the private rural banks.

We have tried to review that situation very carefully. It appears that the most difficult credit supply conditions are centered in the upper Midwest at the present time.

We do have a situation where the loan-deposit ratios are not only record high, but at the present time are at a level that one would not expect until you are in the peak credit period. And we have not reached that period yet.

So the question is how does one alleviate that, and how does one alleviate that quickly. One way is the economic emergency loan program that this committee has already taken action on. The Senate has moved very quickly on that measure, and the House moved yesterday. But that is one approach to provide some credit.

The CHAIRMAN. Would you yield at that moment, briefly, Mr. Hjort?

Mr. HJORT. Yes.

The CHAIRMAN. Senator McGovern, would you take charge? Senator Helms and I need to confer. I recognize Senator Jepsen, and I will be right back.

Senator MCGOVERN. Why do you not finish your answer and I will recognize Senator Jepsen next.

Mr. HJORT. The other way to get some credit into the system is to help producers place grain in the reserve. That is again an immediate way of going into their local ASCS office and signing up and walking out with an instrument that provides the credit.

The purchase program that we have announced this week to begin purchasing corn on a regular basis is a way of getting money into the system. And the other point I would make is that our review of this credit situation seems to be centered on corn. It is the corn that is held there that is a large part of the crop.

Senator MCGOVERN. What are you going to say to a farmer though. They are as familiar as you are with the increase in costs, and they point out to us they were selling that corn 10 years ago for \$2.50 a bushel. Now they are lucky to get \$2. Where they go in

to get that loan that you are talking about at the ASC on wheat, but they get \$2.50. That is ridiculous for somebody to give up a bushel of wheat for \$2.50. That is no program. I mean, you cannot pay 16- and 17-percent interest rates and \$1.20 for gasoline and all these other costs and then sacrifice your grain at a lower price than they were getting 5 or 10 years ago. That is the point. It just seems to me that, while almost every farmer we talk to these days think they are in a financial crisis, you do not get that impression when you talk to people at the Department.

I have great regard for you and your knowledge of agricultural economics. I think you are a brilliant economist, but I do not understand how the Department can be so lethargic in face of what seems to me to be bankruptcy.

Now, I voted for that Chrysler loan with some misgivings. I do not know whether it was a good idea or not. It bothered me to think of a great corporation like that going bankrupt. But it bothers me even more to look out here at a couple million commercial farmers that are just barely hanging on by their toenails and wondering if they are going to be able to survive.

If we can put up the kind of money we did for one corporation, why can we not find a few billion dollars for what amounts to a loan, and raise those loan levels to reflect the actual cost to the farmers of producing grain in the high cost environment in which they are operating?

Mr. HJORT. Well, I think we can; and that is what we are doing. Actually, I think the corn price 10 years ago was about \$1 or 95 cents a bushel, and now nationwide it is \$2.35 or \$2.40. That is not as high as it should be, given where costs are today.

We are going to spend in excess of \$2 billion this year in additional loans and purchases and so on to offset the impact of the suspension. For the 1980 crops, every producer in the country will be eligible for loans, the target price protection, the reserve program. Those reserve programs are there to help producers. We do not believe you should sell corn for anything less than \$2.63 a bushel. And we do not think you should have to pay the loan back until the price gets to \$3.05.

For wheat, we say they should not sell it at less than \$3.75, and should not have to pay the loan back until the price is well over \$4-\$4.63, I think it is.

So we do have this immediate problem. As we move into 1980 crops, every producer in the country is eligible for loans from the Commodity Credit Corporation. What today influences market price is really the reserve program, the terms and conditions on that reserve. And it will work. The farmers made it work over the last 2 years, and I have every reason to believe they will make it work again.

Senator MCGOVERN. I will yield my next 5 minutes. I think I took 10.

Senator Jepsen.

Senator JEPSEN. Mr. Hjort, there may be a little bit of repeating here, but I would like to ask the question again: What is the objection of having the USDA provide loans on the basis of the 1979 program and opening it up to all producers regardless of whether they participate or not? This should be done even if some

arrangement would have to be made to compensate those who did enter. The fact is that cash flow is a problem and it is strangling the economy of at least the Midwestern States. And it is of such importance that as squarely and as candidly as I can present this to you, something needed to be done yesterday. I am not joshing when I say people are going under. Banks—rural banks—are thinking about or worrying about closing their doors. Elevators are wondering how they are going to collect their accounts receivable. And, of course, they are doing one-tenth of the business they did last year. They do not have time for committee meetings. They do not have time for 60 days to go by and the U.S. Department of Agriculture make a decision to do nothing, as we did in the diversion program.

They need some cash flow for an embargo that was dropped on them. I might add, as a member of the Armed Services Committee, I did not find one single military person who agreed that the embargo had anything to do with what was going on as far as alleviating the problem. As you know, Russia committed 30,000 troops the day after the embargo was imposed.

Be that as it may, a set-aside program is like being pregnant, we have got it, you know, and we have got to work with it. But, then, why doesn't the administration follow through on their promise to make sure that the farmers do not take the brunt of this. What is the objection to opening that program and providing that cash flow? It is a simple, clean way of alleviating the problem. And as one of the Senators here said about the Chrysler program: The administration really went all out to support the Chrysler program and nothing artificial was done to that industry, not one solid thing, but an embargo really just cut right into the jugular vein of agriculture and yet they refuse to do anything to help. Why?

Mr. HJORT. I do not believe that that is so. I think the fastest way, and if you know of a faster way to take care of that problem I would be glad to hear it, our fastest way is purchasing corn. We are going to do that.

Senator JEPSEN. May I interrupt? Excuse me. I am sorry for interrupting. You have promised to purchase corn, and you are purchasing corn. You are purchasing grain, and you are purchasing grain from big grain companies. Now, that does not help the farmer out there on the firing line. It just does not do it. His contracts are all payables. They owe the bank, they owe the landlord, they owe for their fertilizer, they owe for their chemicals; they are buying them and planting time is around the corner. It is a one-way street. They do not get the benefit of this at all.

That 17 million metric tons, or whatever portion that was scheduled for Russia, is something that was in the pipeline. It was set-aside and it does not get down to the farmer at all, and the psychology; economically, is absolutely killing them.

Specifically, what is the real reason that you are not just moving in to do something that is, specifically, to open up the 1979 program eligibility to get cash flow going and make loans to these folks?

Mr. HJORT. Well, as I said, since we do not have legal authority to do that—

Senator JEPSEN. I have a bill in here and you are fighting it.

Mr. HJORT. The fastest way to do it is to purchase corn. The purchases will be made in the country—not at the terminal point or anywhere else—in the country. It will have an immediate impact on producers in the country.

Corn prices in Iowa today are about where they were on January 4. As I indicated, we expected they would be higher than this in the absence of a suspension. But they are not below where they were on January 4. And we are going to make substantial purchases.

We believe it makes more sense—instead of a general opening up of the program to producers—to do so on a limited basis and to permit those who, of their own decision, decided not to participate to permit them to place corn directly into the reserve, but on a limited basis. I am in favor of that. The administration is in favor of it. And we would encourage the committee to pass an amendment to do that.

In the meantime though, we are not going to wait. We are not going to wait for that legislative authority. We are going to go ahead and purchase, because that is the quickest way to accomplish what you are talking about.

The CHAIRMAN. Senator Dole. Excuse me, Senator Jepsen.

Senator JEPSEN. If I may, I cannot let that go by. You say you cannot wait for legislative authority. The fact is that 72 hours after that embargo was laid on, I had in the hopper and submitted legislation to simply permit you to open up the 1979 program—in other words, I understand you have to have authorization from Congress to do that. No mechanics, I left it all up to the Department. It was on the docket and since then there have been a number of other bills, but the Secretary of Agriculture has repeatedly said, “No way”. So, do not say you are waiting for legislation when the Department is saying there is absolutely no way you are going to do this.

We have got legislation here. I would guess if the Department would ask for this that it could be put through this Senate Agriculture Committee and through the Senate and the House and House Agriculture Committee pretty quickly.

The CHAIRMAN. Senator Dole.

Senator DOLE. I think everybody shares the frustration just expressed by Senator Jepsen. I sit here wondering if Senator Humphrey were here and Secretary Butz were in your place, and we had 18-percent interest rates and 18-percent inflation and farm prices were going down and unemployment going up, what would be left of Secretary Butz after the session. Probably not much.

Mr. HJORT. He would probably buy some corn.

Senator DOLE. I think the point is that there is a lot of frustration and it should not be partisan—I do not think farmers consider it that way—but maybe there has not been enough focus. This is an election year, and maybe because of foreign policy considerations, there has not been enough focus on the problems in the country, but it is starting to take hold. And I would just agree with Senator Jepsen, maybe the program is working well, as you have indicated, but I do not find that to be the case. We have contacts with people in our State. They are under the impression that the loans and the interest have to be paid back from farm income

eventually, and more credit is not the answer. More loans and more debt, probably in the final analysis, are not going to do much for the American farmer. It may postpone the real problem. I do not know what is going to happen 2 or 3 years down the road with all these reserves when they come back into the market. I assume they are going to "stabilize prices", which, to farmers, mean low prices; but, I agree with Senator McGovern. It seems to me there ought to be something we could do and do right now. Maybe the best thing you can do is go out and buy it. Maybe that will take some of the pressures, or help upward pressure on the marketplace.

But, as I understand, you are not suggesting that we do anything, as far as giving you more legislative authority. Is that correct?

Mr. HJORT. No. We would favor an amendment that would authorize us to go to producers of 1979 corn, who did not participate in the program, on a limited basis let us say that by the time that authority was in hand, it was clear that we needed, say, 5 million tons more corn in reserve for market prices to be on a path that they otherwise would have been on, in the absence of a suspension. We would then make an offer to those producers, first come, first served, put corn directly in the reserve. That means they would get the loan and they would get the advance storage payment; they would not get the waiver of interest. That would still be a special provision for those that participated in the programs.

That piece of legislation, we would welcome.

Senator DOLE. Is that a new decision?

Mr. HJORT. Yes, sir.

Senator DOLE. In other words, if we could rush that through the Congress, it would have your support?

Mr. HJORT. Yes, sir.

Senator DOLE. And how much protection do you think that would—you are saying "first-come, first-served"; how many people would it accommodate? How many farmers would be accommodated?

Mr. HJORT. Well, it depends upon the quantity. As you know, a larger share of the 1979 crop was produced by those who decided not to participate in the program, than by those that decided to participate in it, and so at this time of year there is still a rather sizable amount there that is uncommitted. But I think 5 million tons in this context would be significant. And, after all, what we are committed to is, in one way or another, seeing to it that a sufficient quantity of corn is taken out of the market, so that those prices will be on the same path they would have been in the absence of the embargo. This would give us additional flexibility, and we believe desirable, because that would continue to be owned by the producers rather than Government.

Senator DOLE. Is there such legislation pending, or do you have drafts?

Mr. HJORT. We have a piece of paper here that is pretty general language that we have provided to—

The CHAIRMAN. It is part of the bill that I introduced, Senator Dole. The number is S. 2258. It provides that 50 percent of the 1979 corn crop be made eligible for loan.

Senator DOLE. It seems to me this might be a step in the right direction if we could move on this very quickly, like today; and get it moving through the process. We may want to broaden it later on, but, at least, this would give you the authority you think you need now.

Mr. HJORT. We believe it would be highly desirable. We are going to go ahead and purchase in the meantime, and we will keep purchasing and the more we purchase, the smaller would be the quantity that one would need to encourage producers to place in the reserve. So, the sooner it comes, the better.

Senator DOLE. My thinking is that waiting for broader legislation, we may never get this much done. If we do this immediately, it might, at least, help some, because I share your view, the more you take out of the pot, it might strengthen the market some. I would hope, Mr. Chairman, that that might be a possibility today or tomorrow, if we could pass out this separate piece of legislation.

The CHAIRMAN. We will certainly move as rapidly as we can, Senator Dole. We do not have a quorum today.

Senator MCGOVERN. I will forego my time. I took 10 minutes last time.

The CHAIRMAN. Senator Boren.

Senator BOREN. Thank you, Mr. Chairman. I am sorry I missed some of the earlier questions and I may duplicate to some degree.

Mr. HJORT, the Department has said it would purchase the 4 million metric tons of wheat that were hit by the Soviet embargo. Who will purchase this wheat? Will it be the Commodity Credit Corporation?

Mr. HJORT. Yes, sir.

Senator BOREN. Will the CCC purchase this wheat on the dates specified in the contracts, or is the CCC going to use Government funds and speculate in the market and not purchase the wheat at specified times?

Mr. HJORT. We are going to purchase in advance of the dates specified in the contracts. We are going to purchase in the country, actually, and take ownership. In other words, we are going to go long.

Senator BOREN. How will you determine on which dates the purchase will be made?

Mr. HJORT. We are going to do so on a regular basis, beginning with the first offer to go out tomorrow.

Senator BOREN. Without regard to what the market prices are?

Mr. HJORT. Our authorities on this is that we purchase at the market price.

Senator BOREN. Will the CCC consider the shifts and trends of market prices as it decides when to purchase?

Mr. HJORT. Yes, sir.

Senator BOREN. So, in essence, there will be speculation in the market in terms of determining the price CCC will pay for this wheat.

Mr. HJORT. Well, we do intend to make those offers on a regular basis. We will have to be mindful of the basic situation.

Senator BOREN. With regard to the 4 million metric tons of wheat that will be added to the food security reserve? I understand that the 4 million metric tons embargoed was all Hard Red Winter

wheat. Will the 4 million metric tons purchased for the reserve be all Hard Red Winter wheat also?

Mr. HJORT. Not all of it. What we will be doing is keeping in mind the classes of wheat that are used in the foreign food assistance programs; but we are also going to be very careful to watch the supply-demand situation for each class of wheat in making these purchases.

Senator BOREN. Well, I understand somewhat the nature of using different kinds of wheat for overseas sales; but am I correct in saying that the 4 million tons was virtually all Hard Red Winter wheat?

Mr. HJORT. Yes, sir, you are correct.

Senator BOREN. Why isn't the administration keeping faith with the farmers and making sure that the purchase consists of Hard Red Winter wheat totally so that we do not cause an imbalance in the market among the different kinds of wheat?

Mr. HJORT. Well, it is the purpose for which we are going to use the wheat that also has to be taken into account. To give an example, we have had a relatively tight supply situation in Soft Red wheat. Soft Red wheat is used in the foreign food assistance program. We would be very careful about purchasing there until more adequate supplies become available.

Senator BOREN. Well, I would just like to say that I believe keeping faith with the farmers includes purchasing on the dates that were intended and purchasing the very same kinds of wheat that were included in the embargo. I am disappointed to hear these answers. I was also very disappointed with the announcement made by Secretary Bergland last week that there would not be a paid diversion program nor a special haying and grazing program this year. The haying and grazing program has been implemented for the past 3 years and was a very useful tool in reducing harvested acres. Realizing the anticipated loss of additional sales of grain to the Soviet Union and the good possibility of increased production this year it would seem that some kind of diversion program is needed and should be continued. Did you recommend to the Secretary that there not be a paid diversion program and that there not be a haying and grazing program? Was this the Secretary's recommendation to the President?

Mr. HJORT. Yes, it was the Secretary's recommendation. And, after reviewing the entire matter, the overall situation is that world wheat stocks are being drawn down this year. In the United States, our own stocks are not changing appreciably. The potential impact of a hanging grazing program would, according to the best estimates we had, be very, very small. We really would not get very much at all for the taxpayers' money on that program. So, in the final analysis, the Secretary did recommend against that program.

Senator BOREN. I understand that you have advocated increasing as much as possible the amount of wheat in the farmer-owned reserve which now contains about 200 million bushels?

Mr. HJORT. It is a little above that.

Senator BOREN. Would it help if we could increase the amount in the reserve up to maybe 500 million bushels?

Mr. HJORT. That would ensure that the price would certainly not come down below \$3.75. If that amount were going into the farmer-owned reserve, it would keep prices above any \$3.75 level. Of course, it is up to producers to put these quantities in reserve. The terms and conditions are there.

I think it is important to keep in mind in this regard that all producers will be eligible for their 1980 crop. And they will be starting to harvest that pretty soon. All of them are eligible for loans and for entry into the reserve. If they use that program effectively, I am sure it will have a clear impact on market prices.

Senator BOREN. If it is desirable that we increase the amount going into the farmer-owned reserve, would you favor increasing the loan rate to \$3.50 for 1979 and 1980 wheat, and allowing wheat at this level to immediately enter the reserve? Would this be helpful?

Mr. HJORT. No, sir, not at this time we cannot. We have had discussions of a program where producers would be able to have a higher loan, a special loan if they were going to enter into the reserve. But at the present time with the overall review of economic policies, we just have to hold off any further consideration of that matter until we see what the outcome of these overall reviews are going to be.

Senator BOREN. Are you saying you cannot commit yourself to actual increases in the loan level but that the concept, at least, has some attraction to it?

Mr. HJORT. It has had some attraction and, as you know, it has had some attraction on the part of the Secretary, but, in the present climate, with the overall review of measures that can be taken to reduce outlays, all of that has to be held in abeyance.

Senator BOREN. Thank you.

The CHAIRMAN. Senator Dole, do you have further question?

Senator DOLE. No, Howard and I understand each other.

The CHAIRMAN. Senator McGovern?

Senator MCGOVERN. I have no further questions.

You are doing a good job, too; do not misunderstand me.

The CHAIRMAN. Any more questions, Senator Boren?

That completes the hearing this morning. Thank you very much.

Senator DOLE. Mr. Chairman.

The CHAIRMAN. Senator Dole?

Senator DOLE. I think Senator Jepsen was trying to reach Senator Zorinsky and a couple others, to see if there is any chance to get a quorum over here, if you would be willing to move on that.

The CHAIRMAN. There is no objection on my part.

Senator DOLE. Let us see how they are doing out there. We need a quorum to report it out, right?

The CHAIRMAN. Ten. We have five.

Senator DOLE. Do you think we can get five people over here right quick?

[Short pause in proceedings.]

The CHAIRMAN. The one that I offer now, S. 2258 was to make 50 percent of the 1979 corn crop eligible for a loan. Is that the one you are supporting?

Mr. HJORT. No, sir, we would favor this more limited authority. We have drafted a bill that would authorize the Secretary to go out

on a limited basis and permit 1979 crop corn to go directly into the reserve.

The CHAIRMAN. How much?

Mr. HJORT. Well, we do not anticipate that it would be more than 10 million tons.

The CHAIRMAN. Could it be one bushel?

Mr. HJORT. Well, it could, but not likely. I mean if we get this authority.

The CHAIRMAN. How are we going to estimate the budgetary impact? We are leaving it to your imagination, are we?

Mr. HJORT. No; actually it should not have any significant impact on the budget because we will purchase it. You see, if we do not get this authority, we will have to be purchasing it in the open market. So, we have had to provide the funds for that quantity anyway. Now, if we get this authority, there will be more going into the farmer-owned reserve, and we would not have to purchase as much.

The CHAIRMAN. All right, to make available loans; that has no budgetary impact? I thought you were complaining about that.

Mr. HJORT. Well, it does, but you see purchases take more.

The CHAIRMAN. How much money are we talking about? That is what I am trying to find out.

Mr. HJORT. Well, with all of these actions, it is going to be in excess of \$2 billion in fiscal year 1980. But already, we have that in the budget.

The CHAIRMAN. I am talking about this particular bill now.

Mr. HJORT. We do not believe it will add anything to what is already in the budget.

The CHAIRMAN. All right, the bill that I offered now, 50 percent of the corn crop, budgetary impact, it is plus \$354 million. What is this bill?

Mr. HJORT. This bill would have no net increase in budget outlay.

The CHAIRMAN. How are you going to get corn if it will not have a net increase? That is what I am wondering. Every bushel has a budgetary impact. If you are going to have no budgetary impact, you will get zero corn.

Mr. HJORT. You see, under our present authority, we are purchasing. We are going to have to purchase the corn. And so this is a trade off. This says that if the farmers put it in the reserve, we do not have to purchase that.

The CHAIRMAN. I understand.

Mr. HJORT. So, therefore, there is not any additional impact from what we are already committed to.

The CHAIRMAN. How much are you committed to now?

Mr. HJORT. A little over \$2 billion.

The CHAIRMAN. How much on the corn loan?

Mr. HJORT. I do not have the figure specifically for corn with me, but a very large proportion of the total is corn.

Senator DOLE. You think it will have an impact even though it does not have a budget impact?

Mr. HJORT. It will have an impact on market prices, but it will not have a net impact on outlay.

The CHAIRMAN. If you can stick around then, Howard and let us see if we can get a quorum. We have four Senators here now.

What is your report?

Senator JEPSEN. We have Senators who are on the way. I believe Senator Zorinsky is being called now to see if he cannot round up some.

I have a question on this amendment here. You said:

Provided, however, that such producers of 1979 crop corn must agree to participate in the farmer-held grain reserve program as provided for in section 110 of this act.

What does that mean?

Mr. HJORT. That means they would directly place this corn into the reserve program. What it says is that they could not come into this program and just get the loan. If they were going to get the loan, they would also have to enter it into the reserve.

Senator DOLE. Do you have any objection to making it—is there any reason we want to limit it to 1979? Would this not be helpful to have it for all years?

Mr. HJORT. I do not believe that we have any loan eligibility for anybody left for anything other than 1979 crop. For 1980, everybody is going to be eligible. I think the critical one is 1979.

Senator JEPSEN. Under the 1980 program, you have a no set-aside program.

Mr. HJORT. That means everybody would be eligible for loans and for entry into the reserve.

Senator JEPSEN. Even though there is no set-aside?

Mr. HJORT. Yes, sir.

When there is no set-aside, every producer is eligible for the loans and target price protection and reserve entry.

Senator DOLE. We would like to get a quorum to report this little mandate out.

The CHAIRMAN. Do you have any word on how many Senators are coming?

STAFF. We have eight coming now, Senator.

The CHAIRMAN. Is the message being passed to everyone?

[A short recess was taken.]

The CHAIRMAN. While we are waiting in an attempt to get a quorum, we might discuss what is before the committee. I think most members already know.

We have got at least one or two bills before the committee, including my own, that would require—you know about 90 percent of the producers of corn for the 1979 crop were not in compliance and eligible for loans.

The bill that I offered would make 50 percent of those 1979 producers eligible. Mr. Hjort has countered with a proposal that leaves it up to the Secretary, as I understand it.

Mr. Hjort, tell the committee members about this substitute bill that you prepared and are recommending to the administration and White House for support. What will it do?

Mr. HJORT. What this would do, it would authorize the Secretary to say to producers that—corn producers—that did not participate in the 1979 program, that on a first-come, first-served basis, you can place 1979 crop corn directly into the reserve. It would be the same terms and conditions as the reserve at the present time,

except that those that did not participate would not qualify for the interest waiver. So this means that those that accepted this offer would get a loan of \$2.10, using the national average figure, and they would get the advance storage payment of 26.5 cents. There would still be an interest-bearing loan, but they would put it directly into the reserve.

Now, the quantity depends, I cannot be specific on the quantity because we are committed to taking out of the market either through purchasing by the Government or participant producers placing into the reserve a quantity that has the corn market price following the path that it would have followed in the absence of the suspension. So, we do not know for sure how much the quantity would be. I do not think that it would exceed—I cannot conceive of any way that it would exceed 10 million tons, and it may be more on the order of 5 or so.

We are starting to purchase corn on a regular basis out in the country.

The CHAIRMAN. What price?

Mr. HJORT. At the market price.

The CHAIRMAN. What is that now?

Mr. HJORT. Well, it is about \$2.40—\$2.35 to \$2.40 a bushel, something like that.

The CHAIRMAN. A loan would be cheaper than the purchase?

Mr. HJORT. A little bit cheaper than the purchase, yes.

The CHAIRMAN. Now, this is subject to a point of order, gentlemen, on the Senate floor, and we will have to assume that risk. Of course, you can always, when a point of order is made, you can move notwithstanding the point of order, if you have over 50 percent of the votes on the Senate floor, you can suspend the point of order. We have done that two or three times with agricultural matters. But the fever for budget balancing at that time was not quite as fervent as it is now.

Also, there is another matter that we may want to do at the same time. I have a bill here and there are several cosponsors to my bill. The purpose is to release corn to make alcohol at 115 percent of the loan release rate. And Mr. Hjort has suggested that we modify that and also attach that to this bill now.

Tell the committee what that is, Howard.

Mr. HJORT. We would support this authority that the chairman has talked about if it had said the sale price shall be not less than the release price from the reserve. That today is \$2.63 a bushel for corn. We are fearful that if we have a sale price, authorize a sale price below the reserve release price, that you are working against the reserve and working against getting the prices up there into that higher area.

The CHAIRMAN. Any objection to attaching the gasohol provision?

Any objection to reporting?

Senator DOLE. I do not have any objection. I understood that Senator Boren wanted to raise a question about wheat, the same provision.

The CHAIRMAN. Senator Boren is recognized.

Senator BOREN. I would like to offer an amendment as soon as I can get the bill in front of me.

I would offer an amendment to the bill to also include wheat, on that 1979-80 wheat immediately going into the farmer-held reserve, so that it would receive a loan rate \$3.50; and that for those who did not participate in 1979 wheat, a \$2.50, rate would be set leaving the requirements that have been indicated. I do not have the amendment drafted, Mr. Chairman.

The CHAIRMAN. What about that, Howard?

Mr. HJORT. I think we would have difficulty with that provision on two grounds: One is that the present proposed amendment for corn simply deals with 1979 crop corn, and it permits them to place it directly in the reserve at the loan rate that is out there, the \$2.10, so on and so on.

Now, even if the amendment were changed to only 1979 crop wheat, and at the \$2.50 loan, there still is the question there that since we have already made the commitment to buy the wheat that would have been shipped to the Soviet Union, we do not have the same kind of case for doing so. And we do then run the risk of having a net increase in outlays. And one of the things we are trying to avoid here is not have an outlay impact that is above what we are already committed to.

Senator STONE. Are you buying wheat now?

Mr. HJORT. We are starting tomorrow to buy. Tomorrow the first offer to buy wheat goes out.

The CHAIRMAN. At the market price?

Mr. HJORT. Yes, sir.

Senator STONE. I think wheat went up a dime yesterday.

Mr. HJORT. Yes, it did.

Senator DOLE. They will almost break even now.

The CHAIRMAN. Are you telling the committee that Senator Boren's amendment is not agreed to or would not be acceptable to the Department or the White House?

Mr. HJORT. I believe that we would have serious problems with it.

The CHAIRMAN. Senator Boren.

Senator BOREN. Mr. Chairman, I would be willing to modify it for those who did not participate to set it at \$2.50, and to make it for 1979 only and not for 1980. But for those who did participate and would put it immediately in the reserve, I would like to keep the level at \$3.50 for both the 1979 and 1980 crops. For those who put it immediately in the farmer-owned reserve, the loan rate would be \$3.50. By changing the first part of what I said I do not think there is too much wheat affected. There should not be too much liability in terms of the costs.

I guess it still would not be acceptable to the administration but perhaps it would be a little less unacceptable.

Mr. HJORT. At the present time with the overall review of every program and outlay in all respects and all regards, anything that would increase the loan price and, therefore, add to the outlay, I just cannot be in favor of at the present time.

Senator DOLE. I wonder—we do not want to end up killing the corn portion of it. We do not have much corn in Kansas, but since it would probably have that impact, maybe we ought to withhold that amendment. I will vote for it, but I do not want to kill what

might help Nebraska and Iowa and other States. As I understand, you could not support the bill if that were added?

Mr. HJORT. I could not, no.

Senator DOLE. Because of the outlay?

Mr. HJORT. Right, plus the principal of the loan.

Senator STONE. Even on an optional basis? With authority and discretion within the Department?

The CHAIRMAN. Senator Jepsen.

Senator JEPSEN. I think, with all due respect, Mr. Hjort, that you gave some of the committee the idea of what they were voting for by saying, "What you are voting for here", and then you proceeded to outlined the program. That is not what we are voting for. When we get into the mechanics and the formula and price—we are setting as opposed to just opening this up, so lets just give him the authority to do the things that hopefully he will see his way clear to do. If we start setting prices and putting formulas in here, then we are going to start with cotton, beans, corn, cotton and it can go on forever. You do not have authority to move to do anything to alleviate what is the crisis in the Midwest especially with regard to foreign markets, and maybe in other places too. You do not have authority to do anything now if you wanted to.

Mr. HJORT. Well, we can purchase, but we do believe that it makes more sense to encourage the farmers to put this in the reserve.

Senator JEPSEN. You do not have the authority to change the 1979 program?

Mr. HJORT. That is right.

Senator JEPSEN. That is what we are giving you here.

The CHAIRMAN. Let us see where we are, gentlemen. We are trying to do something that we thought would fly.

Senator BOREN, do you want to pursue yours further?

Senator BOREN. Mr. Chairman, I have to say it is difficult for me to support this without some favorable treatment for wheat as well. We had 60-percent or 70-percent participation in Oklahoma. It is a little different situation than Iowa. I would still like to offer an amendment to add after "corn crop" the words "and wheat." Section 105(b), in the A section, and add "provided that the 1979 and 1980 wheat crops will immediately enter the farmer-owned reserve" and at a loan not over \$3.50.

Senator STONE. Would the Senator yield?

If the Senator would offer his amendment on a completely discretionary basis without setting the terms as you did in your proviso, then I think you have a chance to pass it. Then you can start arguing with the administration to implement it. This is only an authorizing discretionary piece of legislation. If you will do just "and wheat", then it is up to them. If they do not want to, they will not, but if we can talk them into doing it, then they will. That is a much better way to do it.

The CHAIRMAN. Is that agreeable, Mr. Hjort?

Mr. HJORT. If there are no changes in loan rates, terms and conditions and so on. Those matters are still pending before the committee. There are a lot of bills that change loan rates. If this measure did not do that, and if we had the understanding that the Secretary would not be likely to use that authority for wheat to

any significant degree. Let me give you an illustration. We made the commitment to purchase 4 million tons of wheat. There is a little more than that under these contracts. That little bit, it may be well to encourage producers to place it in reserve. If it is understood that we would use that authority very sparingly.

Senator STONE. Mr. Chairman.

The CHAIRMAN. Senator Stone.

Senator STONE. In other words, what we are asking for here is the same kind of equal discretion and authority for the Secretary that we have for corn, and it is up to the Secretary to decide on the conditions. Right now you are telling us frankly that those are not the conditions. Maybe the conditions would change and vary.

The CHAIRMAN. Senator Boren, is that agreeable?

Senator STONE. Put in "and wheat", and then we will have to argue with them that the conditions ought to favor them using that discretion.

The CHAIRMAN. Any objection to the Boren amendment, to add the word "wheat" wherever corn is stated in the resolution?

Without objection, it is agreed to.

Any objection to adding the gasohol provision, as suggested by Mr. Hjort?

Without objection, it is agreed to.

Any objection to reporting the bill as modified?

Without objection, it is agreed to.

Thank you very much, gentlemen.

Senator BOSCHWITZ.

Senator BOSCHWITZ. I just want to know what is the difference between what we have just done. I have no objection to it. What I suggested in the bill that I proposed here a few days ago, to that bill, the Secretary of Agriculture said, "it does not make any sense economically and politically if you go back and amend last year's program." That is a direct quote.

Senator DOLE. That is a mistake. [Laughter.]

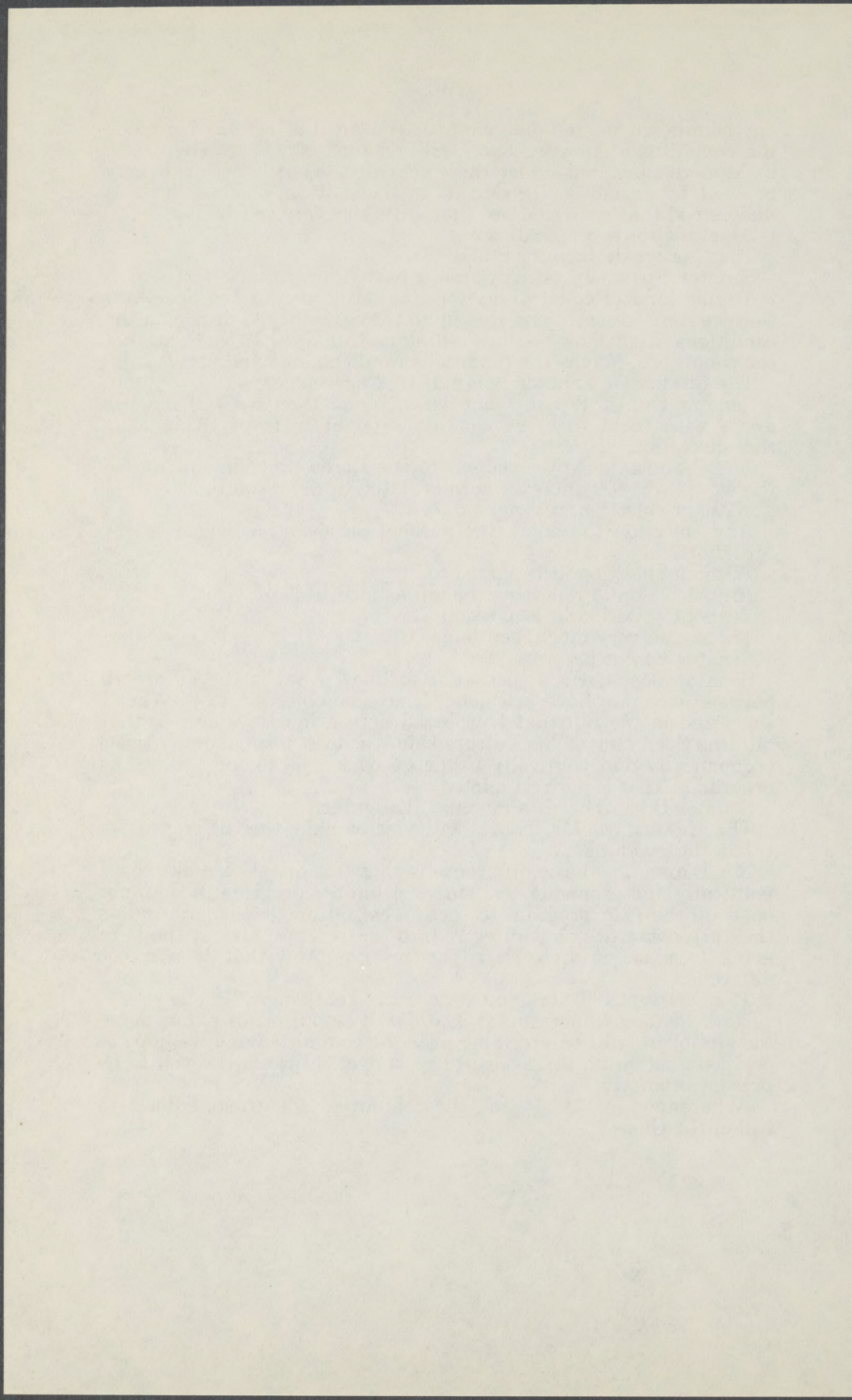
The CHAIRMAN. Mr. Hjort, will you explain the difference between the two bills?

Mr. HJORT. The basic difference is that this one does make sense politically and economically. This is a limited program. It does not open up the loan program to those who did not participate unless they are going to put it directly into the reserve—unless they are going to place it directly in the reserve. And that is a major difference.

The CHAIRMAN. Thank you very much, gentlemen.

Now, tomorrow morning at 9:30, I will be out of town, but Senator McGovern will be presiding over the committee and we hope to complete action on the agricultural budget. I urge all of you to be present promptly.

[Whereupon, at 11:30 a.m., the committee adjourned, subject to call of the Chair.]



APPENDIX

STATEMENT OF HON. J. JAMES EXON, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman and members of the Senate Agriculture Committee. Today, you begin several days of hearings on legislation which will have one of the greatest impacts on our food plant in recent times. No greater charge can a committee of the Congress have at this time than to act, favorably and expeditiously, on bills introduced and designed to assist our ailing agricultural industry which has resulted from the grain embargo to the Soviet Union. Mr. Chairman, I do not appear here today to take issue with the President's decision on January 4 in which 17 million metric tons of wheat and corn destined for the USSR was halted in response to that nation's aggressive invasion of Afghanistan. I do not believe that it serves any purpose in solving that problem which has been put before us as a result of this embargo by unleashing a full scale attack on the merits and eventual impact on our own farm economy and that of the Soviet Union. Mr. Chairman, we must work out the difficulties agriculture finds itself in together in an atmosphere of calm and deliberate action, and I as a Member of the United States Senate from one of this Nation's great agricultural States have confidence in the membership of this distinguished committee that the final actions will indeed by those resulting from this deliberative effort to move forward to aid our farmers during their time of need.

Mr. Chairman, I am fully aware of the many proposals which this body will be considering in the days ahead. I am hopeful that this committee will report legislation, whether it be in the form of one bill or a series of bills, which go to the very heart of the problems which exist today at the farm gate. As some of you may be aware, during a recent meeting with Secretary of Agriculture Bergland. The Secretary and I discussed various actions which have been taken and need to be taken both by the Congress and the administration in order that the promise to the American farmer be fulfilled. I am sure you all know what that promise is: That these food producers not bear the full brunt of the recent embargo action taken by the administration. We, as their elected representatives, must move to improve the serious conditions which exist in the agriculture community and the President and his administration must move as well in those areas which they currently have the authority to do so.

Mr. Chairman, Secretary Bergland and I came to an agreement on two legislative remedies which need to be taken in order for the Department of Agriculture to take additional steps. My bill, S. 2264, currently before this committee addresses these two legislative remedies for which the Secretary indicated his support. One of the provisions of S. 2264 will increase the debt ceiling for storage facility loans from the current \$50,000 to \$100,000. I am aware that this provision also exists in the chairman's bill, S. 2258, and has been endorsed by the administration.

Another provision of my bill is one which I believe to be a unique approach to a serious cash flow problem currently facing our farmers. S. 2264 would increase the 1979 loan rates for corn and wheat in the producer storage program at \$2.50 and \$3.50 respectively. This increase of 40 cents per bushel for corn and \$1 for wheat will make an immediate impact by funneling needed dollars into the farm economy as our farmers prepare for their busiest season. Mr. Chairman, This provision of the bill was discussed extensively by Secretary Bergland and I during our meeting. The Secretary indicated at that time he was supportive of this concept, and he would seek additional administration support. He has since reiterated his support in a recent press conference. I would urge the distinguished committee to examine closely S. 2264 and report its contents to the full Senate. I am convinced Mr. Chairman, that this bill, quite possibly in conjunction with other proposed measures pending before this committee will improve the current economic status at the farm gate.

Mr. Chairman, I cannot allow this opportunity to appear before the Senate Agriculture Committee to pass without touching on two other areas I believe to be of the utmost importance to the agriculture industry. The first deals with a diver-

sion and/or set-aside program for 1980. As you recall, last year I sponsored a resolution calling on the secretary of agriculture to establish a set-aside program for the 1980 wheat crop and with the help of this committee it was reported and favorably adopted by the Senate. Now, Mr. Chairman, the Secretary is actively considering a diversion program for 1980. This was indicated to me by Mr. Howard Hjort of the Department of Agriculture just last week. This decision which must be announced soon by the Secretary is one of the most important decisions this administration will make to fulfill their commitment to our farmers. Should the Secretary decide not to establish a diversion or set-aside program for the upcoming crop-year, I would urge this committee to mandate this program through legislation. I must emphasize too, that a set-aside for the 1980 corn crop is still possible if this Congress acts on such a legislative proposal. To demonstrate this critical need, I will use my state of Nebraska as an example. During 1979, we produced 10 percent of the Nation's corn, some 770 million bushels. This crop was one of the largest ever recorded in our State's history. Gentlemen, this crop was produced under a set-aside program which had poor national participation. We cannot afford another year of this grain lest we face another year of this tremendous production without suffering even worse financial crises at the farm gate.

One final area I hope the committee will address is the gasohol program. I have looked with interest at the Chairman's proposal to allow the sale of corn in the reserve when the price reaches 115 percent of the loan rate. I believe this step coupled with the other legislative efforts will increase the interest and availability of dollars for the production of ethanol. This product is certainly one which will become more and more significant a part of our solution to the overall energy program in the days ahead. I would urge this committee to explore additional loan monies through the auspices of USDA to assist those who have interest in constructing small and medium size plants. Not only would this have a significant impact on our use of petroleum products, it would also reduce present grain stocks thus improving market prices.

Mr. Chairman, I appreciate your committee's courtesy which has been extended to me this morning. I would urge your expeditious consideration of S. 2264 as well as other legislation which seeks to assist our food plant. I only hope the administration will continue to make necessary program changes to uphold its pledge to America's farmers in order to protect this vital industry for the future benefit of our Nation.

STATEMENT OF HON. GEORGE MCGOVERN, A U.S. SENATOR FROM SOUTH DAKOTA

Mr. Chairman, let me thank you for your willingness and foresight in holding these hearings on legislation designed to ease the effect of the Russian Grain Embargo on farmers.

Few of us question the devastating effect the embargo has had on the agricultural community. Many of us have questioned the wisdom of the embargo and as the days go by we see and read articles which raise additional questions in our minds with respect to its effectiveness.

As one response, I have offered S. 2277 to raise loan rates substantially and to amend Section 1002 of the 1977 farm bill to include a 90 percent of parity loan provision in the event of any future embargo for any executive reason.

History has never treated embargoes well. Presidential embargoes have been invoked four times in less than a decade. Each embargo has resulted in depressed farm prices.

Farmers in 1980 are caught in the tightest cost-price bind in my memory. Fertilizer costs are up 43 percent, fuel costs have doubled, interest rates are up 5 points, farm machinery has increased by 20 percent and grain prices remain relatively the same. The farmer is the largest single component of our economy, yet he is the one fabricator who is unable to pass on his increased production costs in the product he markets.

Mr. Chairman, because time is an element in these hearings, I want to make this statement as short as possible. For the permanent record of these hearings, however, I ask that my most recent newsletter, entitled "The Russian Grain Embargo: A Considered Response," and an article in *Business Week* magazine for the week of March 3, 1980, be printed in the record at the conclusion of my remarks.

[Reprint From Business Week, March 3, 1980]

THE GRAIN EMBARGO SENDS RUSSIA SHOPPING

The Carter Administration's embargo on grain shipments to the Soviet Union is in danger of falling far short of its avowed goal. The embargo will force the Soviets to forestall some livestock development and to pay a stiff premium for grain they obtain elsewhere. But the Agriculture Dept. predicts that the Soviets will be able to buy as much as 80 percent of the 34 million metric tons that they had been expected to import in this crop year. "The embargo has failed as an economic weapon," says consultant John A. Schnittker, a former Under Secretary of Agriculture. "Its principal effect has been to create a confused market situation and somewhat higher [federal] budget expenditures."

Of course, it is too early to judge the full impact of the U.S. embargo. Western officials in Moscow note that the Soviets still are receiving grain from previous contracts. It will also take time for any shortage the Soviets feel to show up in the meat supply. Even those officials estimate that the Soviets will be able to make up for significant amounts of the 17 million metric tons of grain embargoed by President Carter.

SOVIET LIVESTOCK PRODUCTION MAY DROP ONLY FOUR PERCENT IN THE FIRST YEAR OF THE EMBARGO

U.S. officials note that the Soviet Union's grain imports this crop year already total about 17 million metric tons. Grain traders estimate that an additional 5 million tons of American grain could slip through the embargo. Much of the remainder could come from Argentina, which will begin exporting its current grain crop in a few weeks.

While the Argentine harvest will be significantly smaller this season because of a drought, the Soviets probably can count on at least 4.5 million metric tons of corn and another 1.5 million tons of sorghum, says one Agriculture Dept. official.

Soviet buyers are expected to find additional quantities of grain and soybeans in a variety of places. Grain could come from South Africa, India, and Thailand. Brazilian trading firms reportedly have committed themselves to selling the Russians a minimum of 600,000 metric tons of soybeans and 300,000 metric tons of soybean meal, which could be used to supplement grain in animal feed.

Shipments

Some further grain might slip through the American embargo through deals made by European merchants. A group of Italian brokers who operate an international market in grain similar to the spot oil market already has diverted to the Soviets an estimated 1 million metric tons of Argentine maize that had been destined for a West European buyer. Says one European diplomat. "Dealers will do anything—particularly the little ones."

But to get significant quantities of grain from those countries, the Soviets have to pay an enormous premium. Argentine corn that has yet to come on the export market is being traded for prices as high as \$150 a ton, compared to about \$120 a ton in U.S. ports. Those prices have displaced Argentina's traditional customers, including Spain and Italy, which are now likely to buy more grain from the United States.

Senior Agriculture officials acknowledge that the embargo is not going as smoothly as the Administration had hoped. Talking with reporters Feb. 14, Agriculture Secretary Bob Bergland said that the U.S. government is conducting a so-called "sting operation"—similar to that used by the Federal Bureau of Investigation—to try to catch grain merchants who violate the U.S. embargo. Bergland declined to give any details of that effort but added: "We have had to take these unusual actions to prevent leakage. Otherwise, the whole thing would collapse." Department officials later downplayed the idea of a "sting" but said that Agriculture is monitoring the situation closely.

Whether the embargo succeeds in seriously hurting the Soviets is more likely to depend on the coming season's growing conditions than any such policing of international markets. Thomas R. Saylor, associate administrator of the Foreign Agricultural Service, expects the embargo will result in a cut of about 4 percent in Soviet livestock production by this fall. But if the Soviets' next crop harvest is as poor as last fall's, he adds, "the impact [in the 1980-81 crop year] would be more pervasive."

THE RUSSIAN GRAIN EMBARGO: A CONSIDERED RESPONSE

The President of the United States has announced the Russian Grain Embargo of 1980, the fourth time in the last decade that this government has ordered embargoes or suspended sales to overseas grain customers. Statutory authority for the imposition of a grain embargo exists under the provisions of the Export Administration Act and can be for: (a) National security; (b) To further foreign policy goals; (c) Because domestic stocks are in short supply.

President Carter on January 4, 1980 announced this embargo under the first two provisions of the Act. Under a 1975 five-year agreement the Russians committed themselves to buy up to 8 million metric tons of wheat and feed grains annually. In 1979-80, it was estimated that Russian domestic import requirements from the U.S. would be 25 million metric tons. The embargo left 17 million metric tons, 4 million of wheat and 13 million of corn to overhang the market.

Farmers are as patriotic as any other group of Americans. They have shared the country's sacrifices in war and in peace. Perhaps in depressions like the 1930's their sacrifices are in a greater proportion to those of other Americans. Since 75 percent of all our trade with the Soviets is in grain and since the farm population of the country hovers at about 3 percent, I think that the question of asking 3 percent of the people to carry 75 percent of the country's response to the U.S.S.R. is one that is open to honest debate.

Because of my long standing service on the Senate Agriculture Committee, Senator Adlai Stevenson (D-Ill.) asked me to testify before his Subcommittee on Internal Finance, the Committee holding legislative authority over the Export Administration Act. I was to speak for the Senate Agriculture Committee in assessing the effects of the embargo and to recommend responses that I considered necessary to make farmers whole. I want to share the substance of that testimony with you.

The embargo was ordered by the President to punish the Soviets for an act of international banditry in the invasion of Afghanistan—a step that I deplore and feel should not be ignored. We must, however, hold the Administration to its pledge to take action so that farmers, already at the foot of the national economic ladder, will not suffer through a long siege of depressed markets.

On the wisdom of the embargo, I made the following points: History has treated embargoes poorly in terms of economic effect on the Agricultural Community. Is the blow we are attempting to inflict on the enemy equal to or greater than the one we are asking our own country to absorb? Will the U.S. lose Reliable Supplies Status standing with our remaining international customers?

In the light of these questions, I want to look at what the Administration has done to respond to this agricultural crisis and then let me set forth the recommendations I am making. We should all remember that the U.S. Department of Agriculture has already forecast at its Outlook Conference that there exists the grave possibility that net farm income for 1980 can fall from 32 billion dollars in 1979 to the 26 million dollar range in 1980—a possible 20 percent drop.

The Administration and the Secretary of Agriculture has announced that: It will bail out grain traders who had signed contracts with the Soviets at an initial taxpayer cost of possibly 2.5 billion. Raised the loan rate on wheat by 15 cents and on corn by 10 cents. Adjusted release prices of the farmer held reserve. Increased storage payments by 1½ cents a bushel. Hinted at a paid diversion program for corn only. Indicated that it would finance expanded programs in gasohol and Food for Peace.

It seems to me that this outline is tilted toward the grain trader with minimal response to the producer.

I have three bills in final drafting stages. The first bill, "The Emergency Farm Bill of 1980" is a farm program bill. It will: Increase price support loans on wheat to \$3.90 and on corn to \$2.50—a rough equivalent of pre-embargo market prices. Prohibit CCC resale of stocks at less than 10 percent above call level or 20 percent above loan level whichever is higher. Mandates a Paid Diversion program for both wheat and feed grains. Waives interest for first year on 1979 crop on wheat and corn going into the reserve. Amends Export Administration Act to require Congressional approval for any embargo. Provides safeguards to assure that embargoed grain cannot be shipped to Russia through third world countries or trading firms.

The second bill is to take the 4 million metric tons overflow of wheat to form an international Emergency Reserve for catastrophic donation to world famines and emergencies. It is a "one time only" bill and will allow the "trickle down" of this wheat but does not allow for replenishment. The reserve would be completely insulated from the market.

The third bill amends the Food and Agriculture Act of 1977 to expand the Storage Facility Loan provision administered by the ASCS to include small, on the farm alcohol plants, as well as storage facilities. It increases the limits from \$50,000 to \$100,000 and sets interest rates at 8 percent. Experts say that passage of this legislation could put in place small alcohol plants serving single farmers or groups of farmers within 90 days after enactment.

These are some of the steps I feel necessary to bring the producer back to pre-embargo parity. As other options emerge, I will evaluate them quickly and move administratively or legislatively as the situation demands.

I will support the President's decision but reserve the right to question its wisdom. My primary concern will be to protect the economic position of the farmer-producer.

STATEMENT OF HON. ALBERT H. QUIE, GOVERNOR, STATE OF MINNESOTA

"Mr. Chairman and members of the committee: I appreciate the opportunity to appear before you in support of the National Governors' Association's efforts to obtain relief for our farm producers and agri-business firms as a consequence of the grain embargo to the Soviet Union. I have a brief statement plus additional background information prepared by the Minnesota Department of Agriculture and the University of Minnesota which I would like to submit for the record.

Mr. Chairman, the United States generally and the Minnesota region in particular, is the residual supplier of the world's food needs. We are undoubtedly the low-cost supplier of wheat and feed grain products on the international market and the only single country capable of accommodating the Soviet's major import needs. Based on the agreement we signed with the Soviet Union in 1975, and again last October, our producers and agri-business firms were prepared to meet these needs and were laying plans to expand export facilities.

The embargo has placed these expectations and plans in disarray. Because of our location relative to major port facilities and the dynamics of the market, the Minnesota region, more than any other area of the country, is on the "end of the whip." We are the last to obtain the benefits of a strong export market and the first to receive the shock effects of actions like the embargo to the Soviet Union.

This "whip" effect can be dramatically seen in the attached graph of grain shipments out of our Minneapolis-St. Paul and Duluth-Superior terminal facilities. The influence of Soviet grain sales on the Minnesota economy is clear in 1973 and again for the past 2 years. Over 17.5 million metric tons were moved out of these Minnesota facilities.

While we fully support all of the President's actions to stem the Soviet Union's aggression in Afghanistan, the consequences of the grain embargo are severe for our Minnesota producers and supporting businesses. For the near term, we in Minnesota see depressed crop prices, a cash flow shortage, acute credit needs, depressed sales of farm equipment and other input supplies and increased storage needs. In my recent letter to President Carter, I outlined several specific measures, in addition to suggestions made by the National Governors' Association, that would help relieve these impacts. These measures include:

1. Extension of emergency credit to all grain farmers impacted by the embargo (only 22 percent of our corn farmers and 42 percent of our wheat farmers currently qualify for commodity loans).

2. Reduce the rate of interest in farm storage facility loans from the current rate of 11 percent to last year's rate of 7 percent,

3. Increase the release and call level prices,

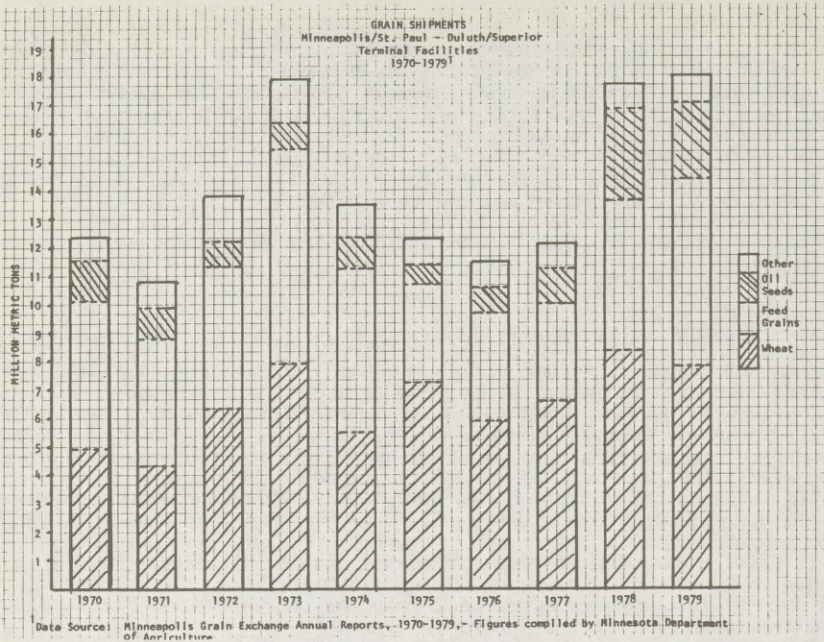
4. Increase loan levels to allow for increased costs of production, and

5. Aggressively pursue alternative markets.

The longer term consequences may be even more severe. It is unlikely the Soviet Union will let itself become so dependent upon the United States.

Without additional actions on the Federal level, confidence in the United States as a food supplier in the international community generally is likely to wane, and our farm product and land prices will be depressed under what they would be otherwise. More far-reaching effects to the American economy in terms of higher cost domestic farm policies. Further serious erosion of our balance of payments and the deterioration of the soundness of the dollar in international monetary markets are quite possible.

Mr. Chairman, this completes my prepared statement. We in Minnesota stand ready to assist the committee in formulating policies and programs to deliver us out of the current situation. I would be happy to answer any questions you may have.



STATE OF MINNESOTA,
OFFICE OF THE GOVERNOR,
Saint Paul, January 18, 1980.

Hon. JIMMY CARTER,
President of the United States,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: The impact of the grain embargo could have disastrous effects on our state and region without further actions on your part.

According to the latest USDA reports, only 22 percent of our corn farmers and 42 percent of our wheat farmers are eligible for existing federal loan and grain reserve programs. If, for the lack of emergency credit, corn and wheat farms are forced to sell these commodities on depressed markets in order to meet overdue bills, the economic damage will surge through our total economy. Farm level prices, even after recovery from the initial drop, are as much as 40 cents per bushel lower than before the embargo.

Mr. President, we feel several measures are essential. These include:

1. Extension of emergency credit to all grain farmers impacted by the embargo.
2. That the rate of interest on farm storage facility loans be reduced from the current rate of 11 percent to the previous rate of 7 percent. Currently, Minnesota holds nearly 22 percent of all grain under loans and reserve, second only to Nebraska, and construction of additional storage is essential.
3. That the trigger price and call level prices be increased to prevent price depression when this grain re-enters the market to compete with farmer held stocks.
4. That loan and target price levels be increased to allow for dramatically increased cost of production experienced by farmers.
5. Continue to see that alternative markets be aggressively pursued to minimize the amount of surplus held in storage.

Mr. President, all we ask is that you find an innovative, fair, and adequate way to meet the acute operating credit and debt service needs of all domestic agriculture and to restore stability to farm commodity prices in this period of emergency both for national and family farm security. The credibility of future farm programs and the fate of domestic agriculture is in your hands.

Sincerely,

ALBERT H. QUIE, Governor.

NEWS RELEASE FROM GOV. AL QUIE

Governor Al Quie today announced that he has requested that President Carter quickly take several actions to reduce the potential damage from the President's grain embargo on grain sales to the Soviet Union.

"The impact of the grain embargo could have disastrous effects on our state and region without further actions on your part," Quie told the President in a telegram.

Only 22 percent of Minnesota corn farmers and 42 percent of Minnesota's wheat farmers are eligible for existing federal loan and grain reserve programs, according to what Quie has learned from the latest United States Department of Agriculture reports.

"If, for the lack of emergency credit, corn and wheat farms are forced to sell these commodities on depressed markets in order to meet overdue bills, the economic damage will surge through our total economy. Farm level prices, even after recovery from the initial drop, are as much as \$.40 per bushel lower than before the embargo," Quie said.

The measures Quie called for include:

Extension of emergency credit to all grain farmers affected by the embargo.

Reducing the rate of interest on farm storage facility loans from the current 11 percent to the previous 7 percent rate. (Currently, Minnesota holds nearly 22 percent of all grain under loans and reserve, second only to Nebraska, and construction of additional storage is essential.)

Increasing trigger price and call level prices to prevent price depression when this grain reenters the market to compete with farmer-held stocks.

Increasing loan and target price levels to allow for dramatically increased cost of production experienced by farmers.

Pursuing aggressively alternative markets to minimize the amount of surplus held in storage.

"All we ask is that you find an innovative, fair and adequate way to meet the acute operating credit and debt service needs of all domestic prices in this period of emergency both for national and family farm security. The credibility of future farm programs and the fate of domestic agriculture are in your hands," Quie said.

[Reprint from Extension Miscellaneous Publication 103—1980, Agricultural Extension Service, University of Minnesota]

THE PARTIAL SUSPENSION OF GRAIN SALES TO THE U.S.S.R. AN INTERIM ANALYSIS

(By Willis Anthony, Willard Cochrane, Martin Christiansen, Reynold Dahl, Mary Ryan, and G. Edward Schuh*)

On Friday evening, January 4, 1980, President Carter announced on national television the suspension of sales to the U.S.S.R. of all agricultural products above levels permitted in the 5-year grain agreement signed in 1975. This sales interruption (a partial embargo) responded to the Soviet invasion of Afghanistan and, together with previous U.S. measures against Iran in response to the holding of American hostages, was the second economic retaliation taken by the U.S. in recent months.

This partial suspension of sales caught U.S. agriculture, and probably the world, by surprise. Uncertainty about possible effects on markets was so great that the U.S. government closed commodity futures markets on January 7 and 8 (Monday and Tuesday). When grain exchanges reopened on Wednesday, January 9, prices immediately plunged to permissible limits, and remained there all day. A further drop occurred on Thursday, January 10, but toward the end of the day most contracts had backed off these limit lows to permit some trading. By early February (when this report is being printed) the markets have recovered most of the initial losses and grain is trading close to prices which prevailed at the time sales were suspended.

This report offers an interim analysis of the suspension of sales, focusing on expected effects on U.S. agriculture, yet going beyond those narrow confines to consider the impact on: U.S. food prices and inflation, the balance of payments, and the Soviet economy.

Historic events such as this do not take place in a vacuum. Other developments, both expected and unexpected, may well swamp the effects of this particular policy measure. Much of what happens will depend on how grain buyers and sellers,

* Authors are members of the Department of Agricultural and Applied Economics, University of Minnesota: Willis Anthony, Martin Christiansen, Reynold Dahl are extension specialists, Agricultural Extension Service, and professors; Willard Cochrane is a professor, Mary Ryan is an associate professor, and G. Edward Schuh is a professor and department head.

governments and others respond to this unusual event—responses currently clouded with a great deal of uncertainty.

Because of the difficulties of foreseeing the immediate future, particularly the uncertainty of government actions in the U.S. and other countries, this is not an attempt to predict the outcome. Rather, this report attempts to provide a factual background of events to date and to consider possibilities of what might happen—to give a better understanding of the economic and political forces at work and of eventual impacts.

This report has three parts. The first two are background sections. The provisions of the announced sales suspension are reviewed and then data are given on the world demand and supply situation, on the current trade outlook, and on grain stocks. These two sections precede an analysis of expected effects of the sales suspension, giving emphasis to the effect on the Soviet Union, and both short and long-run effects on the U.S. economy.

PROVISIONS OF THE SALES SUSPENSION

The President suspended all grain shipments to the U.S.S.R. in excess of eight million metric tons.¹ It is important to note that he invoked this suspension for reasons of national security and foreign policy, not for reasons of inadequate domestic supplies as happened with temporary embargoes in the 1970's. It is also important that the 1980 suspension applied to additional agricultural products, including a reported sale of 60,000 tons of poultry to the U.S.S.R. However, since the major impact on the U.S. economy will be through the grain economy, this report focuses on grain and treats other sectors peripherally.

The amount of grain and product shipments suspended for which contracts had been signed amounted to about: 11-12 million tons of corn; 3-4 million tons of wheat; 800,000 tons of soybeans; 400,000 tons of soybean meal; and 30,000 tons of soybean oil.

Some additional grain not contracted for was suspended to bring the total to 17 million tons. This meant that permission for the U.S.S.R. to purchase 25 million tons was cancelled, and authorization reverted to the level of 8 million tons allowed under terms of the 5-year U.S.-U.S.S.R. grain agreement signed in October 1975.²

At the time of the sales suspension some 2.8 million tons of the 8 million remained to be shipped under terms of the 1975 agreement. The U.S. Department of Commerce will allocate these sales among exporting firms under an export licensing program. As this report is in process, however, longshoremen have refused to load this grain and any other goods destined for the U.S.S.R.

The U.S. government has announced a number of steps to alleviate the impact of this sales suspension. These include assumption of contract obligations of grain companies and steps for removing surplus grain from the market. Plans for surplus removal are to purchase grain, to enlarge the farmer-owned grain reserve, to expand the Food for Peace program and establish food security reserves, to increase promotion of foreign sales, and to stimulate gasoline production.

Details of how the U.S. Department of Agriculture will assume exporting companies' contract obligations are still being worked out. Some of the problems are: (1) Whether to take delivery or resell the contracts; (2) how to back off the provisions of the contracts to the actual grain storage point; (3) how to avoid picking up exporters' profits that may be involved in the contracts; and (4) what are the impacts on market prices of all this. Most of the concern is over corn because it accounts for a large proportion of the suspended sales.

The Commodity Credit Corporation (CCC) has been ordered to purchase corn that is clogging the grain pipeline (transportation and storage system) because of the shipping boycott by the International Longshoremen's Association. Presumably this grain will be moved into storage facilities rented by the government.

The farmer-owned grain reserve has been changed to encourage movement of feed grains into the reserve in an attempt to further offset the loss of sales and, in effect, to isolate this grain from the market. The USDA has waived the first year interest charge to farmers on the next 13 million tons of corn to enter the reserve (succeeding year interest charges were waived earlier). Annual storage payments were

¹ All reference to tons in this report will be metric tons (1 metric ton = 2,204.6 pounds). In addition, some total grain data consider soybeans a grain while others do not. It is usually clear from the context which concept is being used.

² The grain agreement provides that the Soviet Union can purchase between 6 and 8 million tons of grain without seeking permission from U.S. authorities. Under terms of the agreement, it must take a minimum of 6 million tons, equally divided between corn and wheat. On October 3, 1979, U.S. authorities granted permission for the U.S.S.R. to purchase up to 25 million tons of grain during this, the fourth year of the agreement.

raised from 25 cents to 26.5 cents per bushel on all grains except oats. Oats was raised from 19 cents to 20 cents. Loan rates, released and call levels were raised as follows.³

[Price per bushel]					
	Wheat	Corn	Oats	Barley	Sorghum
Loan level:					
New	\$2.50	\$2.10	\$1.08	\$1.71	\$2.00
Old	2.35	2.00	1.03	1.63	1.90
Release level:					
New	3.75	2.63	1.35	2.14	2.50
Old	3.29	2.50	1.29	2.04	2.38
Call level:					
New	4.63	3.05	1.57	2.48	2.90
Old	4.11	2.80	1.44	2.28	2.66

For producers now holding loans under the annual commodity loan programs and/or with grain in the farmer-owned reserve, the additional loan funds will not automatically be sent out, but must be requested.

The amount of grain in the farmer-owned reserves as of January 9, together with the comparable stocks at the end of March 1979, follows:

[In millions of tons]		
	Mar. 31, 1979	Jan. 9, 1980
Corn	18.6	15.3
Barley	.9	.6
Wheat	11.2	6.2
Oats	.6	.4
Sorghum	2.0	1.4
Total	33.3	¹ 23.9

¹ Excludes rice.

As these data suggest, total stocks in the farmer-owned reserve had declined 9.4 million tons as a consequence of the grain releases since summer 1979. Slightly more than half of this was in wheat. This is a net change between these two dates, as grain moved into the reserve during the late months of 1979.

An important aspect of understanding the potential of these incentives to expand the farmer-owned reserve is how much grain is eligible. To be eligible for the farmer-owned reserve, producers must have participated in the 1979 farm program by complying with set-aside provisions and planting within their normal crop acreage. There was a 55 percent participation rate in the 1979 wheat program, which makes an estimated 1 billion bushels or 27 million tons eligible for the reserve. The participation in the corn program was lower, 21 percent, which leaves an estimated 1.7 billion bushels or 43 million tons eligible. Between October 22, 1979, and January 2, 1980, some 1.3 million tons of the 1979 corn crop had entered the reserve. Eligible 1978 crop grains may also enter.

These data suggest that there is sufficient eligibility base to move amounts into the wheat and feed grain reserves so that prices could be held at their early January 1980 levels. Whether adequate amounts of grain actually move into the reserve will depend on the farmers' responses to the new incentives. However, USDA announced in late January 1980 that its telephone survey revealed that farmers intended to place only 300 million bushels (about 7.6 million tons) in the reserve. This has raised the question of whether the reserve will be opened up to farmers who did not participate in the 1979 set-aside program in order to make

³ The new price levels refer to eligible grain or grain already in reserve converted to a new contract. See appendix table 1 for price levels for grain already in the reserve and where producers elect to retain the old contracts.

more grain eligible. This might mean bringing this grain in under a different set of rules, anyway it would require new legislation.

The U.S. government has also said it will use an acreage diversion program if necessary to sustain market prices. Agriculture Secretary Bergland said that decision will be made by March 1, 1980, when more is known about both the existing U.S. crop and crops in other countries, and about U.S. farmers' responses to the grain reserve incentives. The U.S. government at this late date does not have the legal authority to offer a set-aside program for 1980 crops. If it wants to reduce plantings it will have to do it with a paid diversion program.

The Food for Peace program will be increased by 450,000 tons of grain in each of the next two years, it was announced. In addition, Congress will be asked to authorize the stockpiling of 4 million tons of wheat on a "food security reserve".⁴

To help promote the sales of grain to other countries, the U.S. Government has indicated that amendments will be proposed to Congress to expand the federally guaranteed credit program to promote sales in foreign markets, aside from the expanded Food for Peace program. CCC credits for the 1980 fiscal year had been cut to about half the 1979 level, so there are potential sales here—if the proposal to increase the export credit program to a record \$1.8 billion for fiscal year 1980 and to \$2 billion in fiscal year 1981 does not come too late.

Gasohol production is to be expanded. The Deputy Secretary of State announced on a nationally televised news-interview program (January 6—2 days after the President's announcement) that some 5 million tons of grain would be used to produce gasohol in 1980. That statement was in obvious error and was later rescinded. The USDA's Office of Energy estimates the existing U.S. capacity to produce anhydrous ethanol to be 70 million gallons per year. Assuming that 2.5 gallons of alcohol can be produced from a bushel of corn, the absorptive capacity is considerably less than 28 million bushels per year (one million tons).

The White House has, however, announced plans to increase U.S. production capacity to 500 million gallons by 1981 which would use about 5 million tons of grain.⁵ Stuart Eizenstat of the White House's Domestic Council said this amount of ethanol as gasohol would replace nearly 10 percent of the anticipated demand for unleaded fuel in 1981.

Key elements of the alcohol fuel program are:

Permanent exemption for gasohol from the 4 cents per gallon federal gasoline excise tax (present exemption expires at end of 1984).

The establishment of a 40 cents per gallon production tax credit for ethanol producers who use the alcohol directly without blending with gasoline.

A new proposal to provide \$2.5 billion in loan guarantees and \$500 million in direct loans over 10 years for construction of small and medium-scale alcohol plants.

The allocation of up to \$1 billion of federal assistance for the construction of large-scale ethanol plants through the Energy Security Corp., which would be created by a Senate bill now pending in Congress.

Archer-Daniels-Midland Co. (ADM) has announced it will build a new plant for alcohol production at its corn refinery plant at Cedar Rapids, Iowa. This plant, with a daily capacity of 255,000 gallons, is expected to be in production in mid-1981. ADM is negotiating with USDA regarding possible loan guarantees.

CURRENT GRAIN TRADE AND STOCKS SITUATION

A number of factors stand out on the grain trade and stocks situation at the time of the President's action. First, the U.S. was already well on the road to a record-setting year of agricultural exports even without the additional 17 million ton sales authorized in October for the U.S.S.R. Despite the U.S.S.R. sales curtailment the USDA expects total grain exports in 1980 to exceed all past volume and value records.

Second, world supplies of grain are substantially below what they were at this same time in 1979, partly due to the short 1979 Soviet crop but also due to poor growing conditions in India and shortcrops elsewhere. Figure A in the appendix shows the drop in world grain production in 1979 from peak 1978 output. Appendix figures B and C show that wheat and coarse grain production each contributed to

⁴ The Carter Administration has attempted to obtain legislation for this purpose over each of its last two years. Farmer reluctance to see sizable amounts of grain in government hands has made it impossible to enact such legislation. It remains to be seen whether the Administration will be more successful under the present circumstances.

⁵ Telephone surveys taken by the USDA after the partial embargo indicate capacity is likely to be somewhere between 300 and 450 million gallons by the end of 1980. If 300 million gallons were produced from grain it would be the equivalent of about 3 million tons of corn.

the fall. (Corn, barley, oats, sorghum, rye, and mixed grains are considered coarse grains.) Rice production, not shown, also fell.

Because of lower production, world grain stocks will decline during 1980. Total world wheat stocks are expected to decline by almost 20 million tons from the end of the 1978/79 marketing year to the end of the 1979/80 marketing year, and total world coarse grain stocks to rise by two million tons (tables 1 and 2 and figure 1). If the Soviet Union is able to make up its imports from other countries, the stock reduction would be more. (The crop forecasts for 1979/80 assume normal weather. Extremely good or poor conditions would alter year end stock levels.)

Although current grain stocks are above the low 1972-75 levels of the very tight grain markets, a higher level is necessary now to meet pipeline and other working stock (inventory) needs of grain merchandisers, livestock producers, and other grain users. Needed working stock levels go up as consumption goes up. For all grains, about 12 percent of consumption is required for working stocks, which amounts to 170 million tons for 1979/80. If total stocks decline as expected to 207 million tons, 37 million tons would remain in reserve for 1980 harvest. Another poor crop would strain world grain markets.

TABLE 1.—WORLD WHEAT AND WHEAT FLOUR DATA, AVERAGE OF 1976-77 AND 1977-78, 1978-79, AND FORECAST FOR 1979-80, JULY-JUNE YEARS

[In millions of tons]

Country	Average 1976-77 to 1977-78	1978-79	1979-80 ¹
World production.....	398.3	438.9	405.0
United States.....	56.7	49.0	58.3
Canada.....	21.7	21.2	17.7
West Europe.....	49.2	58.6	55.1
U.S.S.R.....	94.5	120.8	86.0
India.....	30.0	31.7	35.0
Others.....	146.2	157.6	152.9
World exports.....	68.1	71.3	78.4
United States.....	28.5	32.4	36.1
Canada.....	14.5	13.5	13.8
Australia.....	9.8	6.7	13.0
Argentina.....	4.1	3.3	3.9
West Europe.....	7.1	9.6	9.3
Others.....	4.1	5.9	2.4
World imports.....	68.1	71.3	78.4
West Europe.....	6.6	6.6	6.7
Japan.....	5.7	5.7	5.5
Eastern Europe.....	5.6	3.9	6.1
U.S.S.R.....	5.8	5.1	9.8
People's Republic of China.....	5.8	7.8	7.5
Others.....	38.6	42.1	42.9
World stocks (ending).....	89.6	105.0	86.8
United States.....	31.2	25.2	25.9
Others.....	58.4	79.8	60.9
Stocks as a percentage of use.....	23	25	21

¹ Jan. 17, 1980 forecasts.

Source: Foreign Agricultural Service, USDA.

UNITED STATES-SOVIET UNION GRAIN RELATIONSHIPS

Both the United States and the Soviet Union are major grain producing nations. The U.S. leads the world in coarse grain production and the U.S.S.R. leads in wheat production. But, as trading nations they are opposites. The U.S. dominates world

exports while the U.S.S.R. is one of the largest importers. Of total world exports, approximately 40 percent of the wheat and close to two-thirds of the coarse grains originate in the United States (tables 1 and 2). No other nation has the agricultural capacity to replace the U.S. in world grain trade, at least in the next few years.

TABLE 2.—WORLD COARSE GRAIN DATA, AVERAGE OF 1976-77 AND 1977-78, 1978-79, AND FORECAST FOR 1979-80, JULY-JUNE YEARS

[In millions of tons]

Country	Average 1976-77 to 1977-78	1978-79	1979-80 ¹
World production ²	684.8	752.5	741.9
United States	198.1	218.0	234.5
West Europe	80.2	94.0	91.0
U.S.S.R.	103.8	105.3	84.0
Brazil	17.1	16.9	18.9
Others	285.6	318.3	313.5
World exports	82.6	89.8	97.2
United States	51.2	57.1	66.6
Argentina	10.0	11.5	9.8
Canada	4.2	3.9	4.6
Others	17.2	17.4	16.2
World imports	82.6	89.8	97.2
West Europe	31.0	23.8	24.2
Japan	16.4	17.9	18.5
East Europe	8.4	9.9	10.8
U.S.S.R.	8.7	9.9	14.9
Others	18.1	28.3	28.8
World stocks (ending)	79.3	94.8	96.7
United States	35.1	46.1	59.9
Others	44.2	48.8	36.8
Stocks as a percentage of use	12	13	13

¹ Jan. 17, 1980 forecasts.

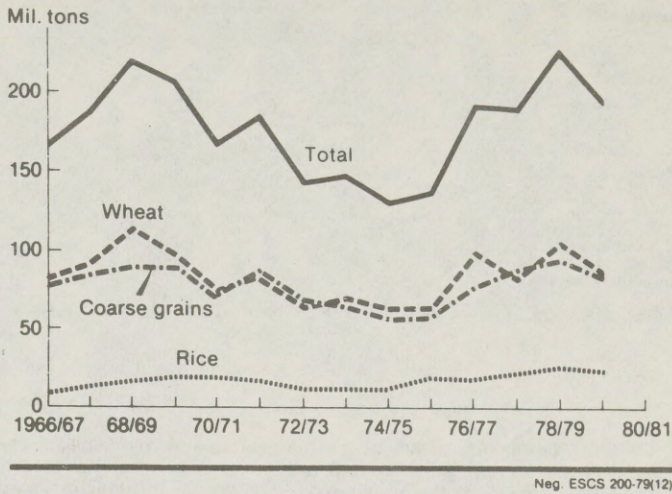
² Coarse grains are corn, barley, oats, sorghum, rye, and mixed grains.

Source: Foreign Agricultural Service, USDA.

In the Soviet Union, grain consumption needs outstripped domestic output during most of the 1970's. As the Soviets expanded their livestock industry they became increasingly dependent on imports. Its import needs vary considerably from year to year because of highly variable domestic production (table 3). Soviet imports ranged from a little more than 1 million tons in 1970/71 to 26.1 million tons in 1975/76 and were forecast by the USDA at 34 million tons for 1979/80 before the U.S. sales suspension.

FIGURE 1

World Grain Carryover Stocks



Source: World Agricultural Situation, USDA January 1980

[In millions of tons]

	Corn		Wheat	
	1977-78	1978-79	1977-78	1978-79
Total U.S. exports	49.1	53.9	33.6	33.0
Exports to U.S.S.R.	10.5	9.8	3.4	3.8

The extreme variability of Soviet imports was one reason the U.S. negotiated the 1975 grain agreement. The goal was to encourage the U.S.S.R. to import even in years of abundant harvest, to assume more of the storage costs themselves and at the same time to add some stability to international markets. The composition and variability of U.S. exports to the U.S.S.R. are evident in figure 2.

Since 1970 the U.S. has supplied about 60 percent of Soviet grain imports. In 1980 the U.S. was expected to supply 26 of the 34 million tons, more than three-fourths of total U.S.S.R. grain imports. From the U.S. perspective, about 20 percent of corn and 10 percent of wheat exports have gone to the U.S.S.R. in recent years. Before the suspension, about 22 percent of wheat and 28 percent of corn export commitments for 1979/80 were to the U.S.S.R. Consistent with Soviet policy to expand livestock production, corn has dominated exports from the U.S. to the U.S.S.R. in recent years.

TABLE 3.—TOTAL U.S.S.R. GRAIN PRODUCTION, USE, AND TRADE, 1970-71 THROUGH 1979-80

[In millions of tons]

Year (July/June)	Production	Trade		Use			Stock change ³
		Imports	Exports	Total ¹	Feed	Other ²	
1970 to 1971	187	1.3	8.5	188	92	95	-8
1971 to 1972	181	8.3	6.9	181	93	88	+2
1972 to 1973	168	22.8	1.8	187	98	89	+2
1973 to 1974	223	11.3	6.1	214	105	108	+14

TABLE 3.—TOTAL U.S.S.R. GRAIN PRODUCTION, USE, AND TRADE, 1970-71 THROUGH 1979-80—
Continued

[In millions of tons]

Year (July/June)	Production	Trade		Use			Stock change ^a
		Imports	Exports	Total ¹	Feed	Other ²	
1974 to 1975.....	196	5.7	5.3	206	107	99	-10
1975 to 1976.....	140	26.1	.7	180	89	90	-14
1976 to 1977.....	224	11.0	3.3	221	112	108	+11
1977 to 1978.....	196	18.9	2.3	227	120	106	-14
1978 to 1979 ⁴	237	15.7	2.8	231	125	106	+19
1979 to 1980 ⁵	179	25.2	.8	222	122	100	-19

¹ Total may not add due to rounding.

² Seed, industrial, food, and dockage—waste.

³ Minus indicates withdrawal from stocks.

⁴ Estimated.

⁵ Forecast. Before the sales suspension, imports were forecast at 34 million tons, feed at 122 million tons, and stock changes at -16 million tons.

Source: USDA, Jan. 15, 1980.

THE U.S. GRAIN SUPPLY

Total U.S. worldwide exports of wheat, coarse grains, and soybeans for the 1979/80 marketing year were expected to be 140 million tons prior to the sales suspension, some 18 million tons over the previous year. Some 38 million tons were to be wheat, 64 million tons corn, and the rest other coarse grains and soybeans. Now, total exports are expected to be 129 million tons, still some 7 million tons above the 1978/79 marketing year. Total exports to the Soviet Union are expected to be 9 million tons, assuming the longshoremen eventually agree to load the ships. Figure 3 illustrates the importance of the major markets for all U.S. agricultural exports.

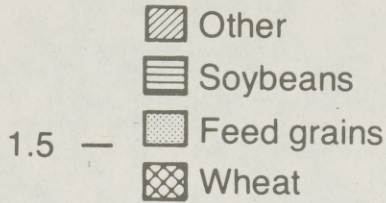
Table 4 indicates the U.S. wheat and corn supply situation for current marketing years. The total supply includes stocks carried over from previous years and current year production. Estimated domestic use indicates U.S. food, feed, and other uses in 1978/79 and expected use at current prices for 1979/80. Government-owned and farmer-owned grain reserve stocks are given because they are released to the market only at predetermined prices. From the beginning of 1979/80 marketing years to January 23, 1980, grain reserve stocks decreased to 225 million bushels for wheat and increased to 615 million bushels for corn. In table 4, the sum of domestic use, CCC and grain reserve stocks is subtracted from total supply to obtain the quantity available for export and carryover. The last line in the table gives exports for 1978/79 and forecasts for 1979/80, made after the sales suspension.

FIGURE 2

U.S. Agricultural Exports to the Soviet Union

\$ bil.

2.0 —



1.5 —

1.0 —

0.5 —

0

1971

73

75

77

79

Year ending September 30. 1978/79 partially estimated.

Source: Agricultural Chart Book, USDA 1979

TABLE 4.—U.S. WHEAT AND CORN SUPPLY, MARKETING YEARS 1978-79 and 1979-80

[In millions of bushels]

	Wheat (June 1-May 30)			Corn (Oct. 1-Sept. 30)		
	1978	1979	1979	1978	1979	1980
Total supply.....		2,976		3,069	8,192	9,051
Estimated domestic use.....	857		700		4,773	4,965
Government owned stocks ¹ (CCC stocks).....	46		50		12	99
Grain reserve stocks ¹	340		380		315	535
Total.....	1,243		1,200		5,100	5,599
Available for export and carryover.....		² (47) 1,733		² (51) 1,869	² (79) 3,092	² (38) 3,452
Exports.....	² (32) 1,194		² (36) 1,326	² (54) 2,133	² (58) 2,275	

¹ Stocks are June 1 for wheat, Oct. 1 for corn.² Data in parentheses are million tons.

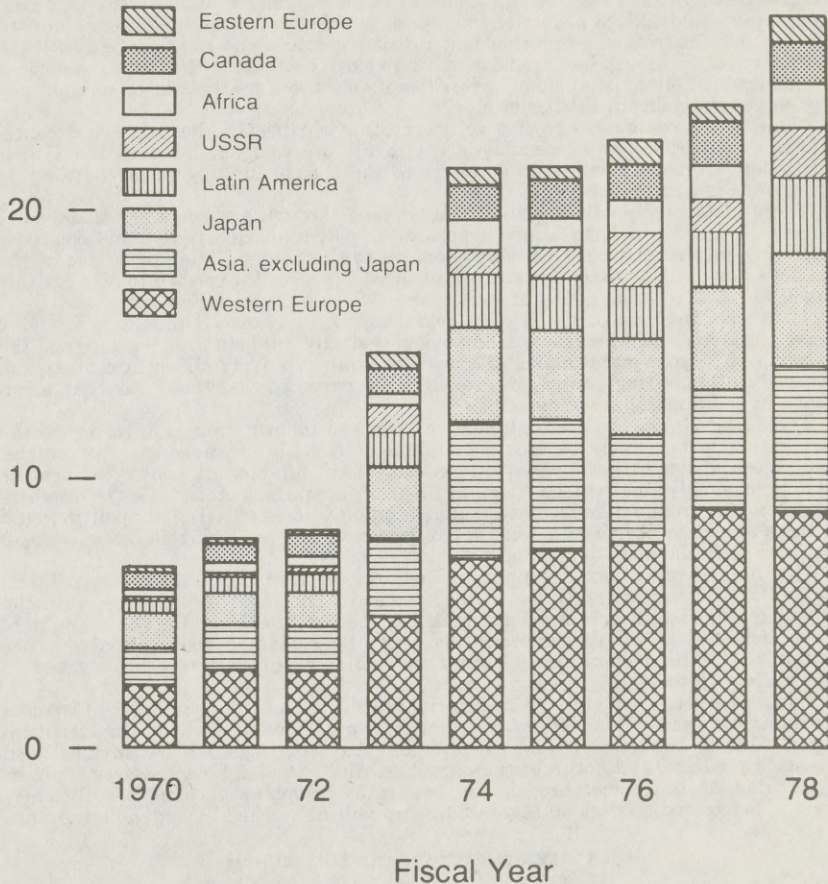
According to these data, 15 million tons of wheat were carried over from the 1978/79 marketing and the same volume is expected to be carried over from the 1979/80 supply. Corn carryover is forecast to increase, buoyed by the huge 1979 harvest. These abundant U.S. stocks contrast sharply with reduced stockpiles in the rest of the world (tables 1 and 2).

FIGURE 3

Where We Ship Our Agricultural Exports

\$ bil.

30 —



Adjusted for transshipments.

Source: Agricultural Chart Book, USDA 1979

ANALYSIS OF IMPACTS

Three impacts of the sales suspension are analyzed here: (1) the impact of the Soviet Union, (2) the short-term, 1980, impact on the U.S. economy, and (3) the longer-term impact on the U.S. economy.

IMPACT ON THE SOVIET UNION

There seems little doubt that the suspension of sales will impose some political and economic pain on the Soviet Union. Soviet authorities are quite sensitive to the Polish food riots of a few years back. Soviets consider improvements in the quality of the U.S.S.R. diets as an important aspect of catching up with the U.S. This is why the U.S.S.R. turned to imports as a means of increasing the production of meat and other livestock products in the first place. This policy shift toward greater imports was a major policy shift, opposite to a long tradition of self-sufficiency.

The key issue in determining the impact on the Soviet Union is the trading policies of U.S. allies. Canada, Australia, and the European Community have all agreed they will not replace the grain that the U.S. would have shipped the U.S.S.R. Argentina and Brazil have been more reticent about going along with the U.S. Both countries would like to negotiate some easing of human rights pressures from the Carter Administration. Argentina and Brazil together could only partially fill the gap opened by the U.S. suspension of shipment. Neither of the South American countries is likely to be anxious to sacrifice its hard-won markets in other countries for short-term gains in the Soviet market.

None of the countries agreeing to cooperate with the U.S. has agreed to cancel existing contracts. The agreement is not to fill the void left by sales the U.S. is canceling. Were they willing to go as far as the U.S. in limiting sales, there would be greater impact on the Soviet Union.

There undoubtedly will be some grain slipping through and some additional sales to the Soviet Union from minor exporters or potential exporters. Some countries receiving imports may in turn ship them on to the Soviet Union, or to one of the Soviet's Eastern satellites. The amount of these slippages is expected to be relatively small in relation to the deficit caused by the U.S. sales cancellation.

The recent increase in the price of gold does give the Soviet Union ample buying power in international markets. The Soviets typically sell gold to buy grain, and the recent rise in gold prices makes the price of grain relatively cheap in comparison. Even with this buying power, however, it is not expected that the Soviets can glean much in additional grain shipments.

The Soviet Union has grain already enroute and its own crop to draw on. So the suspension is not likely to create an immediate crisis or cause massive animal slaughters. Instead, the Soviets will probably feed out present poultry and swine and then simply not replace them until grain supplies increase. Cattle numbers would not be reduced immediately and later only if essential. This policy would involve reduction of livestock numbers in instances where quick rebuilding is possible, and defer the more damaging reduction in cattle.

This limited reduction in supplies of livestock products can still create political difficulties for the Soviet Union. It also comes at an embarrassing time, with the Olympic Games still scheduled for summer 1980 in the U.S.S.R. The amount of disruption caused will be determined largely by sustained cooperation of other countries. The important point is that the major grain exporters have agreed to cooperate with the U.S.

Some observers have objected in principle to the use of the so-called food weapon saying it can lead to starvation, and that effects will mainly fall on the disadvantaged. This is not true in the Soviet Union. Any shortages will be in meat and livestock products, and not in basic necessities. And although Soviet society is not as egalitarian as the Soviet propaganda apparatus promotes, income is sufficiently evenly distributed so that no severe hardship will be worked on individual groups.

SHORT-TERM IMPACT ON THE U.S. ECONOMY

Short-term impacts on the U.S. economy include expected effects on producer prices, on food prices, on inflation, and on the balance of payments. Assessing these effects required judgments about the effectiveness of policy measures implemented by the U.S. Government, and judgments about the reaction in the market place.

The U.S. is now committed to shifting the burden of the costs of shipment suspension away from farmers and on to the taxpayer. Although the measures taken to achieve this were anything but timely, it would appear that sufficient steps have been taken to minimize the short-term effects. Certainly, markets have recu-

perated more quickly than most analysts expected.⁶ Prices of wheat and soybeans in late January are about where they were the day of the suspension, but corn prices are still somewhat lower.

The major impact of this partial embargo will fall on the corn market. The U.S. Government announced January 19 it would be buying up corn to open the marketing system which is now congested, particularly at the Gulf.

The ultimate effect on producers will depend on a number of important unknowns. In the first place, market demand will be determined largely by weather patterns in the 1980/81 crop year. Major shortcrops in countries, such as India, could cause imports from other countries to easily offset the lost sales to the Soviet Union. Two points are important here. First, if India has another shortcrop in 1980, it would affect wheat, but the problem is with corn. Second, India may for foreign policy reasons decide to buy its grain from countries other than the U.S. The market impact for the U.S., however, would be the same since the purchase from one country would displace sales to another.

More important, the uncertainty created by the current war scare could lead to panic buying to rebuild grain inventories. As noted earlier, world stocks are expected to be down in 1980. If policymakers in other countries attempt to rebuild these stocks because of the current uncertainty, or if private speculators should decide to acquire stocks for speculative gains, the price could go up substantially.

Viewed in this context, it is quite possible for policymakers to do too much too soon. Substantial amounts of grain could move into the farmer-owned reserves at the same time that other countries buy grain to replenish stocks. Since government-owned and farmer-owned reserve stocks cannot be released until higher market prices are achieved, the U.S. may find itself in a situation in which commodity prices move up rather quickly. Unless policy measures offset cancelled sales and other changes in the market, the original suspension of sales could raise rather than lower prices for U.S. producers.

Then, too, it is not likely that the sales suspension will lower food prices for U.S. consumers for it appears unlikely that grain prices will be permitted to fall below anticipated levels. And agricultural products make up such a small percentage of total food costs (30 percent) that even if these were to decline, effect on retail food prices would be relatively small.

The intervention in the grain markets will probably increase the rate of inflation, but not in a direct effect on grain prices. Current estimates are that the government will be spending up to \$4 billion to sustain grain prices and spread the cost of the lost sales to other sectors of the economy. This \$4 billion will add to what was already projected as a sizable budget deficit. This increase in the deficit is expected to fuel additional inflation, and to make the task of the monetary authorities more difficult in attempts to slow the rate of growth in the money supply.

The expected loss in export sales will also affect the balance of payments. The value of the dollar can be expected to decline more since the sales suspension than before it.

LONGER-TERM IMPACTS ON THE U.S. ECONOMY

The longer-term impacts on the U.S. economy may well be more serious than the short-term effects. The problem is that these longer-term effects may go beyond Soviet/U.S. trade. International trade, especially of necessities such as food, depends on confidence established between countries. When nations trade there is an international division of labor in which individual countries specialize in the production of particular products. This specialization enables one country to abandon production of some products and to import its deficit from other countries, to the benefit of both buyer and seller.

The suspension of sales to the Soviet Union, soon after U.S. economic retaliation against Iran in response to the taking of hostages,⁷ could cause a crisis of confidence among U.S. trading partners. If it does, the U.S. can expect to see substantial efforts to diversify import sources, and also serious drives toward self-sufficiency to reduce the vulnerability of importing countries to the whims of U.S. international policy.

It seems unlikely that the Soviet Union will ever again let itself become dependent on the U.S. for grain. In avoiding this, the U.S.S.R. faces two alternatives: changing its sources of supply, or redoubling its production efforts. In practice it will probably do some of each.

Developing alternative sources will not be easy, nor will it come at zero cost. The U.S. is undoubtedly the low-cost supplier on the international market, and perhaps

⁶ The effect of the partial-embargo was further compounded by the release of revised estimates of the 1979 crops which showed among other things a sizable increase in the U.S. corn crop.

⁷ U.S. economic retaliation against Iran has not included an embargo of any kind on food supplies.

the only country capable of accommodating the large swings in Soviet import needs. Then, too, countries such as Canada and Australia are not likely to give up more stable markets for the uncertainty of the Soviet market. There are also very real limits to the production capabilities of these countries.

Similarly, increasing domestic production will also come at a high cost to the Soviet Union which recently has been committing some 25 percent of its investment budget to the agricultural sector. This is a large share for a country as well developed as the U.S.S.R. To push it still higher will involve the sacrifice of other sectors more closely identified with a modern economy.

The net effect of this combination of forces is that the U.S.S.R. will have to lower its sights and expand livestock production at a slower rate. This slower growth in turn means a slower rate of growth of U.S. markets, and an accommodation of U.S. domestic policy. U.S. farm product and land prices will probably have to decline relative to other prices since the suspension. And set-asides and land diversions will probably be more prevalent and more costly.

Political changes in the U.S.S.R. might make it return to the days of heavy import dependence. This seems most unlikely, however. Similarly, markets in the less-developed countries could grow rapidly and displace the Soviet Union as a U.S. market. Although some displacement will obviously take place, total U.S. sales are likely to be less than before the suspension.

SOME CONCLUDING COMMENTS

A final evaluation of the partial embargo on grain sales to the U.S.S.R. has to weigh the costs and benefits of other courses of action. Going to war is one such alternative. But war—nuclear war with the Soviets—is unthinkable. The resulting death and destruction would mean the end of the present modern, productive, interdependent civilized world. Overlooking aggressive acts of the Soviet Union is another alternative. But that too is unthinkable. Such inaction could only result in further Soviet aggression.

Economic sanction is in reality the only course of action open to the U.S. The grain embargo will create problems for the Soviets—a major inconvenience by slowing the rate of increase in livestock production. The embargo on the sale of high technology items will also create problems for the Soviets. These and other actions will force the Soviets to pay a price—and in the long run a reasonably high price—for invasion of Afghanistan. The price may not be high enough to cause Soviet withdrawal from Afghanistan, but it could be high enough to deter repeat actions. This is the significant point for all United States citizens.

APPENDIX TABLE 1.—LOAN, RELEASE, AND CALL LEVELS WHERE GRAIN IS ALREADY IN THE RESERVE AND WHERE PRODUCERS ELECT TO RETAIN THE OLD CONTRACTS

	[Per bushel]				
	Wheat	Corn	Oats	Barley	Sorghum
Loan level	\$2.50	\$2.10	\$1.08	\$1.71	\$2.00
Release level	3.50	2.63	1.35	2.14	2.50
Call level	4.38	2.94	1.51	2.39	2.80

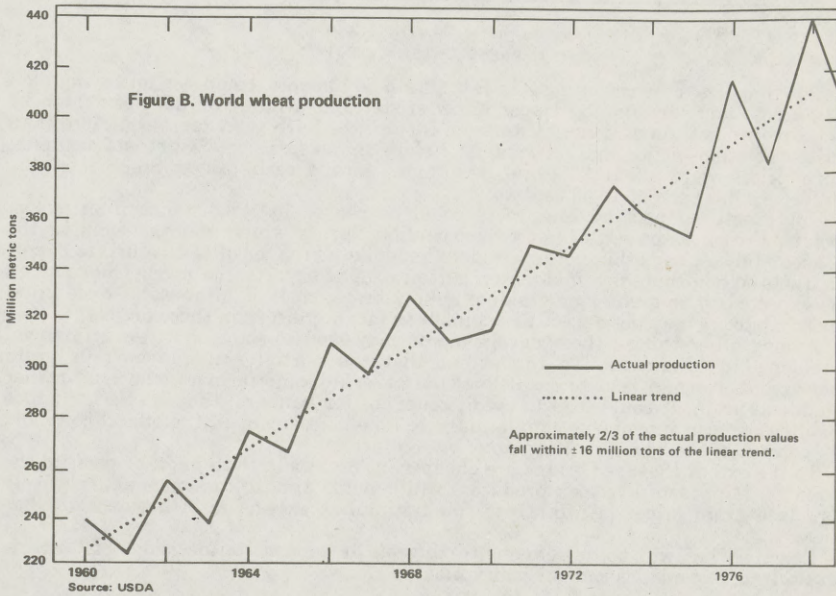
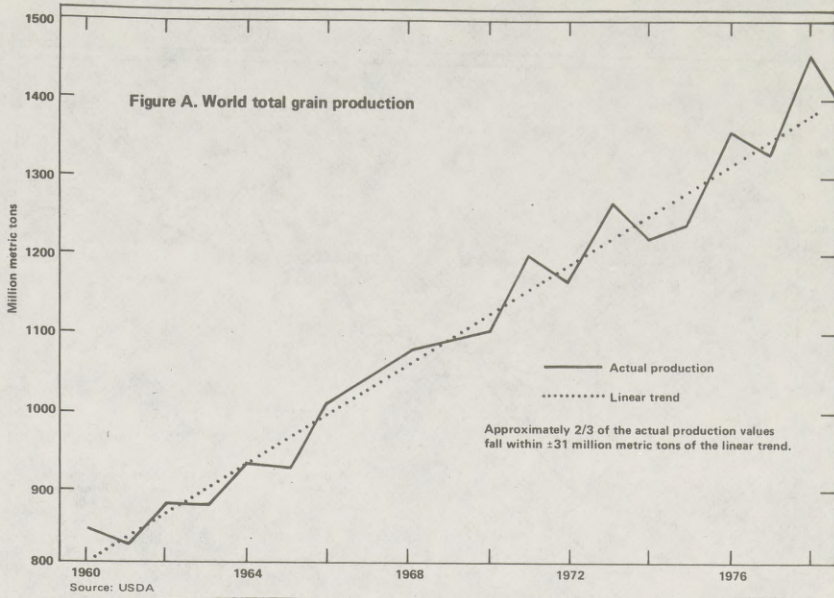
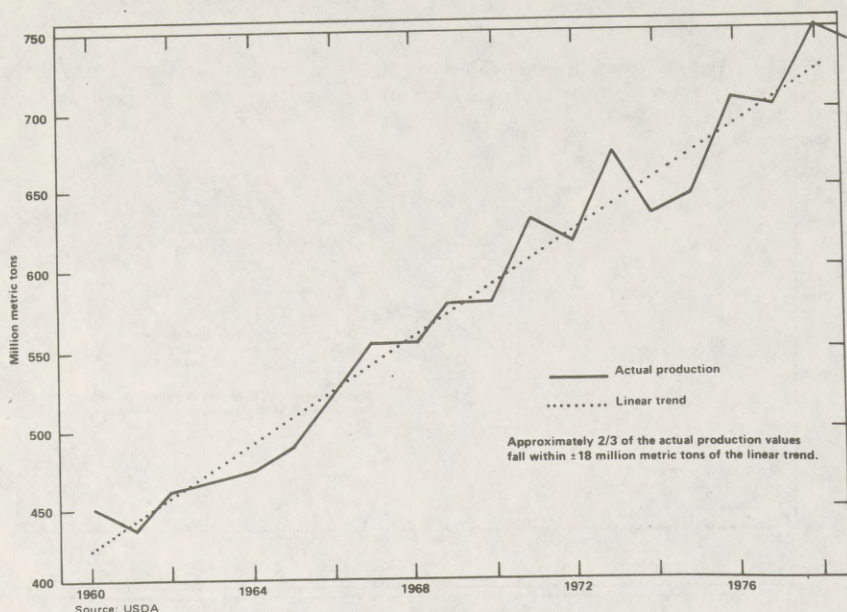


Figure C. World coarse grain production



IMPACTS ON MINNESOTA

The impacts of suspending U.S.S.R. grain shipments could be quite high on Minnesota and surrounding Upper Midwest states, depending on policies chosen by the government. As evidence, Minnesota corn prices have been depressed more than prices at other major market centers. Before the suspension, Minnesota terminal corn prices were about 20 cents less than Chicago cash prices. Since then the difference has been 35 to 40 cents.

The greater impact on Minnesota could be caused by its distance from export points. Frozen waterways limit transportation during winter months, making the Upper Midwest something of a "residual" supplier (supplier of last resort) to export markets. When there is a mid-season curtailment of exports, the market impact can be expected to be greater on residual supply areas, such as Minnesota, since grain merchandisers may not expect to originate as much grain from those areas.

Among other things, these developments may lead to some short-term financial problems in Minnesota. To the extent that the partial embargo curtails grain movement, it could lead to cash flow shortages for some farmers who hold rather than sell grain. It could lead to credit crunches for bankers who, in effect, finance holding of farm inventories (on January 1, 1980, 80 percent of the stored corn and 75 percent of the wheat in Minnesota was on farms).

To the extent that feed grains are cheaper in Minnesota than in other parts of the country, Minnesota livestock producers will benefit. And, in the long run, relatively low feed grain prices in Minnesota could stimulate expansion of livestock production.

Exactly what will occur remains to be seen. It depends on decisions of farmers, grain traders, and government policy makers.

STATEMENT OF THE HON. ARTHUR A. LINK, GOVERNOR, STATE OF NORTH DAKOTA,
REPRESENTING THE NATIONAL GOVERNORS' ASSOCIATION

Mr. Chairman, it is a privilege for me to be here today to discuss various actions, including at least five bills before this Committee, designed to offset the suspension of sales of U.S. agricultural products to the Soviet Union.

I am appearing before you on behalf of the National Governor's Association Committee on Agriculture, which I chair. It is the strong conviction of our Commit-

tee that further action must be taken at the federal level of government if we are to avoid a sharp drop in farm and ranch income.

The NGA Committee on Agriculture has expressed its views concerning the sales suspension in a letter dated January 31, 1980, to Secretary of Agriculture Bergland. I would like to offer, for the record of this Committee, a copy of our letter.

Further, I would like to advise you that we believe still further legislation would be desirable to clarify what actions should be taken if another sales suspension, based on national security concerns, were to occur. We need such a statute so that market disruption, which would depress farm prices, will be kept to an absolute minimum.

The need for positive action in the wake of this embargo should be clear to us all. The need lies in the fact that only one of 25 Americans earns his or her livelihood from farming or ranching. Despite this small ratio, agriculture constitute a two-thirds share of our exports to the Soviet Union. Given these facts, I believe it would be fundamentally unfair if we asked the farmers and ranchers of this nation to share this entire burden.

We must also acknowledge that there are some fundamental differences between the trade of agricultural products and other goods. Agricultural products are highly perishable, financed largely through cash transactions, and our ability to export agricultural products is related to the functioning of our transportation system. Further, the producers of agricultural products are unlike the producers of other goods in that they have very little control of their ultimate market. It is for these reasons that we must be sensitive to the needs American agriculture.

At this point, I would like to comment on our communication with the Secretary of Agriculture. Our letter was directed to wheat and feed grains. We did not cover other agricultural products but we acknowledge provisions in your legislation, Senator Talmadge, that will rectify problems in this area.

First, regarding wheat. We encouraged the Secretary to program as much wheat as possible through the Public Law 480 "Food for Peace" program. We acknowledge that this program could not absorb the four million metric ton surplus that has been created. It is our understanding that we program only about 1.3 million metric tons in Public Law 480 at present and that Senator McGovern's bill, S. 2277, would increase that to 1.6 million tons.

Our concern is that we do not establish a Food Security Reserve without corresponding action by a significant number of exporting and importing countries. I believe that we must be sensitive to the problem of world hunger and how those needs can be met. But I would hope that we would not hold stocks for the world as we have done so often in the past.

On corn, we suggested a three-step plan. First, we believe that 10 million metric tons must be isolated from the marketplace, an amount that would not be re-marketed until the spring of 1981. Senator Exon's bill, S. 2264, would accomplish this by establishing a separate loan level for corn and wheat that are already in the reserve.

The second step would be to reduce plantings of corn by 2.5 to 3 million acres for the 1980 crop year. This would be enough land to produce about 10 million tons of corn.

The final step would be to re-market the 1979 corn during the final quarter of the 1980 crop year or in the spring of 1981.

Our program is designed around the fundamental of adjusting supply to meet anticipated demand. The 10 million ton "surplus" that has been created because of the sales suspension must depress prices unless we isolate that amount of grain effectively now and reduce production in 1980.

We had two other provisions in our letter that I would like to share with you. First, we support efforts to increase the ceiling on the Storage Facility Loan Program from \$50,000 to \$100,000. However, we would encourage the Committee to determine if anything can be done to decrease the interest rates that are charged in this program.

Second, we would like to see aggressive implementation of the Agricultural Trade Export Expansion Act of 1978, legislation that was the creation of the Committee. The recent sales suspension must not deter us from the task of building markets throughout the world. We have to move to implement the intermediate credit program, to establish new trade centers overseas, and to promote our agricultural officials to a level appropriate to their duty.

Finally, I would like to inform this Committee that we believe that legislation should be passed which would establish procedures to be followed if another embargo were to occur for national security reasons short of war. We believe that such procedures should be codified so that we can avoid market disruption. Legislation,

we believe, should be designed to work with market fundamentals. That is, grains should be isolated in an amount equal to the supply embargoed with a reduction in the supply during the following crop year. I realize that there is some danger in prescribing such steps. Nonetheless, it is important to remember that the objective of such a statute would not be to enrich American agriculture, but keep farm and ranch at the level that income would have been without a sales suspension.

Mr. Chairman, I thank you for this opportunity to share these thoughts with you and the members of this Committee.

STATEMENT OF HON. CHARLES THONE, GOVERNOR, STATE OF NEBRASKA

Mr. Chairman, Members of the Senate Agriculture Committee.

Thank you very much for giving us this opportunity to express our concerns about the January grain embargo to the Soviet Union and allowing us to present to you some examples of the effects of the embargo and some suggested solutions to the problems it has created.

A big question that many of us have is: just who really is being hurt by the embargo? From the evidence that I have been able to gather it appears the American farmer is suffering the most—not the Soviet Union. The embargo is just not working. Reports from overseas indicate that even Western European countries are shipping grain to the Soviet Union although shipments are marked for other destinations. The embargo is leaking like a sieve. The Administration has promised farmers it will find new markets for their products. Yet, there is little evidence this has occurred except for the much-publicized Mexico sale. According to one newspaper report I saw, a grain trader in Kansas City commented that, "We don't read the funny papers" when asked about the likelihood of the Administration finding meaningful new markets for the embargoed grain.

The Russian embargo has created massive demurrage charges for delayed unloading of rail cars and delays of ships that were funneled back down the railroad tracks to the farmers' grain bins in Nebraska. These needed marketing costs could not be absorbed by the grain dealers so they passed them on to the farmer in the form of a lower price for his grain during the month of January. It appears that the charges have largely been worked off now so that many of the elevators have been able to pay pre-embargo prices on grain during the first two weeks in February. However, the uneven distribution of rail cars across the state has created some sharp differences in grain prices. At Hemingford, Nebraska, the car-short elevator can pay only \$3.28 a bushel for wheat, while nearby Hay Springs which has better car service, can pay \$3.52 a bushel. This means that elevators that have spent millions of dollars in developing storage and loading facilities are seeing their investment in danger because a nearby firm can obtain railroad cars when they cannot. The farmers also suffer even if they can move their grain to the elevator that is paying the higher price because this adds to their hauling costs and the nation is suffering because it wastes fuel that could otherwise be used to produce food for a hungry world. It causes unnecessary costs to be added to the nation's food production bill.

Another problem affecting Nebraska's grain service industry is a sudden drop in the demand for services of independent truckers. One trucker in Grand Island, who operates five rigs, and moves grain was averaging a gross income of \$40,000 a month. His income has now dropped to \$9,000 a month. It is obvious from these examples that many Nebraska agri-business services related to the grain industry have suffered as a direct result of the embargo. The trucker has informed our office that he must have a loan to keep from losing one of his \$150,000 trucks.

Another area of deep concern to the farmers in the inland states like Nebraska is that the bulk of the grain in the reserve program under the Agricultural Stabilization and Conservation Service tends to pile up in our states because the shipping costs are the highest. As of January 1, Nebraska had 1,117,749,000 bushels of all kinds of grain in storage compared to our 1979 crop of 1,101,954,000 bushels. We actually have more than our all-time 1979 record crop in storage in the State at the present time. Worse yet, farmers are already planning to plant record numbers of acres to crops in 1980 unless there is some kind of federal effort to cut back on grain production.

We fear that huge amounts of grain would be released simultaneously on the market when the reserve release prices are reached. Almost all of that grain will be at inland locations where there is a chronic shortage of rail equipment. Should this grain reserve be released at harvest time, which is also a car-shortage period, we would have a disaster on our hands. I can foresee thousands of farmers trying to sell their grain at the same time throughout the midwest and be told by hundreds of

local elevator operators that they cannot sell their grain because there are not enough cars to haul it.

It is strongly recommended that a method be established of letting portions of the grain reserve out onto the market gradually over several weeks or months so it does not unduly depress prices and so our overloaded transportation and marketing system can handle the release of the grain reserve in an orderly fashion. The only alternative is to see a sudden drop in grain prices in a market that will be unavailable to the vast majority of farmers anyway.

It's very obvious the embargo was badly planned. What we have is patchwork of remedies and cures that were issued in a piecemeal and haphazard fashion without regard to the economic problems that the embargo would and has produced.

On the very day the Department of Agriculture had a team in Nebraska holding a news conference telling us that grain prices had recovered to pre-embargo levels, the manager of the Cargill Elevator at Hemingford was complaining bitterly that his price to farmers was 34 cents a bushel below the grain embargo level because he could not obtain enough rail equipment to move freight. He cannot get access to company-owned cars until the end of April and is currently 75 cars behind on his shipments. He is paying 14.5 percent interest on the money paid to the farmers for the grain and is starting to pay penalties for late delivery as well. He attributes his problem—the tie up at the ports—directly to the embargo.

Grain was banned for export to Russia, but fertilizer shipments continued until agricultural citizens arose in protest. Assistance to farmers affected by the embargo came only after the large international grain companies were assured that their difficulties would be dealt with by the federal government. Grain sorghum was not included in the waiver of interest and corn was put under the loan program. Yet these two grains are directly substitutable for each other in livestock and poultry rations. This is the totally irrational approach in dealing with the problem that has irritated farmers. Many of these farmers already have their fertilizer in the ground and seed purchased, but they still don't know whether there will be a federal effort to hold down grain production this year or not.

We have rumors of plans, and plans or rumors, but no solid information for our farmers to make decisions at the time they are borrowing money for spring planting. Many of them are already paying 14 percent interest on loans for seed and fertilizer without knowing whether they are going to be allowed to use the products they borrowed money to buy. Certainly the federal government can do better by the food producers of this nation who pay for our imported oil as well as feed our nation and much of the world.

The total negative effect of the embargo probably won't be known for months or even years. But there's no doubt it has hurt our free market system and thrown our farm economy into turmoil.

The Hebron, Nebraska Journal-Register, which is published by Kim Johnson put it very well. In an editorial entitled "Embargo A Long-Term Threat to Marketing" the paper noted:

"Nearly two months after the president's grain embargo grain futures prices have recovered to levels around the pre-embargo prices.

"But most farmers, elevator operators and traders see a serious long term threat from continued government intervention.

"The third such embargo during the decade of the 1970s, December's embargo made orderly marketing of our agriculture feed grains difficult.

"United States credibility as the world's major supplier and exporter of food suffers with each such disruption.

"The Journal-Register hopes that farmers are allowed to continue to produce—develop new markets—and be dependable to those markets.

"The alternative is to go back a couple of decades to the fifties and sixties when government purchasers, storage, land set-asides, etc. cost the taxpayer dearly, including the farmer.

"The embargo of 17 million metric tons to Russia has set exporters scrambling to find new markets. And although there has been some success, the new markets haven't been significant enough to offset the Russian embargo."

Skyrocketing costs of production require higher prices for grain and meat producers. Financial disaster is the alternative.

STATEMENT OF JACK FELGENHAUER, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Chairman and members of the committee; I am Jack Felgenhauer, Fairfield, Washington wheat producer and president of the National Association of Wheat

Growers. Accompanying me today is the NAWG's executive vice president, Carl Schwensen. We appreciate this opportunity to appear before you today.

President Carter, for "urgent reasons of national security and foreign policy" following the movement of Soviet troops into Afghanistan, ordered the suspension of all grain shipments to the USSR in excess of 8 million metric tons on January 4 of this year. The action blocked shipment of more than 14 million metric tons of U.S. wheat and corn already contracted by the Soviets for delivery during the fourth year of the U.S.-Soviet Grain Agreement, and it cut by more than 68 percent the amount of U.S. grain the Russians might have imported through September 1980. In the case of wheat, it was expected that 6 million metric tons would have otherwise been shipped to the Soviet Union by the end of the current marketing season on May 31, and it was similarly expected that a total of 8.5 million metric tons of U.S. wheat would have been exported before October of this year.

Prospective shipments of 6 million metric tons during the 1979-80 marketing year represent 16 percent of the pre-embargo projection of U.S. wheat exports, and this level of trade can hardly be viewed as insignificant. Nevertheless, Secretary Bergland told this Committee on January 22 that Soviet grain imports "are a lot more interesting than they are important." We find this statement incredible.

The U.S. grain sanction against the Soviet Union was followed on January 18 by a Presidential Proclamation limiting the quantity of anhydrous ammonia which could enter the U.S. from the Soviet Union to one million short tons. American exports of phosphate to the USSR, on the other hand, continued until only recently.

On January 29, the earlier ban on agricultural exports to the Soviet Union was modified to allow the export of commodities not related to the Soviet feed-livestock complex. The embargo thus clearly has become selective in nature, and this sanction, together with fertilizer trade actions, has resulted in lost grain sales and will lead to higher farm production costs. In other words, the U.S. farmer has been forced to assume an unfair proportion of the economic burden resulting from the President's foreign policy actions.

Mr. Chairman, even with anticipated Soviet wheat sales and record exports, U.S. wheat inventories were projected to be substantial on June 1, due to last year's large harvest. In December, USDA was projecting a carryover stock of about 850 million bushels, or nearly 125 million bushels less than the current outlook of 974 million bushels.

Since it is apparent that no set-aside or acreage diversion program will be implemented for the 1980 crop year, this higher carryover level means that total stocks could reach record proportions in the 1980-81 marketing season. It also means a lower season average price during a period of staggering production cost increases.

In this regard, we hope the Committee understands that the impact of the President's Soviet grain suspension extends well beyond the January 4 event. The Agriculture Department has indicated that it expects the Soviets to buy 8 million metric tons of U.S. grain during the fifth year of the Agreement which begins October 1. Frankly, we hope this will be the case, but we believe now that this view is based primarily on wishful thinking. The Soviet's willingness to continue trade in grain must be matched by public support in the U.S. along with the agreement of American longshoremen to handle Soviet cargoes, before sales can resume. There is no reason to believe that grain merchandisers will obligate themselves to deliver U.S. grain to the Soviets unless these conditions exist. Consequently, it seems more credible at this point to assume that it will be some time, perhaps a long time, before U.S.-Soviet grain trade returns to the level of the 1970's.

When the Agriculture Department announced "offsetting" actions in January to minimize the impact of the Soviet sales suspension on wheat producers, we stated that the proposed steps were "totally inadequate" and indicated that they failed to equal the gravity of the President's unprecedented action. Our view has not changed.

The loan, reserve and storage program changes announced by USDA are, at best, nominal. They fail to respond to the severe increases in production costs farmers have experienced, and they are insufficient to attract excess grain into reserve storage. Moreover, the \$2.50 loan level is virtually meaningless as an interim financing tool under current economic conditions. The intended purchase of 4 million metric tons of wheat (nearly the amount denied the Soviet Union) by USDA's Commodity Credit Corporation merits special consideration as an "offsetting" action, since this step directly relates to Government wheat reserve legislation which is before the Agriculture Committee.

On January 15 CCC assumed contracts from 12 exporting firms covering 16 million metric tons of wheat, corn and soybeans which had been denied the Soviet

Union. The acquired contracts include 10.8 million metric tons of corn; 4.5 million metric tons of wheat and 710 thousand metric tons of soybeans.

While USDA has not clearly outlined its intentions for this f.o.b. grain, it is believed that it will be re-tendered at port locations, and that offsetting purchases would be made at interior points in the case of wheat. The period during which these sales and purchases will take place has not been indicated. We understand that various classes of wheat will be purchased, and that the entire 4 million metric tons acquired would be placed in reserve if Congress adopts the proposed "Food Security Act."

The Food Security Act would establish a permanent 4 million metric ton wheat stockpile under Government ownership which would be released when U.S. supplies are too low to continue Public Law 480 food aid assistance. Additionally, 300,000 metric tons could be released annually to provide "urgent humanitarian relief" based on a decision by the President. The NAWG opposes this permanent Government reserve, and we see no humanitarian or foreign policy need for its establishment.

Administration spokesmen cite 1974 experiences in describing the need for this continuing reserve. It should be remembered, however, that a great deal has changed since the early 1970's when there was no control of Soviet access to U.S. grain markets. In 1975, a 5-year agreement was concluded between the two nations which regulates trade in grain through 1981; in other words, Soviet demand is controlled. Additionally, USDA has an on-going export reporting mechanism which closely monitors sales of U.S. grain and publically reports accumulated sales on a weekly basis. Further, the U.S. has successfully established a farmer-owned grain reserve which now holds over 6 million metric tons of wheat and could increase given adequate program incentives. On a world-wide basis, the U.S. holds 31 percent of carryover stocks, or 26.5 million metric tons. U.S. carryover stocks have averaged 26.4 million metric tons during the 1975-76 through the 1979-80 marketing seasons.

If Congress feels persuaded to adopt wheat reserve legislation, we urge that it amend the Administration's proposal to isolate 4 million metric tons for one time only. This would make the reserve self-liquidating. Action should also be taken to remove the 300,000 metric ton annual release provision.

Additionally, the Committee should seek answers to questions such as:

(1) How and when will the grain be acquired; will it be bought before Soviet contracts are re-tendered, simultaneously, or some time later?

(2) Could the grain be purchased in the next marketing year and perhaps during the 5-month period when producer deficiency payments are determined?

(3) How will the grain be isolated initially assuming Budget Act compliance requires an October 1, 1980 effective date for the legislation?

(4) At what price level would the grain be acquired? and;

(5) What happens to the 1.5 million metric tons of wheat already in CCC hands?

Mr. Chairman, I would now like to refer the Committee to the NAWG's embargo policy statement which is attached to this testimony and proceed to summarize our policy recommendations for 1980.

The NAWG believes that wheat target prices must be set to attract sufficient participation in farm programs, and we recommend a target level of 85 percent of parity (\$5.24) with a minimum \$0.50 per bushel payment guarantee. We recommend that the regular loan be set at not less than 70 percent of parity (\$4.31) with a 10 percent increase in the loan whenever the reserve call level is reached. We also recommend that the deficiency payment be determined by the difference between the higher of the state average cash price or loan and the target price. We recommend that the release level under the farmer-owned reserve program be raised to 90 percent of parity and that the call price be raised to 115 percent of parity. In the event of a call on any grain, producers should be allowed at least 120 days for the dispensation of such grain. Storage payments under the reserve program should be made at actual commercial rates, and they should continue until such time as the grain is redeemed by producers or prices reach the call level. Set-aside programs should be operated to maintain carryover at no more than 800 million bushels.

The NAWG urges the adoption of legislation to set the price support loan rate for wheat at 90 percent of parity for the ensuing 12 month period whenever Federal controls are placed on wheat exports.

In the area of foreign marketing, we recommend increased funding for PL 480; establishment of a revolving fund for CCC's short term export credit sales program; and increased funding for foreign market development programs for wheat.

Mr. Chairman, Agriculture Department statistics project a 25 percent decline in net farm income for the 1980 season, and it is possible that the level could fall by one-third. We feel that strong action should be taken immediately to offset this

development through the effective use of the price support loan program. By substantially increasing the loan rate for wheat, the call and release levels under the farmer-owned reserve program become an attractive incentive for farmers to move additional stocks into the reserve. Present levels will fail to accomplish this aim, because cash realized by participants is insufficient for debt service. This is particularly true to young, low-equity farmers.

The need for a higher wheat loan rate is urgent. It will provide a needed level of increased financing for producers; relieve stress on rural lending institutions; signal markets that the loan and reserve programs will be used to improve price levels in the face of increased production and the loss of Soviet demand; and it will give producers confidence in the price and income outlook for 1980.

We have appreciated the opportunity to present testimony to your Committee, and we will be pleased to respond to questions at the appropriate time. Thank you.

EMBARGO POLICY

The NAWG firmly believes that wheat producers must not bear a disproportionate share of the economic burden resulting from Federal export controls which are implemented for national security, foreign policy, short supply or other purposes. Accordingly, the NAWG urges the adoption of legislation to set the price support loan rate for wheat at 90 percent of parity for the ensuing 12 month period whenever Federal controls are placed on wheat exports.

The NAWG recommends that the following steps be taken following the January 4, 1980 embargo of Soviet grain deliveries:

Short term.—The U.S. government take title to the entire 14 million metric tons of wheat and corn and isolate this grain from the market for alcohol fuel production and make financing immediately available for the construction of increased plant capacity. Immediately raise the 1979 loan rate for wheat to \$4.05 per bushel, which is the USDA's determined cost of production, and since food is being used as an economic weapon of national defense, the increased costs should be allocated to the Department of Defense.

We urge the U.S. government to seek the continued cooperation of wheat exporting nations to protect market prices and ensure that the embargo is effective. We further commend our export competitors for their efforts in maintaining world market prices.

Intermediate term.—Implement a minimum 20 percent paid diversion program for 1980; this acreage to be taken times target price, times the normal crop yield, with a direct payment made to producers, with this payment not subtracted from the disaster payment.

Long term.—Operate a set-aside program sufficient to maintain annual carry-over stocks at no more than 800 million bushels.

[The following letters were furnished by Mr. Peavy, see p. 29 for his oral presentation:]

MELVIN H. PEAVY,
Cuthbert, Ga., February 22, 1980.

Hon. HERMAN E. TALMADGE,
Chairman, Senate Agriculture Committee
Russell Office Building, Washington, D.C.

DEAR SENATOR TALMADGE: In the past few weeks I have brought to the attention of your staff, the Agriculture Committee, the office of the Secretary of Agriculture, the office of Management and Budget and the office of Domestic Affairs in the Executive Department, certain information which conveys the serious problems and the pressing needs of the American Farmer. The information is contained in three letters to you prepared by Roy E. Garland of Crittenden and Company, accountant for Peavy Farms. The first letter is dated January 19, 1980, the second is dated February 5, 1980, and the third February 12, 1980. For reference, a copy of each is attached.

We, the farmers, appreciate the peanut support price increase recently granted by the Secretary of Agriculture; however, I feel that the selling prices for all agricultural commodities are out of balance with the cost to produce them. I feel that the Congress and the Executive Branch should consider the model presented below and all supporting information contained herein, immediately and act to give the much needed price increases before the situation deteriorates further. This model is from the A.S.C.S. Preliminary 1980 Report, published Dec. 1979.

PRODUCT PRICE DATA

Commodity	Loan price	Target price	70 percent parity	100 percent parity
Wheat	\$2.26	\$3.40	\$4.27	\$6.10
Corn	2.16	2.20	2.98	4.26
Soybeans	4.50	0	7.21	10.30
Sorghum	1.90	2.46	2.76	3.94
Cotton	.48	.57½	.71	1.02
Peanuts—non quota	300.00	0		
Peanuts—quota	420.00	0	511.0	730.00

Senator, please refer to the letter dated January 19, 1980. These statistics are results of a survey of 112 tax returns on file with the Internal Revenue Service, which show conclusively the difficulty encountered by the average farmer who had to live, pay income taxes, and retire debts from net income which decreased in 1978 to \$5,308, from \$32,650 in 1975, a \$27,342 decrease in three years. The total content of this letter should be closely considered by your committee in your study of the needs of the price increases requested.

On February 5, 1980, we filed with you a five-point program which covers some short-term and intermediate needs of the farmers in our area. I would like to expand the February 5, 1980 letter to say that I feel that the five-point program will be of benefit to the farm industry, nationwide, and those who do business with the farmers. In addition accounts, and notes can be brought to a current status which I and many other farmers have not been able to do for over three years.

Agriculture and food commodities form the major contribution to our balance of trade. Farmers produce all of the agricultural and food commodities for this great nation and seem to be going broke in the process.

If price increases aren't the answer, then it boils down to the fact that the burden of feeding this nation, and many other nations as well, is no longer worthy of the hard work and effort that has gotten us this far. If a profitable arrangement can't be made with our international trades, why then should the farmer bear the burden alone? Shouldn't it be shared by the taxpayer citizens who eat the food we grow, work at the job or profession of their choice and don't go broke? We see no reason why any representative of the people should have any reservation about shifting some of the load to others.

Yours very truly,

MELVIN H. PEAVY.

Enclosures.

CRITTENDEN & Co.

Dawson, Ga., January 19, 1980.

Hon. HERMAN E. TALMADGE,
Russell Office Building,
U.S. Senate, Washington, D.C.

DEAR SENATOR TALMADGE: The information below has been prepared to more clearly and realistically present the very serious financial plight of the farming industry in our eight county area of Southwest Georgia:

(1) Results of a survey of 112 farming operations for 1975 and 1978 as presented on the federal income tax returns for the two years. Returns were selected at random and represent about 45 percent of the returns prepared by this firm and approximately 75 percent of returns prepared in this office. The 1978 sales range from \$4,719 to \$832,235.

RESULT OF SURVEY

Comparative information	1975	1978	Increase or (decrease) in 1978	
			Amount	Percent
Total sales.....	\$16,611,645	\$15,827,781	(\$783,863)	(4.72)
Total expense	12,954,840	15,233,245	2,278,460	17.6
Total net income	3,656,805	594,536	(3,062,269)	83.7
Average farm sales	148,318	141,319	(6,999)	(4.72)

RESULT OF SURVEY—Continued

Comparative information	1975	1978	Increase or (decrease) in 1978	
			Amount	Percent
Average farm expense.....	115,668	136,011	20,343	17.6
Average net income.....	32,650	5,308	(27,342)	83.7
Total investment in depreciable assets—				
original cost.....	13,334,218	19,851,724	6,517,506	48.9
Total net book value (cost less depreciation) ..	5,858,407	9,420,557	3,562,150	60.8
Average investment in depreciable assets.....	119,056	177,248	58,192	48.9
Average net book value	52,307	84,112	35,805	60.8
Percent of ratio of net income to net book value of depreciable assets.....	62.4	8-10	(61.6)	(98.7)

(2) Results of our computation of the estimated per acre cost of producing peanuts, corn and soybeans in 1979 is as follows:

RESULTS OF COMPUTATION

	Peanuts	Corn	Soybeans
Operating cost (below)	\$427	\$182	\$137
Estimated fixed cost (per Georgia Extension Service)	94	49	39
Estimated cost of land (rent or ownership cost)	150	35	35
Total.....	671	266	211

(3) Our computation of the estimated per acre cost of producing peanuts, corn and soybeans in 1979 is compared to per acre cost projections for 1980 prepared by the Cooperative Extension Service of the University of Georgia.

The actual per acre cost for 1977 is an average actual cost extracted from loan applications prepared in the fall of 1977 from detailed information furnished by the farmers.

The increases projected for 1979 from 1977 are based on information extracted from a survey of the various vendors furnishing goods and services to the farmers in this eight county area.

RESULTS OF SURVEY

	1980 projections of Georgia Extension Service	Actual cost, 1977	Increases 1977-79 (percent)	Estimated per acre cost, 1979
Peanuts:				
Seed.....	\$57	\$55	10	\$60
Fert. Lime, Chemicals	160	138	24	171
Fuel.....	23	33	53	50
Repairs & Maintenance	23	25	22	31
Labor.....	32	36	18	42
Cleaning & Drying.....	49	42	(¹)	48
Other.....	4	4		4
Interest (Operating Loans)	17	21	10¼	21
Total.....	365	354		427
Corn:				
Seed.....	11	10	18	12
Fert. Lime, Chemicals	100	77	24	95
Fuel.....	9	21	53	32
Repairs & Maintenance	11	15	22	18

RESULTS OF SURVEY—Continued

	1980 projections of Georgia Extension Service	Actual cost, 1977	Increases 1977-79 (percent)	Estimated per acre cost, 1979
Labor.....	\$12	\$14	\$18	\$16
Interest (Operating Loans).....	7	9	10¼	9
Total.....	150	146		182
Soybeans:				
Seed.....	10	20	-6	19
Fert. Lime, Chemicals.....	60	52	24	64
Fuel.....	11	10	53	15
Repairs & Maintenance.....	10	11	22	12
Labor.....	12	13	18	20
Interest (Operating Loan).....	5	8	¼	7
Total.....	108	114		137

¹ Actual.

(4) The outstanding debt of farmers has increased so much and has become so burdensome that the entire economic system in this area has been impaired.

One bank has informed us by letter that 11.7 percent of its outstanding loans are classified as past due. Farm equipment dealers informed us by letter that their accounts are from 59 percent to 69 percent past due. FHA loans in one of the counties increased from \$310,960 in 1976 to \$6,887,140 in 1979, and the Production Credit Association serving this county informs us that their loans increased slightly in that same county.

Senator, we are sure that you are and have always served the farming industry with all your ability, and we hope that this information will assist you in your untiring efforts.

Sincerely,

ROY E. GARLAND.

CRITTENDEN & Co.,

Dawson, Ga., February 5, 1980.

HON. HERMAN E. TALMADGE,
Russell Office Building,
U.S. Senate, Washington, D.C.

DEAR SENATOR TALMADGE: We are sending this letter in response to our meeting in Washington in January and to express our appreciation for the efforts that you and your staff have made to assist the farmers.

We have seen some limited progress made by Fm.H.A. since our return, however we would like to outline our suggestions again as follows:

(1) We feel that the economic emergency loan program should be extended for one or more years to assist the farmers in obtaining funds to begin their 1980 crop year.

(2) We suggest that a blanket moratorium of two to three years be considered to give the farmers assistance in overcoming their losses in the past three years. The current economic situation of the farmers in our area has deteriorated so that the farmers are faced with a serious backlog of debts which have been increasing since the 1977 crop year.

(3) The existing policy of Fm.H.A. of advancing no funds to pay open accounts payable carried over from the 1979 crop year should be changed to advance the funds necessary to help the farmer bring his debts into a current status and extend the repayment terms on the existing loans over a longer period of time thereby reducing their annual payments. Many farmers, who would otherwise fail, will be able to overcome the disasters that they have suffered if given this concession. We would suggest that the terms be extended by 5 or more years.

(4) We would like to stress the urgency of the need for 1980 operating funds for many of the farmers. Many do not have the funds to start their 1980 crops and the time for land preparation and planting the crops is now.

(5) We feel that the major concern of farmers throughout our country is the problem of inflation. The farmers costs have increased so much more than the prices received for their commodities that there is no margin available to the

farmer. We feel that Congress should take the necessary action to increase the support, and, or target prices on farm commodities to afford them a reasonable margin with automatic increases each year to cover inflation. We feel that the proposed increase of peanut price support to \$455 is inadequate, an \$80 increase to \$500 is the minimum needed to afford a reasonable margin to the farmer.

Senator, we appreciate what you have done and will support you in your upcoming election.

Sincerely,

ROY E. GARLAND.

CRITTENDEN & Co.,

Dawson, Ga., February 12, 1980.

Hon. HERMAN E. TALMADGE,
Russell Office Building,
U.S. Senate, Washington, D.C.

DEAR SENATOR TALMADGE: Since our conference with you on January 22, 1980, the economic conditions have progressed to this stage.

The majority of major farm suppliers of fertilizers, chemicals, and petroleum products, as well as most other services to the farmer, have served notice that effective immediately *all accounts* are due and payable net thirty days. If the account is not paid in the thirty days, then service will be suspended until such account is bought current.

If sufficient funding is not made readily available to the farmer to keep these accounts current the 1980 crop production will be seriously hampered. You are aware, I'm sure, that the open account situation has been with us for the past two growing seasons and satisfactory funding still has not been reached for the 1979 open accounts.

This continuing and ever-increasing problem needs to be carefully attended to by Congress and the present administration. Your attention will be appreciated.

Yours truly,

ROY E. GARLAND.

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR OF LEGISLATIVE SERVICES,
NATIONAL FARMERS UNION

The National Board of Directors of Farmers Union met here in Washington, D.C., on January 15 and 16. Following a meeting at the White House and a consultation with officials of the Department of Agriculture, the Board adopted a statement of policy dealing with the uncertain economic future for the Nation's farmers. This statement was adopted out of concern for projections for USDA Outlook Conference for a net farm income drop of 25 percent.

With costs of production increasing at levels even greater than the general rate of inflation, combined with the carryover of 1979 stocks and projected 1980 production, we believe 1980 farm income could decrease even more.

Faced with energy shortages, high interest rates and shortages of capital, all of which contribute to double-digit inflation, farmers are deeply concerned about their short-term and long-term ability to maintain their economic viability—or put more simply—to stay in business.

While the Board acted in the aftermath of an embargo of grain sales to the Soviet Union, this action was not the only consideration in the adoption of this policy statement.

The principle policies adopted by the Board are now before the Senate in bill form, S. 2277. I have attached a copy of the bill for your information and use.

Obviously, we would welcome additional sponsors to this bill under the leadership of Senator George McGovern joined by Senator Edward Zorinsky. A close examination of our policy and S. 2277 will reveal that it is a reasoned, practical, and realistic approach that is needed to meet urgent concerns of the Nation's farmers.

Since the statement of the Board is relatively brief, I have included the text of it in this statement and would like to quote from it:

We live in precarious times and American farmers will support whatever measures must be taken for national security.

We feel that American agriculture should not continue to subsidize the weakest sector of the Soviet economy, food production, at a time when Soviet military forces have subjugated a neighboring nation and threatened world peace.

Yet the decisions of January 4 indicate the absence of a contingency policy to deal with the adverse effects which necessary suspensions, embargoes, or economic sanctions may have on agriculture and other essential domestic industries.

The unique crisis which the January grain export embargo has caused for U.S. farmers must be recognized and steps must be established for triggering protective measures in any future situations.

In the current situation, the 10-point program announced by the White House and USDA is inadequate and immediate further actions should be taken to strengthen market prices and protect farmers from economic injury.

We recommend these specific steps to the Congress and ask the Executive Branch to be supportive:

1. Farmers Union remains convinced that its long-term advocacy of support loan rates at 90 percent of parity is sound. The increase of price support loan rates, in combination with effective supply management programs, provides a strategy which will protect farm income at moderate program costs. In the short term, to meet the current crisis, we recommend immediate increases in support levels for 1979 and 1980 to \$3.90 a bushel on wheat, \$2.50 a bushel for corn, \$6.25 a bushel on soybeans, and 62 cents a pound for cotton. These are minimal levels designed to sustain market prices at pre-embargo levels. We further recommend that these proposed support levels be adjusted semi-annually to reflect increases in the index of prices paid by farmers for commodities and services, interest, taxes, and wage rates, known as the parity index.

2. The Commodity Credit Corporation should be prohibited from selling any stocks at less than 10 percent above the call level for the affected commodity, or 120 percent of the applicable loan level, whichever is higher.

3. The 1977 Agricultural Act should be amended to provide authority for the Secretary of Agriculture to implement a set-aside for wheat, feed grains, soybeans, or cotton, for the 1980-crop year or in future situations; and this should make possible the institution of a paid diversion program, either singly or in conjunction with a set-aside. USDA should have discretion to waive reserve requirements under emergency conditions.

4. Section 1002 of the 1977 Agricultural Act should be amended to make it applicable, not just to short-supply situations, but to automatically mandate a 90 percent of parity support loan rate whenever there is a future suspension or embargo for national security reasons.

5. Congress should also provide economic protection for prices of related agricultural commodities, not stipulated in the embargo, but crucially affected by the sales embargo, such as for example, livestock products in the current situation.

6. Effective safeguards should be mandated to assure that an embargo or economic sanctions are not nullified by shipments through third party countries or trading firms. These should include suspending the privilege of trading in farm commodities if an exporter subverts the embargo, or by imposing a surcharge upon nations which trans-ship U.S. grain in avoidance of the embargo.

7. Adequate appropriations for farm program purposes, for spurring alcohol fuel production from feed grains diverted from export shipments, and major re-expansion of Food-for-Peace programs, with particular emphasis on market development activities.

STATEMENT OF EDWARD ANDERSEN, MASTER, NATIONAL GRANGE

I am Edward Andersen, Master of the National Grange, with offices at 1616 H Street, N.W., Washington, D.C.

I am pleased to have this opportunity to represent the National Grange before this distinguished Committee. Before being elected Master of the National Grange, I owned and operated a 700-acre livestock and grain farm in eastern Nebraska.

The state of U.S. agriculture today can be best illustrated by my experience in holding a farm liquidation sale which was necessary prior to my moving to Washington. I held my farm sale on January 3, the day before the President made the announcement that he was suspending all grain sales to the Soviets above the 8 M.M. tons covered by the five-year U.S.-U.S.S.R. grain agreement. My sale was well attended and the price of machinery and livestock was well above my expectations. One week after the President's announcement, a neighbor of mine held a similar farm sale. The crowd was small and the farmer pulled the tractors from the sale because they failed to be bid at a price level that was acceptable to the owner.

This bit of personal history dramatizes the unrest that exists in today's agriculture as a result of the cancellation of 17 M.M. tons of grain that had been previously sold to the Soviet Union. That unrest still exists today nearly two months after the suspension of the Soviet sales, and I don't know, Mr. Chairman, what legislative or administrative action will be necessary to calm the shock waves that the President's announcement caused in U.S. agriculture.

We commend you, Mr. Chairman, and the other members of the Senate, for introducing legislation that, if enacted into law, would assist farmers in meeting the financial challenge caused by the suspension of sales to the Soviets. We also believe it was a wise decision to wait before holding hearings on the economic effect of the cancellation of the Soviet grain contracts on U.S. farmers, as sufficient time has passed to make a judgment on the impact the actions already taken by the Administration have had on maintaining grain prices at the January 4th level.

The Agriculture Committee of the National Grange, at our Annual Meeting in Lancaster, Pennsylvania, in November of 1979, determined that if the President found that it was in the national security interest to place an embargo on Russian grain shipments, the Grange would support such an embargo, provided the U.S. farmer's income was protected. The President, on January 4, declared that it was in the national interest to suspend grain sales to the Soviets in excess of the 8 M.M. tons agreed to in the U.S./Soviet agreement. In doing so, the President pledged that actions would be taken to assure that U.S. farmers would not carry the full cost of the U.S. foreign policy decision. With this assurance, the following messages were sent to the President (see appendix A and appendix B).

The announced program changes and purchase plans by the Administration are well known. In general they dealt with loan levels, reserve program and purchase plans to isolate from the market the 17 M.M. tons of grain and soybeans previously committed to sales to the Soviets. The objective of the Administration's program was to assure U.S. producers that they would not bear the full cost of U.S. foreign policy regarding the Soviet invasion of Afghanistan.

The main thrust of all the changes announced by the Administration was to "find a new home" for the 13 M.M. tons of corn (512 M. bu.) and 4 M.M. tons of wheat (150 M. bu.) affected by the suspension, either by direct purchase, in the case of wheat, and redirecting the corn to new export contracts or encouraging farmers to place the embargo-equivalent quantity (512 M. bu.) in the farmer-owned reserve. Throughout the nearly two months since the suspension, spokesmen for the Administration have declared that the grain that would have been sold to the Soviet Union will be isolated from the market and will not be resold into the market until it can be done without adversely affecting market prices. The Vice President said in the announcement on January 7 that the Administration's actions would assure that the quantities of grain that would have been shipped to the Soviet Union will be isolated from the market and that America's farmers will be in the same position as if the sales to the Soviet Union had gone forward.

In the case of wheat Howard Hjort, Director of Economic Policy Analysis and Budget, U.S.D.A., told the National Association of Wheat Growers at their Annual Meeting in Phoenix, Arizona, on January 15, 1980, that the 4 M.M. tons of wheat (150 M. bu.) under contract to the Soviets "is going to be taken out of the market and will not be available to the commercial market at any price."

Mr. Hjort went on to say that "we (U.S.D.A.) will either take delivery of the commodity in those contracts (to the Soviets) or we will purchase it in the open market." Further, Mr Hjort said, "there isn't anyone that has enough money to get that wheat back from us and into the commercial market."

The wheat referred to above will be used in the foreign food assistance programs under the "Food Security Reserve". The Administration has proposed such a reserve, and several bills pending before this Committee call for such a program. The National Grange strongly supports the Food Security Reserve for humanitarian reasons and urges Congress to establish such a reserve as early as possible to take advantage of the increased availability of U.S. grain resulting from the suspension of exports to the Soviet Union.

Mr. Chairman, the Grange, while supporting the Food Security Reserve as set forth in S. 2258, which requires that grain can be released from the reserve "any time that the domestic supply of wheat in the United States is so limited that quantities of wheat cannot be made available for disposition under the Agricultural Trade Development and Assistance Act of 1954", we do have some questions on the release of 300,000 metric tons of wheat that can be released from the reserve each year to meet urgent humanitarian relief. If wheat is available in the U.S., then it should be supplied through Public Law 480 and not taken from the Food Security Reserve. We also favor a "sunset" provision in the law so other producing nations will know that the United States does not intend to carry all of the world's food security needs.

The wheat market has responded well to the program announcements and after the initial price slump has regained its pre-January 4th position. However, the longer-term effect of losing the Soviet wheat market for the foreseeable future leads

us to believe that further corrective changes in the 1980 and 1981 wheat program may be needed.

The National Grange has been a strong supporter of H.R. 3398, a bill that will raise the 1980 target price for wheat to \$3.63 per bu. and give the Secretary of Agriculture the authority to set the 1981 target at not less than the 1980 level. However, consideration should be given to permitting haying and grazing on 1980 wheat acreage and a further increase in the loan levels for 1980 and 1981 crops.

The firm, strong and swift action by the Administration in isolating the 4 M.M. tons of wheat under contract to the Soviets from the market has resulted in the recovery of the wheat markets to a level above the pre-January 4th level to a greater extent than the other program changes announced by the Administration. The same cannot be said for feed grains.

At the time of the suspension of sales, about 10 M.M. tons (almost 400 M. bu.) of corn were being held by exporters for shipment to the USSR. The Secretary of Agriculture announced on several occasions, as have other Administration spokesmen, that "actions being taken by this Administration should leave American farmers situated about where they would have been if the full amount of grain ordered by the Soviets had been paid for and delivered."

To accomplish this, the Administration repeatedly stated that the grain destined for the USSR would be isolated from the market. On January 29th, Secretary Bergland appeared before the House Agriculture Committee and said, "What we have done is to pull out all the stops to make sure that the suspension does not alter supply and demand fundamentals. By taking out of the market the bushels of grain destined for the Soviet Union, there is no more grain available for trade than there would have been had the grain been delivered" (emphasis added). However, in the case of corn, the Administration's actions have had a lesser impact on the market, as corn prices still are 10 cents to 15 cents per bu. below the January 4th price.

The Commodity Credit Corporation has assumed the contracted obligations from exporters for more than 10.8 M.M. tons of corn, 710,000 M. tons of soybeans and 4.5 M.M. tons of wheat. What the CCC intends to do with the wheat is clear and the market has responded, but in the case of corn, the picture is not so clear and corn prices have not reacted accordingly.

U.S.D.A. has stated that if the CCC takes physical delivery of the corn, the corn cannot be sold back into the market at a price lower than a level of \$3.15 per bushel at the farm, because the law requires that the selling price must be at least 150 percent of the loan rate. However, if the CCC has the opportunity to sell export contracts it has assumed to a third party, either domestic or foreign, that corn will be moved back into the market at or above the January 4th price of \$2.40 (approximate) per bu. at the farm. We have serious question if this method of resale carries out the assurance the Administration gave farmers to isolate the contracted grain from the market. A resale price of \$3.15 is above what anyone anticipated for the 1979 crop of corn and would effectively isolate that corn, but a price of \$2.40 does not isolate the corn and the corn market has received that signal. Nor does it fulfill the Secretary of Agriculture's statement to the House Agriculture Committee that "there is no more grain available for trade than there would have been had the grain been delivered."

In lieu of the inability of USDA to effectively isolate the corn from the market via purchasing of contracts, the other means open to the Department is to take into the farmer-owned reserve the embargo-equivalent quantity, of 400 M. bu. of corn. With this in mind, the Administration announced on January 8th changes in the 1980 feed grain and reserve programs that they hoped would encourage farmers to place corn in the farmer-owned reserve. To date, very little of that corn has entered the reserve, sending further price-depressing signals to the market. Approximately two weeks ago, CCC offered to buy 2.5 M.M. tons of corn to relieve the transportation congestion at export points. That program met with similar results and the futures market responded accordingly with lower prices.

Two things are apparent: (1) The price is not right to induce farmers to place corn in the reserve with the announced CCC resale policy; and (2) farmers who anticipated in the 1979 farm program do not have sufficient on-farm storage facilities to store another year's production. It is because of this that the National Grange adopted a resolution at our last Annual Meeting, held in Lancaster, Pennsylvania, in November of 1979, calling for an increase in the on-farm storage facility loan program and recommending that the program be changed to permit farmers to store more than two years' production in order to meet the requirements of the 3-to-5-year farmer-owned reserve program. We strongly support the legislation that has

been reported from both the House and Senate Agriculture Committees to bring about such program changes. (See appendix C.)

The strategies USDA has employed to offset the effect of the of the suspension of grain sales to the Soviets have given less protection against downward price pressure on corn than on wheat. Taking direct control of the 150 M. bu. of wheat is substantially more precise and predictable than the laundering technique for corn.

The uncertainty is whether there are enough 1979-program farmers who can take another 400 M. bu. into the farmer-owned reserve, or will choose to do so. If there are enough, how bad do prices have to get before they would take that action? How long will it take to attract that amount of grain into the reserve, and is there sufficient on-farm storage capacity to store the grain? We don't believe sufficient storage is available on these farms.

The statistical analysis done by the University of Missouri indicates that shifting grain from the export market into domestic reserves has a depressing price pressure even if market disappearance remains constant. This is attributable primarily to the reaction of commercial holders of grain inventories, who see growing stock accumulation as outlook-depressing. For example, the University of Missouri analysis suggests that corn prices increase approximately 13 cents per bu. for each 100 M. bu. exported; and that prices increase about 11 cents per bu. for the same quantity of corn entering the farmer-owned reserve.

This implies that the price effect of the 512 M. bu. of corn exported is about 67 cents. An equivalent amount entering the reserve has about a 56-cent price effect. To put this another way, grain taken off the market via exports is slightly more valuable to the U.S. farmer than grain put into reserves. On this basis, the season-average corn price for 1979-80 is projected to be 11 cents lower than if there had been no suspension of Soviets sales. That is assuming that all 512 M. bu. entered the reserve.

The National Grange has been a strong supporter of farm programs as they are contained in the present farm Act. We therefore are prejudiced against opening up the price support program and reserve program to non-farm program producers. We fully realize that they have been equally adversely affected by the loss in export sales and have less opportunity to regain their pre-January 4 position. However, if the grain covered by the assumed export contracts is isolated from the market via the pricing mechanism and the loan rate is raised to a level high enough to attract grain into the reserve in sufficient quantities to absorb the grain in question, the market price should be strengthened to the pre-January 4 level. If sufficient grain is unavailable from program participants then the Grange would support opening the program to non-compliers to obtain that amount of grain, provided that there would be a limit placed on the amount of grain each farmer could place in the reserve and that first preference would be given to farmers who planted within their normal crop acreage.

The National Grange recommends that the following steps be taken to assure feed grain producers that they will not be adversely affected by the suspension of grain sales to the Soviets: (1) That the grain covered by the export contracts that were assumed by the CCC not be sold at less than 150 percent of the loan rate or \$3.15 per bu.; (2) that the grain acquired by CCC be used in establishing a gasohol feedstock reserve along the lines suggested by several bills pending before this Committee (additional Grange views on gasohol programs are in Appendix D); (3) the loan rate for corn be raised to \$2.40 per bu. and the loan rate on soybeans be raised to \$6; (4) that a small soybean reserve be established as a part of the farmer-owned reserve program to absorb the soybean sales lost from the Soviets; and (5) that a paid land diversion program of 15 percent be established as a part of the 1980 feed grain program with payment of \$1.00 per bu. being paid on withheld acreage. If administrative action on a paid land diversion is not announced, then legislation should be passed to mandate a 15 percent feed grain set-aside.

Mr. Chairman, the National Grange continues to support the suspension of sales to the Soviet Union because we believe the Administration intends to see to it that U.S. producers will not be adversely affected by present and future foreign policy decisions. We so support and call for both commercial export expansion and increased funding of Public Law 480 programs. We also believe that other agriculture commodities affected by the suspension of sales to the Soviets should be treated the same as U.S. grain.

In conclusion, Mr. Chairman, the Grange wants to express our appreciation to the Administration for taking quick action to protect U.S. farm interest and we pledge our continued support and assistance in developing new program changes to meet both their and our objectives. We are especially grateful to you and members of this Committee for calling these hearings and for your continued dedication to the

betterment of U.S. agriculture. Thank you for permitting the Grange to present our views.

APPENDIX A

NATIONAL GRANGE,
Washington, D.C., January 4, 1980.

MR. PRESIDENT: The National Grange applauds your strong stand against the aggression of the Soviet Union. We do not like to see agricultural commodities used as foreign policy tools but we dislike naked aggression even more.

We, therefore, support your embargo on the shipment of grain to the Soviet Union in excess of 8 million metric tons and pledge our support for all measures outlined in your message.

We appreciate your concern for the American farmers by not asking them to carry the full cost of the grain embargo by offering new programs of storage, price supports and increased food for peace shipments to minimize the effect of the embargo on farm income.

EDWARD ANDERSEN, *Master*.

APPENDIX B

NATIONAL GRANGE,
Washington, D.C., January 7, 1980.

The PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: With your assurance that U.S. farmers will not carry the cost of your foreign policy to embargo grain sales to the U.S.S.R. in excess of 8 million metric tons, the National Grange pledges our support for your tough stand against the Soviets' aggression in Afghanistan.

U.S. farmers have responded to the Soviet need for increased grain to expand their livestock production. With the loss of that market for the 1979-80 marketing year and a great possibility that that market will be lost for the foreseeable future, changes must be made in the current and future farm programs if the economic effect on farm income of the Soviet grain embargo is to be minimized.

The National Grange recommends the following administrative and legislative changes in the current and future farm programs:

RESERVE PROGRAM

- (1) Increase the release and call price on wheat and feed grains.
- (2) Establish a mid-point price halfway between the release price and call price at which time interest would be charged on the loan. This would force some grain out of the reserve in an orderly manner rather than waiting until all the grain would be forced out of the reserve when the call price is reached.
- (3) Increase the amount of wheat and feed grains that can be placed in the reserve.
- (4) Establish a reserve program for soybeans.

TARGET AND LOAN

- (1) Increase target and loan rates for the 1979, 1980, and 1981 crops of wheat and feed grains.
- (2) Increase loan rate on soybeans for 1979-80 and 1981.

SET-ASIDE

- (1) Establish a set-aside of 10 percent to 15 percent for wheat and feed grains for 1980.

In addition to the above farm program changes an International Grain Reserve should be established by direct government purchases from the market. Likewise, increased shipments should be made under Public Law 480 and other programs to feed the world's population suffering from malnutrition and starvation.

To make the grain embargo effective against the Soviet Union the cooperation of other grain exporting nations must be obtained and eastern European countries should not be permitted to purchase grain in the U.S. market above their own domestic needs.

Respectfully,

EDWARD ANDERSEN, *Master*.

APPENDIX C

ON-FARM STORAGE

Whereas, the farmer-owned, on-farm storage program is the cornerstone of the federal farm program, and

Whereas, the normal length of the storage contract can be from three to five years, tying up most on-farm storage for the average family farmer, and

Whereas, the family farmer, to be in a position to utilize the benefits of the reserve program must have on-farm storage facilities available to store three years of production, now therefore be it

Resolved, that the National Grange commends the USDA for continuing and improving the On-Farm Storage Facility Loan Program and recommends that the program be further improved to meet the 3-to-5-year storage requirements of the Farmer-Owned Reserve Program, and be it further

Resolved, that the program be administered to insure that the benefits are made available to family farms on an equitable basis, including incentives to encourage the construction of storage facilities that do not require fossil-based energy in any drying process.

APPENDIX D

In light of the current interest in the increased production of ethanol from farm commodities, it would be prudent to consider the impact of alcohol production on farmers and farm programs.

There is no question that a concerted effort is needed to find ways to dramatically decrease our dependence on foreign oil. The production of liquid fuels from renewable resources offers both near-term and long-range possibilities of easing this serious problem. The urgency of the situation dictates that we should pursue these possibilities with all speed.

A great deal of federal money will be spent and tax exemptions provided as incentives for both large and small-scale operators to produce alcohol. Research is under way to find more efficient methods of converting fuel alcohol from starch and sugar commodities, and from cellulosic feedstocks. Opportunities are being assessed for the integration of alcohol plants with corn milling plants, animal feedlots, grain elevators and power plants.

Farmers and other individuals over the past several years have gone ahead on their own and invested in on-farm alcohol production. Others are following as information is made available.

It appears that the most cost effective means of producing alcohol will be a relatively large integrated operation with an effective marketing system. Individual farmers and other small operators could be forced out of alcohol production. It is possible that the large integrated operation could provide alcohol fuel to the farmer cheaper than he could produce it for himself.

USDA has gone on record that the grain reserve programs, set-aside and land diversion programs will be administered intentionally to accommodate alcohol fuel production. Without further insights, it can be assumed that programs would be modified to include increased domestic consumption figures in accordance with projected alcohol production demand.

The ability of our current alcohol production facilities to absorb a significant amount of corn that was under contract to the Soviet Union is minimal. This corn needs to be isolated from the market and only released under specific price restraints at an appropriate time.

In order to stabilize farm prices, improve conservation practices, utilize the full productive capability available to U.S. farmers, and insure alcohol producers of a dedicated feedstock, a specific program tailored to alcohol production is needed. Congressman Berkley Bedell of Iowa introduced such a bill last year, the "National Fuel Alcohol and Farm Commodity Production Act of 1979."

The bill would: eliminate the feed grain set-aside and replace it with a \$2.50 per bu. target price for corn (because of inflation, consideration should be given to raising this figure to \$2.65 and other grains should be included.) Require that farmers agree to strict conservation practices and to sell the government 10 percent of their crop at market price in order to receive deficiency payments. Such grain could only be used for alcohol production.

The section of the bill dealing with selling dedicated grain at cut-rate prices is probably not necessary due to the increased cost of crude oil and incentives that have been provided producers of alcohol.

STATEMENT OF VERNIE GLASSON, DIRECTOR, NATIONAL AFFAIRS DIVISION,
AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation, a general farm organization with membership in over 2800 counties in 49 states and Puerto Rico, appreciates the opportunity to comment on President Carter's embargo order, of January 4, 1980, on exports of agricultural products and high technology industrial items to the Soviet Union.

At the time of the President's announcement, some 8,000 Farm Bureau members were gathering in Phoenix, Arizona, for our 61st annual meeting. Needless to say, the President's embargo order dominated member and delegate interest during the entire meeting.

Farm Bureau has traditionally opposed, and continues to oppose, embargoes on farm commodities, except where there is a clear threat to national security. The President has stated that the invasion of Afghanistan by the Soviet Union poses such a threat.

After considerable debate on the many ramifications of the embargo, including the impact on farm income, the effectiveness of an embargo and the necessity for such an embargo, the following emergency policy was adopted by the voting delegates of the member State Farm Bureaus:

EMERGENCY FARM BUREAU POLICY FOR 1980

"A threat to our national security exists as a result of the Soviet Union's invasion of Afghanistan. All segments of our nation must share in carrying the brunt of the sacrifices necessary to deal with the current crisis. We urge the President to take the necessary steps to end all cultural and economic contacts with the USSR. These would include business contracts, exchange programs, participation in the 1980 Summer Olympic Games and all other contacts other than diplomatic ties necessary to resolve the current situation.

"Our government should solicit allies throughout the world to take similar action.

"Because of the immediacy of the President's actions, some segments of our nation's economy will suffer severe hardship through no fault of their own, and therefore, steps must be taken by the government to provide equitable compensation for these losses. Agricultural trade should not be sacrificed unless the national security demands a total suspension of all non-diplomatic relations with the USSR.

"We encourage the Administration and the Congress to immediately implement the following:

"(1) Immediately increase the CCC export budget from \$800 million to \$2 billion for fiscal year 1980 and fiscal year 1981;

"(2) Offer the wheat and feed grains loan and target price programs to all producers whether they participated in 1979 programs or not;

"(3) Place the 17 million metric tons of embargoed grains and oilseeds in isolation with staggered release beginning at a point 10 percent above the call levels through the 1980-81 marketing season;

"(4) Announce revised 1980 farm program release and call levels by February 1, 1980;

"(5) Establish acreage diversion programs for feed grains and wheat for 1980 to reduce the 1980 cropland by 17 million metric tons;

"(6) Legislate requirements for gradual addition of alcohol to fuels and provide long-term incentives to build needed processing facilities; and

"(7) Provide low interest loans to holders of agricultural commodities not sold due to the embargo with repayment when the products are sold and provide purchases where low interest loans are impractical due to perishability."

In addition to this emergency policy, the delegates reacted to the embargo by approving the following statement in the final official action of the meeting:

STATEMENT OF DELEGATES IN SESSION AT 1980 CONVENTION

"The President has terminated additional sales of grain and oil-seeds to the USSR and declared that the threat to our national security resulting from the Soviet Union's invasion of Afghanistan requires this action.

"We call upon the President to explain to the American people why the actions of the Soviet Union, at this time, constitute a threat to our national security, and how the embargo of grain sales by American farmers will further American interests and protect our national security.

"In the event a national emergency exists all segments of our nation must join in making sacrifices necessary to deal with the crisis. All necessary steps must be taken to end cultural and economic contacts with the USSR. In addition, our

government must take those actions necessary to ensure that all grain exporting countries support the U.S. policy and place similar restrictions on sales to the USSR.

"Steps must also be taken by the government to equitably compensate American farmers who suffer economic hardships as a result of the President's actions.

"American farmers should not be required to endure economic hardship primarily to evidence this Administration's willingness to confront the Soviet Union. American farmers will support combined efforts by all segments of our society as well as our allies to resist Soviet aggression in Afghanistan and throughout the world.

"Unless the above mentioned actions are taken, the grain embargo should be suspended."

Mr. Chairman, as indicated in the foregoing statements by Farm Bureau delegates, American farmers are concerned over Soviet aggression and expansionism and the possible effects on U.S. security and their lives. They are calling on the President not only to better explain the current situation to the American people but also to ask all segments of our economy to share in the costs of any necessary actions so that a clear signal will be sent to the Soviet Union.

It is not unpatriotic to question whether an embargo on agricultural commodities to the Soviet Union is the most appropriate response to Soviet expansionism or to question whether such action is likely to prove effective in view of the nature of agricultural products and world trade. For example, we understand that the withholding of U.S. grains from the Soviets can, at best, reduce meat production within the Soviet Union by no more than 3 or 4 percent. We also hear stories of "leakage" of grain from competing exporters and increased shipments of meats to the Soviets.

Laying aside the arguments on the need for the embargo and its ineffectiveness, the fact remains that we now have an embargo on the export of 17 million tons of U.S. grain and 1 million tons of soybeans and soybean products.

OTHER ACTIONS CALLED FOR

Questions, therefore, arise as to what actions are appropriate for our government to take and how the effects of the embargo on U.S. farm income can be mitigated.

Farmers should not be asked to carry the brunt of foreign policy efforts to stall Soviet expansionism. If our government is to react vigorously to Soviet expansionism, we urge the President to take the necessary steps to end all cultural and economic contacts other than the diplomatic contacts necessary to resolve the current situation. Farm Bureau members believe that a gradual "tightening of screws" will not work with the Soviets and that such a course will only sacrifice farm exports and, ultimately, farm income. If the security of the United States is threatened sufficiently to require an embargo on grains, this threat is indeed sufficient to justify additional measures to suspend business, scientific, and cultural relationships in order to send a stronger signal. U.S. policy which would embargo grain shipments to the Soviets while permitting a continuation of exports of U.S. superphosphoric acid (SPA) for use by the Soviets to increase their domestic grain production would be a policy filled with cross purposes. Therefore, Farm Bureau has asked that such shipments not be permitted.

If such measures are not taken, Farm Bureau seriously questions the need for the embargo action on grains and will recommend that it be terminated.

HOW TO MITIGATE EFFECTS OF EMBARGO

The Farm Bureau delegates have recommended seven actions to mitigate the effects of the grain embargo on farm incomes. We wish to elaborate on several of these which we believe will be of particular interest to this Committee. First, there is no way that 17 million tons of embargoed grain can be isolated from the market. Everyone knows that it exists, and pressures can be mounted to move it into the marketing system at a time when it would hurt farm prices and income. Nevertheless, we recommend that the strongest possible efforts be made to achieve such isolation, coupled with major efforts to move as much as possible of this embargoed grain into alternative markets.

Farm Bureau appreciates the actions that have been taken by the Administration thus far to help cushion the impact of the embargo on American farmers. Some of the Farm Bureau recommendations have been acted on. Others require further actions, including legislation.

LAND DIVERSION

We believe that a land diversion program is needed to reduce the 1980 production of wheat and feed grains.

We recognize that futures market prices have recovered since the January 4 embargo announcement by President Carter; however, there is considerable disparity between what has happened in the futures market and the situation in the cash grain market. This confusion reflects not only the shock of a 17-million-metric-ton market loss and the resulting government actions to offset the impact of the embargo but also "war psychology" market reactions and a shift of speculation from the metals market to the commodity futures market.

We do not believe that the long-term impact of this huge market loss, the resulting stocks, and the possibility that a large portion of the Soviet market has been lost for the foreseeable future has yet been fully reflected in futures market prices.

Farm Bureau does not believe that it would be prudent to produce grains at current production levels until new markets are found to offset the Soviet market loss. We strongly urge the Secretary of Agriculture to use the authority granted to him by the Food and Agriculture Act of 1977 to establish a land diversion program for the 1980 wheat and feed grain crops with adequate financial incentives to reduce next year's crop by 17 million metric tons.

Such action should be taken quickly so that America's farmers will have a clear understanding of the options available to them for the 1980 crop year. Further delay will only add to the existing confusion and disenchantment over federal farm policies.

CCC CREDITS

CCC financing of exports is not a subsidy as such credit is extended at regular commercial rates, which are attractive to our trading partners.

One of the quickest and most effective means of moving grain would be to finance additional quantities under the CCC export credit sales program. The Administration has stated that the CCC budget will be increased to \$1.8 billion in fiscal year 1980. This compares with \$1.6 billion in fiscal year 1979. However, country lines of credit (GSM-5) will be cut to \$800 million and the remaining \$1 billion will be devoted to credit guarantees (GSM101) against noncommercial or political risks.

This shift in emphasis from country lines of credit to credit guarantees will not achieve the export stimulation which is needed at this time.

The main emphasis should be on the continuation of lines of credit to which our foreign customers are accustomed, which they want, and which will be repaid over a 3-year period at prevailing market rates of interest. This would help meet unfilled requests for financing from a dozen or more trading partners who would like CCC funds to finance over \$1 billion worth of imports of U.S. farm commodities not already covered by lines of credit. We recommend increased funding for existing credit lines and the establishment of additional lines of credit with these trading partners—which include Portugal, Bolivia, Cyprus, the Dominican Republic, Egypt, Greece, Hungary, South Korea, Nicaragua, Pakistan, the Philippines, Romania, Poland, and Peru. This would be good business for both the U.S. government and these trading partners.

Farm Bureau supports legislation which would establish a revolving fund for CCC export credits. Such a fund, once established, would be self-sustaining and would avoid annual haggling with the Executive Branch of the government over the CCC credit budget.

LOAN AND TARGET PRICES

We appreciate the Administration's prompt action on loan and target prices. We do not see the need for further increases in loan rates as higher levels could interfere with the competitive workings of the international market system.

We do, however, recommend that the wheat and feed grain loan and target prices that have been announced for 1979 be offered to ALL producers regardless of whether they participated in the 1979 program. We support the legislation that is needed to achieve this objective.

RESALE PRICE OF ACQUIRED GRAIN

The CCC has acquired title to 10.8 million tons of corn which eventually will be resold into the market. Any corn which is physically acquired by CCC cannot be resold for less than 150 percent of the loan rate or \$3.15 per bushel. Farm Bureau supports legislation which would require that this grain not be sold for less than 10 percent above the reserve program call level and that such releases be staggered. The same rule should be applied to all wheat acquired as a result of the grain embargo unless such wheat is used in the P.L. 480 program as a donated commodity or is sold at market prices under the Title I program.

GASOHOL

We generally support the Administration's announcements on gasohol and legislation which would provide loans, grants, and tax refunds to encourage gasohol production. As petroleum prices increase rapidly, alcohol for fuel will become economic. We caution, however, that the probable tonnages of grain uses for this purpose in the near term will have little offsetting value against the embargo action.

LOW INTEREST LOANS

We will support legislation that will give the Secretary of Agriculture the legal authority to use CCC to deal with all agricultural commodities affected by the embargo in the same manner as grain.

SUMMARY

Mr. Chairman, in summary, Farm Bureau wishes to stress our views that an embargo in grain and high technology items and restrictions on fishing rights appear to be an insufficient response to the threat to national security which President Carter has told us exists. We, therefore, call for a broadening of U.S. actions to increase the effectiveness of those already taken to counter Soviet expansionism. In addition, we ask for action to mitigate the impact of the measures that have been taken on that segment of the economy, agriculture, which has been hardest hit by the embargo action.

AN UPDATED ECONOMIC ANALYSIS OF THE SOVIET EMBARGO AND THE IMPACT OF A PAID DIVERSION

(Prepared by John Hosemann and Ross C. Korves, AFBF Research Economists)

Shortly after the USSR grain embargo was announced, the Wharton Forecasting Model was used to forecast the impact on net farm income. Assuming no government assistance to offset the effects of the embargo, net farm income for 1980 was forecast to be \$24.8 billion. In a followup analysis, the Administration's purchases of 150 million bushels of wheat for CCC stocks and a 500 million bushel increase in the corn reserve program were analyzed to determine the impact on the agricultural economy. Net farm income for 1980 at \$25.2 showed little positive response to these government measures. CCC purchases of wheat were determined to be somewhat effective in supporting the wheat price, but the increased corn reserve was found to have virtually no impact on future corn prices. Corn prices were forecast to fall to the loan rate by the fall of 1980.

The latest Wharton analysis (2-1-80) of the agricultural economy continues to show the depressing effect of the USSR grain embargo on net farm income in general and corn prices in particular. This analysis takes into consideration the price support loan and reserve program changes announced by the Administration, the January 1, 1980 USDA Grain Stocks report, and the revised USDA crop production estimates for 1979.

Net farm income for 1980 is forecast to be \$25.9 billion compared to a revised preembargo net farm income estimate of \$27.3 billion, a 5.1% decline. Realized net farm cash receipts for 1980 are forecast at \$10.4 billion compared to \$11.5 billion before the embargo, a 9.6% decline.

Corn producers will be hardest hit by the embargo. The average corn price at the farm for the 1979/80 marketing year is now forecast at \$2.30 per bushel compared to \$2.40 per bushel prior to the embargo. The average farm price for corn is forecast to be \$2.14 per bushel for the third quarter of 1980 and \$2.16 for the fourth quarter of 1980. This indicates that corn prices in much of the United States will be below the national average loan rate of \$2.10 per bushel for most of the last half of 1980. This is likely to cause serious cash flow problems for many producers. However, these lower corn prices will help livestock and poultry production and increased profits in these areas will help to offset some of the decline in net farm income.

Wheat prices are forecast to reflect some impact from the embargo but will be protected some by the CCC purchases of 150 million bushels of wheat for foreign assistance programs. Wheat prices at the farm are now forecast to average \$3.87 per bushel for the 1979/80 marketing year compared to \$3.93 prior to the embargo. Prices for 1980/81 are expected to average \$3.69 per bushel compared to a forecast of \$3.85 before the embargo.

The Administration has not announced a paid diversion program for wheat or corn. Without a paid diversion program for wheat the carryover will be 970 million bushels at the end of the 1979/80 marketing year and will increase to over 1.1

billion bushels at the end of the 1980/81 marketing year. This carryover would be similar to the carryover at the end of the 1976/77 and 1977/78 marketing years. The average farm price for wheat was \$2.54 per bushel in the 1976/77 marketing year and \$2.48 in the 1977/78 marketing year.

The corn carryover at the end of the 1979/80 marketing year is now forecast to be almost 1.8 billion bushels. Without a paid corn diversion program the carryover at the end of the 1980/81 marketing year will decline, but will still be in excess of 1.3 billion bushels. This would be larger than the ending supply in the 1978/79 marketing year when the average corn price at the farm was \$2.28 per bushel and the 1977/78 marketing year when the average farm price was \$2.05 per bushel. We do not expect prices to drop this low due to the larger domestic and foreign demand base for corn and continuing inflation, but in the absence of a diversion program corn prices can be expected to remain under extreme pressure. This would likely create pressures for increased loan rates to aid farm income, which would severely hurt efforts to increase domestic corn use and exports and maintain a market-oriented agriculture.

Low corn prices could force some producers to switch to soybeans. Soybean prices are already under pressure with the carryover at the end of the 1979/80 marketing year forecast to be almost 450 million bushels, by far the largest carryover ever and 2.5 times as large as the carryover at the end of the 1978/79 marketing year. The carryover at the end of the 1980/81 marketing year is also expected to be near 450 million bushels.

The livestock industry will benefit some from these large supplies of grain and soybeans but will suffer in the long run because cheap grain in the past has encouraged overproduction of livestock and resulted in low livestock prices.

ANALYSIS OF PAID DIVERSION

Emergency Farm Bureau policy for 1980 calls for a paid diversion for feed grains and wheat for the 1980 crops to offset the loss of exports to the USSR. The impact of such a diversion was analyzed using the Wharton model. Planted acreage of corn, sorghum and wheat was reduced enough to reduce the 1980 wheat crop by 141 million bushels, the corn crop by 478 million bushels and the 1980 sorghum crop by 39 million bushels.

The most important effects of this program are:

- (1) Grain producers would get some short-term income relief;
- (2) The reduction in supply of grain would not greatly impact the demand for grain;
- (3) The U.S. consumers would not be affected; and
- (4) Most important, projected carryover supplies at the end of the 1980/81 marketing year would not be large enough to give the government an excuse to move agriculture away from the free market.

The diversion program would have a major impact on corn prices without having much effect on demand. With the diversion program the average corn price for the 1980/81 marketing year is forecast to be \$2.58 per bushel compared to \$2.41 without the diversion program. Use of corn for feed would decline by about 70 million bushels but the other uses of corn would be virtually unchanged. The most important point is that the carryover would decline by 374 million bushels to 962 million bushels, which is a much more satisfactory level, given the outlook for utilization, the uncertainty regarding future government embargoes and the use of farmer grain as a foreign policy tool.

The following table compares the diversion with no diversion for corn for the 1980/81 marketing year:

CORN DIVERSION OF 478,000,000 BUSHELS IN 1980, 1980/81 MARKETING YEAR

Item	Without diversion	With diversion	Difference
Acreage planted (million)	82.8	77.3	-5.5
Acres harvested (million)	72.0	66.7	-5.3
Yield per acre (bushels)	98.2	98.8	+0.6
Bushels harvested (million)	7,068.9	6,591.1	-477.8
Carryover Oct. 1, 1980 (million bushels)	1,786.3	1,800.4	+14.1
Total supply (million bushels)	8,855.2	8,391.5	-463.7
Feed use (million bushels)	4,422.4	4,352.6	-69.8

CORN DIVERSION OF 478,000,000 BUSHELS IN 1980, 1980/81 MARKETING YEAR—Continued

Item	Without diversion	With diversion	Difference
Food and industry use (million bushels)	775.0	769.7	- 5.3
Seed use (million bushels)	19.9	19.9	
Exports (million bushels)	2,302.0	2,287.5	- 15.5
Total use (million bushels)	7,519.3	7,429.7	- 89.6
Carryover Sept. 30, 1981 (million bushels)	1,335.9	961.8	- 374.1
Season's average price (per bushel)	\$2.41	\$2.58	+ \$0.17

The sorghum diversion would affect sorghum in about the same way that the corn diversion would affect corn.

The wheat diversion program would give an average farm wheat price of \$3.80 per bushel for the 1980/81 marketing year compared to a price of \$3.69 with no diversion program. The only impact on use would be a decline of 36 million bushels in wheat exports. The most important effect of the diversion program would be a decrease in the carryover at the end of the 1980/81 marketing year. The carryover would decline by 100 million bushels to just over one billion bushels, which is still large but acceptable, given the uncertainties of world wheat production.

The following table shows a comparison of the diversion program with no diversion:

WHEAT DIVERSION OF 141,000,000 BUSHELS IN 1980, 1980/81 MARKETING YEAR

Item	Without diversion	With diversion	Difference
Acreage planted (million)	77.8	72.7	- 5.1
Acres harvested (million)	68.4	63.3	- 5.1
Yield per acre (bushels)	32.7	33.1	+ 0.4
Bushels harvested (million)	2,236.2	2,095.1	- 141.1
Carryover July 1, 1980 (million bushels)	969.6	969.8	+ 0.2
Total supply (million bushels)	3,205.8	3,064.9	- 140.9
Feed use (million bushels)	99.8	95.6	- 4.2
Food and industry use (million bushels)	610.9	610.9	
Seed use (million bushels)	96.8	96.8	
Exports (million bushels)	1,285.1	1,249.2	- 35.9
Total use (million bushels)	2,092.6	2,052.5	- 40.1
Carryover June 1, 1981 (million bushels)	1,113.2	1,012.4	- 100.8
Season's average price (per bushels)	\$3.69	\$3.80	+ \$0.11

The wheat and feedgrain diversion programs would increase the soybean price about 10 cents per bushel as livestock producers would shift slightly to soybean meal as corn and sorghum prices increase. The increased feedgrain prices would have no effect on beef production or cattle prices. Pork production would not be affected in 1980 but in 1981 hog prices would be slightly lower as the increased feedgrain prices accelerate the liquidation phase of the hog cycle.

Most important of all, at least in the eyes of many policymakers, the diversion program would have NO effect on the Consumer Price Index for food.

The following table shows the impact of the diversion program on the CPI, livestock and soybeans:

WHEAT, CORN AND SOYBEAN DIVERSION PROGRAM, 1980/81 MARKETING YEAR, SELECTED INDICATORS

Item	Without diversion	With diversion	Difference
CPI—All foods:			
1980	254.14	254.14	
1981	274.24	274.14	— .10
Omaha steer price (per hundredweight):			
1980	\$72.03	\$72.07	+.04
1981	\$76.50	\$76.36	— .14
Cattle and calf slaughter (billion pounds):			
1980	35.72	35.68	— .04
1981	38.43	38.56	+.13
Barrow and gilt price (per hundredweight):			
1980	\$39.37	\$39.37	
1981	\$47.23	\$46.26	— .97
Total pork production (billion pounds):			
1980	16.37	16.38	+.01
1981	15.14	15.37	+.24
No. 1 yellow soybeans, Chicago (calendar year):			
1980	6.07	6.11	+.04
1981	6.58	6.75	+.17

Total net farm income would be increased by only \$250 million in 1980 and 1981 due to the diversion. This is partly because of higher grain prices would cause feed costs to go up for livestock production. Basically, there would be a shift of income from livestock producers to grain producers which would reverse the opposite shift that has occurred because of the lower prices caused by the embargo.

The following tables show the diversion program's impact on 1980 and 1981 farm income:

WHEAT, CORN, AND SORGHUM DIVERSION PROGRAM, 1980/81 MARKETING YEAR

[In billions of dollars]

Item	Without diversion	With diversion	Difference
Farm expenditures for 1980:			
Total cash receipts	136.76	136.49	— 0.27
Nonmoney and Government pay	14.98	15.58	+.60
Realized gross farm income	151.74	152.07	+.33
Farm production expenses	126.36	126.54	+.18
Realized net farm income	25.38	25.53	+.15
Net change farm inventories	.54	0.64	+.10
Total net farm income	25.92	26.17	+.25
All crop cash receipts	65.32	65.07	— .25
All livestock cash receipts	71.46	71.45	— .01
Farm expenditures for 1981:			
Total cash receipts	150.44	151.79	+1.35
Nonmoney and Government pay	15.48	15.48	
Realized gross farm income	165.92	167.27	+1.35
Farm production expenses	138.57	139.50	+.93
Realized net farm income	27.35	27.77	+.43
Net change farm inventories	.02	— .16	— .18
Total net farm income	27.37	27.62	+.25
All crop cash receipts	70.41	72.11	+1.70
All livestock cash receipts	80.07	79.90	— .17

STATEMENT OF CHARLES L. FRAZIER, DIRECTOR, WASHINGTON OFFICE, NATIONAL
FARMERS ORGANIZATION

Mr. Chairman and members of the Committee, we appreciate this opportunity to come before you once again to ask for legislative action that will enable our family-size farm units to survive. The consequences of the recent Russian grain embargo and related governmental actions literally threaten the survival of the producer side of the agricultural economy in this country.

On January 4, 1980, the Officers and Board Directors of the National Farmers Organization supported the President's partial embargo of grain sales to Russia as being in our best national interest. At the same time, we asked that steps be taken to be certain that our producers would not stand alone in bearing the cost of this action. It must be kept in mind that grain prices prevailing prior to the announcement were improving, compared to previous lows, but they were still not high enough to be profitable at local levels in most producing areas.

The cut-off on the Russian shipments, therefore, had the effect of denying us a much needed market and also erased the possibility of more favorable prices anticipated by some producers who had cooperated with the government by participating in the farmer-owned reserve. If you think for a moment about interest rates and the costs of storage and transportation with which we are all familiar, I am sure you will realize that producers were holding tremendous quantities of grain at their own expense. They had a right to expect that the government was correct in the series of actions over the last two years that encouraged all-out production of wheat and feed grains.

On January 11, 1980, we specifically recommended that the Secretary of Agriculture utilize the existing authority of the Commodity Credit Corporation to purchase grain directly from producers. Our letter is attached for your information. We followed this up with personal contacts because we were firmly convinced that such an action could be accomplished through the ASCS local offices in an expeditious manner that would give producers the same protection offered to the 14 large export firms holding Soviet export contracts.

Grain, so purchased, could have been held at the local levels where it might be stored at least cost. It might have been regarded as a strategic reserve well situated for any eventuality that we might face in the near future.

The government's response was rather feeble, at best. On January 22 an offer was made to purchase grain from elevator operators. It has been reported that some 53 million bushels of corn were offered by about 5,000 potential sellers in 19 states. The Department bought only 281,349 bushels at prices that would net to the producers less than the cost of production. Even though government spokesmen could point to recovering price levels at terminals in late January or early February, those prices did not honestly reflect a comparable recovery at country points. In many localities, either prices failed to recover or no grain was moving. If a number of producers are actually forced to sell grains at these distressed prices in order to finance 1980 operations, the actual net prices paid will be further weakened. In some cases, actual sales for cash still cannot be accomplished in volume.

1980 PROSPECTS

The Administration announced small increases in loan rates and reserve release levels for grain. The Congress may finally complete action on the inadequate bill H.R. 3398, increasing target prices for 1980 and 1981. There apparently is to be no set-aside of wheat acreage in 1980. Winter wheat growers have increased seeded acreage by 5 million acres over a year ago and Spring wheat projections have indicated an increase of another million acres. It appears quite likely that the carry-over of wheat stocks at the end of this year will reflect a sharp increase. The estimates that October 1 stocks will be 1.713 million bushels compared to 1.633 on October 1, 1979, relies on an increase in exports of nearly 100 million bushels. In view of the recent embargo action and slow-down in exports movement, it is not reasonable to anticipate that our sales, our transportation system and the congestion at the ports will permit this export goal to be realized. We must conclude that wheat carry-over stocks at the end of this year probably will be higher than projected.

In the case of corn, the USDA estimates also contemplate a new record level of export activity, in spite of the loss of the Russian movement. Exports have been projected at 2.275 billion bushels compared with the level of 2.133 reached in the 1978-79 season. Domestic feeding is estimated to be comparable to that existing in 1972-73. Even with these rosy projections, we will have a September 30 corn carry-

over of 1.8 billion bushels, 40 percent above the level of a year ago and the largest since 1960-61.

We believe the government is simply wrong in anticipating that stock levels may be increased at this rate, that the farmer-owned corn reserve stocks can be made available when markets reach a national average price of \$2.63 per bushel and still expect farmers to receive profitable prices on 1980 production. The bankers will not regard those prospects favorably and they will be reluctant to loan badly needed operational money for the new 1980 crop season.

Said another way, the Department's own estimates acknowledge that the record production of 234 million metric tons of feed grains in 1979 (8 percent over 1978), when combined with the 1979 carry-over, projects a record 280 million metric tons of all feed grains going into the 1979-80 marketing season. This, too, is up 8 percent from the year before. With reasonable crop prospects in 1980, there is a strong likelihood that actual prices offered to farmers at the local level will ride on or somewhat below the national average \$2.10 corn loan rate. Comparable prices will prevail for the other feed grains. Cash grain producers will again lose tons of money if we go into this season without a feed grain set-aside program and more realistic grain loan rates to brace up this market.

INTEREST RATES AND COST OF OPERATION

It is estimated that the national budget deficit, plus the extra federal requirement to cover unbudgeted items, will equal about \$58 billion this year—the U.S. Government will have to borrow this amount of extra money in the market. It is expected that the tight money policy of the Federal Reserve Board announced last October 6 will be continued as one of the only identifiable efforts to slow down inflation and that effort, incidentally, can hardly be labelled a resounding success.

The President's prediction (Economic Report and Budget Messages) that the rate of inflation would be reduced from 13 to 10 percent is not supported by publication of an increase in the wholesale price index in January of more than 20 percent. This is more than an indication; it is a sure thing that all consumer prices will continue to advance in the 15 percent or higher range in the coming months when most farmers make their heavy production purchases for the year. For example, it now appears that phosphate fertilizers will be up from a year ago by 60 to 75 percent.

Other costs of operation continue to rise. We are firmly convinced today that the decline in real net farm income in 1980 will be more severe than predicted by USDA personnel. We can only reaffirm our statement, made before your Subcommittee on Agricultural Credit and Rural Electrification on December 18, 1979, that 12 to 18 percent interest rates, coupled with rising costs of operation, will contribute directly to a continuing decline in productivity and the demise of a substantial number of family-size farm units later this year.

Although I am reluctant to borrow trouble for the future, there is an additional threat to the farm economy that might logically be considered by this Committee at this point in time. If the leadership of this government concludes that its efforts to cope with inflation have failed and the "wage and price guide lines" must be abandoned in favor of wage and price controls, it is safely predictable that an effort will be made to freeze the price levels on raw agricultural commodities at the loss levels prevailing in the market at the time. In all probability, the exorbitant prices demanded today for petroleum products and other energy-related services and manufactured articles also would be frozen without a roll-back. The economic forces involved are simply beyond the control of our producers and their organizations. We must look to this Committee to help us get market prices for grain, peanuts, the oil crops and cotton up to more acceptable levels as soon as possible. Any freeze of the price-cost balance prevailing in agriculture today would be a disaster.

RECOMMENDATIONS

In view of the fact that you have a number of bills before you, and there are similar provisions in several of them, I will not undertake to comment on each of the specific proposals. It is hoped, however, that you will move quickly to influence the Administration in establishing a paid set-aside of feed grain acres in 1980. This would be clearly justified by their own numbers. Such an action would reestablish some degree of confidence among producers and lending agencies that are today faced with rationing available funds for 1980 Spring farming operations.

We support the principal provisions of S. 2277 as a minimum that should be accomplished through legislation at an early date. I refer to:

(1) Increasing the national average wheat loan rate to \$3.90 per bushel for the 1979-81 crops of wheat, with semi-annual adjustments reflecting the estimated change in the parity index.

(2) Increasing the corn loan rate to \$2.50 per bushel for each of the crops of 1979-81 with a semi-annual adjustment reflecting the change in parity.

(3) A 60 cents cotton loan rate with a similar parity adjustment to apply.

(4) The proposed soybean loan rate of \$6.25 for 1979-81 crops of soybeans and the related semi-annual adjustment based on parity.

(5) The proposal to increase the level at which CCC stocks can be released into the market (the higher of 10 percent above the reserve call level or 20 percent above the prevailing target price).

(6) The proposed improvements in the Food for Peace program. (Sec. 4, S. 2277)

It is also recommended that the language in the Food and Agriculture Act of 1977 be modified to make it clear that the Secretary of Agriculture is required to set the national average loan rate for the affected commodity at 90 percent of its parity price at any time an embargo is used to restrict trade in one of these major commodities. It is our recollection that the Congress first set out to establish this clear-cut protection of our export trade when working on the 1977 act, but you were persuaded to include the loop-hole that has now been used at the expense of farmers without taking comparable action on other forms of commercial trade with the Soviets.

Attachment.

NATIONAL FARMERS ORGANIZATION,
 Corning, Iowa, January 11, 1980.

Hon. BOB BERGLAND,
Secretary of Agriculture,
Washington, D.C.

DEAR MR. SECRETARY: When President Carter announced a partial embargo on Russian grain sales January 4, the National Farmers Organization issued a statement supporting the President's action. Since that time we have moved to soften the effect of the new policy on farmers' grain prices.

On January 9 I called for a two-week moratorium on all grain sales by producers as a contribution to stabilizing the market. We are holding a series of membership meetings in the grain areas to encourage stronger bargaining efforts by producers and less dependence on Government for fair prices. It must be recognized, nevertheless, that Government actions are controlling our prices. They are too low when compared to current costs of production.

Throughout these statements and actions we have insisted that "farmers must not be expected to carry the economic burden alone" in our efforts to deal with the USSR. Farmers should be protected as firmly and precisely as the exporters whose contracts with the Russians have been cancelled.

Although we appreciate your actions increasing loan rates on the 1979 grain and the release levels in the farmer-owned reserve program, it is necessary to recognize that this action alone is not enough to reverse the severe drop in prices paid to farmers at the country level.

It is recommended that you announce immediately a purchase program for 1979 crop wheat and feed grains at price levels existing in the 5-day period immediately preceding the President's announcement. It is my understanding that these prices would average \$3.95 for wheat and \$2.41 for corn. Such a program can be operated under the broad authority of the Commodity Credit Corporation. The purchases should be handled through ASCS county offices. The grain so acquired would be purchased directly from producers and could be held at widely distributed locations for strategic purposes and economy of operation.

In final analysis this proposal could be accomplished at minimal cost. The Government retains the authority to influence levels of production and disposal of the grain at higher price levels at a later date.

Such an action would compliment your offer to accept more corn in the farmer-owned reserve. It would offer an alternative to those producers who are unable to store the grain or delay financial obligations facing them at this time.

This is the time for the Administration to move swiftly to stop the drop in grain prices at the producer level. We would be happy to work with you and your staff in implementing this action program.

Sincerely,

DEVON R. WOODLAND, *President.*

STATEMENT OF NITA GIBSON, NATIONAL PRESIDENT, WOMEN INVOLVED IN FARM ECONOMICS, SEMINOLE, TEX.

Mr. Chairman and members of the Sub-Committee on Feed Grains and Livestock.

My name is Nita Gibson. My husband Charles is a cotton farmer and we live on our farm west of Seminole, Texas.

I am the National President of WIFE (Women Involved in Farm Economics). It is an honor for me to serve as president of more than 2,000 members in 13 states because when I think of WIFE I think of a tremendous pool of intelligence, foresight and grass-root dedication. I think of on going study and investigation into farm problems and their resolve. In fact, Mr. Chairman we pledge you our continued participation in the process of making farm legislation.

Mr. Chairman, we wish to thank you and this committee for this hearing. We are hopeful that proposals will be adopted to mitigate the effects of the embargo on this nation's farmers.

As farmers we are loyal and patriotic. We are honored that the muscle and toil that provides food and fiber for this country and much of a hungry world has been used to stay the aggression of communism into a neutral country. We are proud to be recognized as a security force for this country, and frankly we look for this diplomatic approach to be used more and more, however, we believe we have the right to expect that the burden of the embargo be shared by all Americans. We believe a policy should be instituted that will eliminate the chaotic disruption of the American farmers rightful pursuit of making a living. Many of us and I'm sure many of you thought a policy to handle such an emergency was in the law—that being the invoking of the 90 percent of parity rule and that part of the Export Administration Act which gives the Congress review and reverse powers—however, the Administration chose not to invoke the 90 percent of parity rule and to side-step your reversal powers by imposing the embargo not only on foreign policy considerations but also on national security reasons. This sort of action brings the question to mind of was this deliberate and callous action of no consideration to the farmer necessary? Is this the epitome of an attitude perpetrated by the top leadership of our land? That attitude being: Everybody thinks they have a right to our livelihood, a right to impede, a right to control, a right to interrupt, a right to price if you please our income because we produce the necessities to sustain life. Is there no one among us that recognizes the fact that if we kill the goose there will be no egg? Mr. Chairman, I submit a plea for the changing of this attitude by the public, by the Congress and by this Administration.

WIFE wishes to state for the record that these recommendations submitted today are for the short term resolve in order to minimize the adverse impact on the American farmer brought on by the embargo. We recommend the following:

(1) a paid diversion program for 1980 wheat and feed grains aimed at diverting from production an amount equal to the amount of tonnage involved in the embargo but not less than 20 percent. This payment cannot be subtracted from disaster payments not limited. This paid diversion must have adequate incentive to assure 100 percent participation by all commodities across the board. Payments shall be based on the established NCA and producers acreage must be returned to the original NCA for the purpose of the continuation of an improved set-aside program.

(2) increase loan rate for grain entering farmer held reserve along with increases in release and call levels.

(3) interest free loan rates and storage on all embargoed commodities.

(4) isolation from the market-place the 17 million bushels of grain involved in the embargo by amending the 1977 farm bill to permit these CCC stocks of grain to be sold at the current loan rate if used for making alcohol fuels produced by new facilities and by increasing the use of Public Law 480 program.

(5) amending of the 1977 farm bill to permit the Secretary to proclaim a set-aside for the 1980 crop of corn and other feed grains based on carryover stock and the size of farmer held reserve.

WIFE has not concluded the issue of the establishment of a two-tiered loan program, however, we wish to question the idea. We believe this type of program would do nothing to remove the root problems of over-production and would constitute a price depressant at the market-place. We also question the good judgement of the establishment of a food security reserve of wheat to ensure that stocks would be available for Public Law 480 food aid even in a period of tight supplies. Again we believe misguided implementations of reserve programs are used as price deterrents at the market-place.

In conclusion we of WIFE reiterate these suggestions are for short term resolve because we believe for the long range we must have new innovations into our approach to agriculture problems. We believe that the worn-out * * * re-hashed

* * * antiquated farm bills in play since the great depression must go out the window. We believe the net results of these programs are we have been forbidden the benefits of the free enterprise system * * * that we are not afforded the economic equity by government rule * * * to sum up * * * we are all strung out * * * we do not have a place in the sun under either ideology.

We of WIFE envision a constitution of agriculture, with broad, general, flexible options adaptable to our needs as a nation and yet at the same time afford us a bill of rights if you please in order that we the producers of raw agriculture have the opportunity to exercise the free enterprise concept, namely, making a profit at the market-place. Last year we spent 114 million dollars on production costs alone, surely, surely, this has won us the right of self determination.

Mr. Chairman and members of this committee I thank you again for these hearings and thank you that I could express these views. We ask that these views be responded to in the affirmative. Thank You.

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

Mr. Chairman, I very much appreciate the chance to appear today and discuss the Administration's position on the range of proposals that have been made by members of this Committee to modify certain agricultural programs.

As you know, the President regarded the invasion of Afghanistan by the Soviet Union as a very serious act of aggression that could not be left unanswered. The actions taken to counter that aggression were the most direct and effective steps available, short of military intervention. While not overstating our expectations for the impact of these steps, we believe that they will significantly reduce the supply of feed grains available to the Russians this year with consequences the Russian government will be unable to overlook.

Immediately following the restriction on exports to the U.S.S.R., the Administration took a series of extremely important steps to, in the President's words, "protect farmers from the impact of this unanticipated action."

We offered to acquire the contract rights for delivery of all of the grain and oilseeds previously destined for the U.S.S.R. except for the 8 million tons of wheat and corn covered by the long-term grain agreement. Of those exporters who held contracts with the Russians, 12 have signed agreements with the CCC for 4.5 million tons of wheat, 10.8 million tons of corn, and about 0.7 million tons of soybeans. The CCC will purchase corn until the farm price is at or above the level of prices expected prior to the time the restrictions were imposed, and then arrange sale of the contracts to another party. However, the wheat will not come back onto the market. It will be held by CCC. If Congress authorizes a food security reserve, it will be used solely for foreign food aid purposes.

We have proposed supplementals for the foreign food assistance programs in both fiscal year 1980 and fiscal year 1981, in total nearly \$300 million.

To maintain domestic price strength, we have instituted a new farmer-owned reserve program. To encourage farmers to place additional grain in this reserve, loan prices for wheat and corn were increased and the bands between the reserve release and call prices were widened. Reserve storage rates were increased. Interest accrued during the first year of the new grain reserve agreement for up to 13 million tons of corn entering the reserve was waived. Also, producers who have placed corn in the previous grain reserve program after October 22, 1979 could take advantage of the interest waiver provision applicable to 13 million tons of corn by executing a new agreement under the new grain reserve program on or before March 31, 1980. These actions prevented our markets from being seriously disrupted during January and February.

Concerns about the suspension, income prospects and credit supplies have given rise to several proposals for drastic changes in our farm programs. I will comment on some specific proposals in a moment. And, while we believe that there is a need for some small changes in program authority, we also feel strongly that our basic policy is correct and should not be changed.

The keystone of that policy is the farmer-owned reserve. Production overages and shortfalls are channelled into or supplemented by the reserve. Prices in the market-place, over the intermediate term, tend to cluster around the release price even when supplies are large and up to or above the call price when supplies are tight. The loan prices have far less significance to market prices than they did in the past. And, the more farmers utilize the reserve program, the more this will be true.

The target prices provide an economic safety net. When very good weather, or very weak demand, leads to excess supplies so great or so sudden that moving grain

into the reserves does not adequately prevent economic disasters, the target prices are there to ensure that farmers' incomes cover the costs they cannot postpone. And, while an economic safety net is an important protection, it is far from a complete policy system. Farmers' willingness to hold their grain following the January 4 announcement of export restrictions and to put it in the reserve in increasing amounts indicates they remember how well the reserve worked over the past three years. They are reflecting their confidence that it will do so again. By February 27, farmers had placed an additional 129 million bushels of corn in reserve and more is coming in each day.

The final policy elements are the set-aside and diversion programs. If production is projected to exceed both current needs and the reserve stocks objectives, set-aside and diversion programs are available to bring production capacity back into balance with anticipated demand over the intermediate term.

This is our policy system. It worked very well in the past and is working well now. The export restriction has increased our reliance on the farmer-owned reserve and our need for a food security reserve. But that decision has not fundamentally altered the economic situation farmers face this spring. Supplies are huge, but demand is strong and rising. Even with the suspension of exports to the Soviet Union, exports in fiscal year 1980 are expected to be a record \$37 billion.

Our exports of feed grains and wheat are expected to increase 11 percent. This continued strength in the export market, when combined with an increased domestic demand for animal feeds, for high fructose corn sweeteners, and for alcohol fuels, weighed heavily in our recent decision not to offer a paid diversion for grains in 1980.

However, there are problems in agriculture which must be dealt with. Credit is a matter of particular concern. Farmers will need more credit this year, and interest rates are expected to be up 12 to 15 percent so that they will spend 25 to 30 percent more for the credit they need. Farm credit institutions are much more concerned about lending risk than they were just a few months ago. They are looking very carefully at farmers' income prospects in light of the price uncertainty of the past few weeks. More farmers are pushing against credit ceilings imposed by their lenders and some are unable to get credit for sound ventures because of these limits. Banks in the upper midwest especially are reporting low liquidity—the lowest since before World War II.

Farm prices in general are not rising as rapidly as farm input prices. Farmers faced rapid increases in costs last year, and they will again in 1980. Some of the price increases are shocking. Fuel prices will be up 40 percent or more this year; fertilizer about 25 percent; and while other items farmers must buy will increase less than these two, the trend is for sharply higher costs across the board. The result will be lower farm income this year.

These are important problems. We can make our programs work better, we believe. But the programs will not be improved by drastic and unnecessary changes that risk undercutting the policy and destroying the system and we will have to oppose any such changes.

Specifically, we plan five actions designed to strengthen our existing programs, and to ensure that farmers have the capital they need to produce food and fiber for domestic and export use:

1. Purchase wheat and corn as necessary to carry out the President's directive to maintain prices at levels that would have prevailed absent the export suspension. We expect to acquire about 4 million tons of wheat. The amount of corn that will be necessary to purchase will depend on price responses and on the flow of grain into the farmer-owned reserve. The Secretary announced on Tuesday, March 4, that the Department will begin buying wheat and corn to fulfill these commitments.

2. Request authority to renew and extend the Economic Emergency loan program to make available an additional \$2 billion in production capital over the next one-and-one-half years to American farmers who are unable to obtain adequate capital elsewhere.

3. Request discretionary authority to change the farmer-owned reserve program to permit a limited amount of 1979 crop corn that is not now eligible to enter the reserve if, after ample opportunity, farmers who are now eligible do not put enough corn into the reserve to bring prices up.

4. Request authority to increase the loan limit on storage facility loans from \$50,000 to \$100,000 and remove the statutory two-year production limit.

5. Request authority to permit the sale of CCC-owned corn for conversion into alcohol, but only when the farm price is above the reserve release price.

At this point, Mr. Chariman, I would like to comment specifically on four bills that are before this Committee that would make a number of changes in our

agricultural programs—changes that go far beyond the changes I have just described.

All four of the bills would change the 1979 loan program by changing either farmer eligibility or the loan levels, or both.

S. 2199—All 1979 wheat and feed grains would be eligible for price support loans, regardless of whether or not producers participated in the 1979 wheat and feed grain programs. This bill does not change the loan prices.

S. 2258—All 1979 wheat and feed grain producers would be eligible to put grain under loan and in the reserve, but producers who did not participate in the 1979 program would be limited to only 50 percent of the crop from the producers' 1979 normal crop acreage. Loan prices would not be changed.

S. 2264—Would not change producer eligibility, but loan price would be increased sharply for grain already in the reserve—\$3.50 per bushel for wheat, and \$2.50 per bushel for corn. The reserve release and call prices would be unchanged.

S. 2277—Would not change producer eligibility, but the minimum loan prices on all grain under loan would be increased sharply. In addition, after the first six months of the 1980 marketing year, the loan prices for wheat, corn, cotton, and soybeans would be increased semi-annually to reflect any change in the parity index. The minimum for 1979 would be \$3.90 for wheat; \$2.50 for corn; \$.60 for cotton; and \$.625 for soybeans.

S. 2277 would change the CCC sales policy so that grain owned by CCC could only be sold at 110 percent of the call level, or 120 percent of the loan price, whichever is higher.

S. 2258 would exempt 1979 crop soybeans from the present requirement that a producer must comply with his NCA as a condition of eligibility for price support loans.

Mr. Chairman, I am not in a position to give you specific guidelines on each of the proposals included in these bills. As you know, we are now involved in a comprehensive review of economic policy. All programs that impact on Federal outlays are being looked at carefully.

I do want to observe that, in general, we believe most of these proposals are unnecessary, and many would tend to be very expensive. In the case of S. 2264 and S. 2277, which sharply increase the minimum loan prices, they increase the risk of both huge stocks of CCC-held grain and lost export markets.

Of the four bills, S. 2277 would result in the greatest increase in government outlays for wheat and feed grain programs over the two-year period FY 1980 and wheat, outlays would increase by about \$1.1 billion, and for feed grains, by about \$610 million, for a total increase of \$1.7 billion over our current program.

The cotton and soybean provisions would add an additional \$2 billion, for a total of \$3.7 billion. S. 2264 would result in a similar increase for feed grains—about \$613 million—but a smaller increase for wheat—about \$680 million—for a total increase of \$1.3 billion.

The remaining two bills are much less expensive. S. 2199 would increase outlays for wheat and feed grains by about \$194 million, and S. 2258 would increase outlays for feed grains by about \$110 to \$125 million over the two years. In all cases, the bulk of the additional outlays would occur in fiscal year 1980, and in the case of S. 2199 and S. 2258, outlays in fiscal year 1981 would actually be reduced.

S. 2277, with its high loan prices and its semi-annual adjustments, would roll farm price policy back to the mid-1940's, 1950's and early 1960's when stocks rose to excessive levels and farm prices declined with loan price levels. That policy was a disaster. More was produced than the market would take at the price support levels. We fear S. 2277 would mean a return to this intolerable outcome. Production in excess of requirements not only would mean large government expenses but far-reaching government production and marketing restrictions as well.

Mr. Chairman, there is one important change in program authority that we would encourage you to provide in order to help support prices and to provide additional credit for corn production—the crop for which the credit problem is not severe. We believe it would be very helpful to have authority to open the reserve to very specific amounts of corn from non-participants in the 1979 program. We favor discretionary authority for this action, but believe a maximum limit of 5 or 10 million tons to be appropriate. The quantity actually permitted to go into the reserve would depend upon how much corn eligible producers have placed in reserve and how much the CCC has purchased. The total quantity to be placed in reserve or purchased depends upon the farm price for corn. We want it to be at least as high as it would have been in the absence of the suspension.

Under this proposal, non-participants would be strictly limited to a specific amount. The grain would be received on a first-come, first-served basis. This change

would not increase outlays above levels currently projected since it provides an alternate means of reaching our reserve objectives and would not be used unless current targets were not achieved.

Beyond this change, any additional changes in the loan and reserve programs must be considered in the context of the overall effort to reduce budget outlays and ease inflationary pressures in the economy. This review is underway. Final decisions have not been made. Therefore, I cannot at this time be any more specific than to say we believe any drastic general increase in loan prices to be unnecessary, inappropriately expensive, and risky for our agricultural export trade.

S. 2258 would effectively remove all minimum sales price restrictions for corn for use in the production of alcohol for motor fuel. This exception from the sales price limitation applies only with respect to corn sold for alcohol produced for motor fuel at facilities that (1) began operations after January 4, 1980, and (2) can use other agricultural or forestry biomass feedstocks in producing alcohol.

While we believe that it is best to have gasohol (alcohol) production compete for corn on an equal basis with other uses in the marketplace, we would accept a provision that authorizes sales of CCC owned corn for use in alcohol production provided that any such sale was not less than the release price for the farmer-owned reserve. Such a provision would provide more protection to market prices than the bill as now written.

S. 2277 and S. 2199 would authorize a set-aside for 1980 crops. We do not favor such a provision for the reasons I just mentioned in connection with the discussion to offer a paid diversion program this year. Our decision on the matter has already been announced.

S. 2277 would waive interest chargeable after January 10 on any price support loan obtained before January 11, 1980, on 1979 crops of wheat and feed grains. The Administration opposes such a provision. While we have waived interest on certain corn in the new reserve as a special incentive to increase participation, we do not support extension of that provision to other grains.

S. 2258 and S. 2264 increase the limit on storage facility loans from \$50,000 to \$100,000, and remove the limit that the facilities built under this program cover no more than two-years' production on an individual farm. However, the Secretary will exercise his discretionary authority on managing this restriction. Under Secretary Hathaway indicated support for these changes before the House Agriculture Committee last month. The Department reported favorably on these provisions in a letter to Chairman Foley dated March 5, 1980.

S. 2277 would reduce the minimum levels to be shipped under Title II of P.L. 480 and the minimums that would be shipped by voluntary agencies beginning with fiscal year 1981. The Administration has consistently opposed the establishment of minimum levels for Title II.

S. 2277 would also amend the Food and Agriculture Act of 1977 to require an increase in price support levels to 90 percent of parity whenever exports of one agricultural commodity to any country or area of the world are restricted. This provision would mean that whenever we have any export restrictions, the prices of all restricted commodities would be supported at 90 percent of parity. We have had various export restrictions to one or more nations in effect for most of the period since World War II. No President could accept such a restriction.

If exports were restricted because supplies were short, relatively high prices would be appropriate to give producers incentives to significantly increase production. An export restriction should not be permitted to prevent such an incentive. The current law makes such a provision. However, when exports are restricted for foreign policy or national defense reasons, equity requires that producers' prices be supported at levels they would have realized absent the suspension. That is the Administration's policy.

There is no justification in such a suspension for supporting producers' prices at levels above those that would have occurred absent the suspension—as would be provided by Section 5 of this bill. To support domestic prices of basic commodities at levels far beyond those levels they could have expected to reach absent the suspension would be expected to lead to sharp reductions in all export sales, in addition to the reduction caused by the suspension. It would lead to domestic overproduction, unnecessarily large government expenses and government restrictions on production and sales. For these reasons, the Administration opposes this provision.

Section 8 of S. 2258 requires the Secretary of Agriculture, in cooperation with the U.S. Trade Representative to make a study of the potential for expansion of U.S. agricultural export markets and the use of agricultural exports to obtain natural resources and other commodities and products needed by the United States. This report is to be submitted to Congress no later than December 31, 1980.

The Department considers increases in agricultural exports as one of the key long-term supply/demand adjustments required to offset losses in Russian sales. Additional foreign market development is an ongoing high priority USDA effort. As a result, we are actively considering a special study of market development. We do not, however, need additional legislative authority to undertake such a study. As a result, we do not support this provision.

Section 9 of S. 2258 would authorize the Secretary of Agriculture to use the funds, facilities, and authorities of the CCC to purchase and handle agricultural products, other than grains, that were intended to be exported to the U.S.S.R. under contracts entered into before January 5, 1980, but which cannot be exported under such contracts due to the imposition on January 4, 1980, of restrictions on the export of agricultural products of the U.S.S.R. The purchase and handling of such products is to be done in the same manner and under the same conditions and subject to the same restrictions as the Secretary of Agriculture purchases and handles grain under similar contracts.

We do not believe this provision is necessary. The Department has a variety of authorities under which steps have been taken to purchase and handle agricultural products which were destined for export to the U.S.S.R. but were not shipped as a result of the January 4 export suspension. We are attempting to determine all cases where products could not be shipped, and are determining appropriate USDA action in each case. However, we would not oppose a permissive provision that clarified existing authority to deal with similar problems that might be encountered at some future time.

S. 2258 would amend Section 207(c) of the Emergency Agricultural Credit Adjustment Act of 1978 by increasing the maximum outstanding balance of loans that are insured or guaranteed under the Farmer's Home Loan Program from \$4 billion to \$6 billion. It would also amend Section 211 of such act by extending the authority to make new contracts of insurance from May 15, 1980 to September 30, 1981.

We favor the extension of this program. However, S. 2269, a separate bill with these provisions, has been reported by this Committee. We urge the Congress to complete work on that bill as quickly as possible. We recommend that the provisions to extend the EE loan program not be considered as part of this bill.

S. 2258 provides for the establishment of a wheat reserve of up to 4 million metric tons to be used solely to provide for emergency food needs in developing countries. Stocks of wheat for the reserve are to be acquired by purchases from producers or in the market, and by designation to the reserve stocks of wheat acquired by CCC.

We favor the provision of authority to develop and maintain a 4 million metric ton Food Security Reserve and strongly support the enactment of this provision. Outlays associated with the establishment of this reserve are included in the fiscal year 1980 budget. However, as a result of the suspension of exports to the Soviet Union, we are planning to purchase 4 million tons of wheat under current CCC authorities during fiscal year 1980. The acquisition of this wheat is already included in our budget estimates for fiscal year 1980. If this wheat is designated for the Food Security Reserve, outlays for fiscal year 1980 will not increase and outlays for fiscal year 1981 will be reduced by \$362 million from the budget amount.

Mr. Chairman, this concludes my prepared remarks. I will be happy to respond to any question you and the members of the committee may have.

WHEAT AND FEED GRAINS, GOVERNMENT OUTLAYS, FISCAL YEARS 1980 AND 1981

(In millions of dollars)

Proposed legislation	Difference from current program		
	1980	1981	2-year total
1. S. 2277 (Talmadge) (\$3.90 wheat loan, \$2.30 corn loan)	+1,292	+400	¹ +1,692
2. S. 2199 (Jepsen) (All 1979 wheat and feed grain eligible)	+614	-420	+194
3. S. 2264 (Exon) (\$3.50 wheat loan, \$2.50 corn loan for reserve grain)	+973	+320	+1,293
4. S. 2258 (Talmadge) (50 percent of 1979 corn crop eligible for loan)	+354	-235	+119
5. Boschwitz (60-day loan—\$3/2.80 wheat, \$2.40/2.30 corn)	+755	-392	+363

¹ Cotton and soybean provisions of the bill would increase outlays by an additional \$2 billion.

CENTRAL CITY, NEBR., March 3, 1980.

SENATOR TALMADGE: I have enclosed copies of a recent news release made by Secretary Bergland. I felt you should know what he is saying.

If possible I would like to have my letter included in the record of testimony before the Senate Agricultural Committee. I understand that written testimony is permissible. I will be happy to answer any questions you have.

Sincerely,

MRS. MARJORIE EILTS.

CENTRAL CITY, NEBR., *March 3, 1980.*

Senator HERMAN TALMADGE,
*Russell Office Building,
Washington, D.C.*

DEAR SENATOR TALMADGE: We have just returned to Nebraska after spending two weeks in Washington, D.C. This time was spent doing everything we could to encourage the administration and Congress to take action to overcome the disastrous consequences of the grain embargo. Farm economy is in a precarious position, and the grain embargo was just another strike against rural America.

My husband and I attended the first three days of hearings before the Senate Agricultural Committee. I want to thank you for your courtesy to those giving testimony, and for your interest in the story that was told. All seemed to say that the agricultural industry is slowly being destroyed by the actions of the administration and the USDA.

After Secretary Bergland's announcement on Friday, Feb. 29, 1980, our only hope for our survival is in the hands of our Senators and Congressman. I am asking that you make every effort to see that legislation is passed as quickly as possible to override the decision of Secretary Bergland. If the American farmer is to continue to feed the world, we must be allowed the cost of production plus a reasonable profit.

This can come about with legislation containing the following points:

1. To require a paid diversion of acreage necessary to sufficiently cut the surplus of grain.
2. To provide for an increase in loan rates sufficiently to stabilize market price at least the cost of production.
3. To include an escalating clause in the loan rate to cover increases in the cost of production, rate of inflation, or whatever you want to call it. The word parity seems to be a word that is misunderstood by many.

In the testimony you heard figures showing the increases in cost of fuel, fertilizer, seed, equipment, interest rates, other energy costs etc. In our farming operation we are receiving less than 2% on our investment. No business can operate that way. We are forced to go deeper in debt each year, borrowing against our equity. Those young farmers who have very little equity are being forced into bankruptcy.

In our round trip, in our pickup truck, from home to Washington, D.C. and back, we couldn't help but see the tragic results of low farm prices. We travelled through Nebraska, Missouri, Illinois, Indiana, Ohio and Iowa—all farm states. The devastation of land and improvements was very disturbing. Land in states where the land is rough was severely eroded, and in all areas buildings were unpainted and falling apart. In the over 3000 miles we travelled we saw only two or three new homes built in the last few years. Farmers are desperate! They are being forced by low farm prices to let their land erode and their buildings decay. They are putting everything possible in crop land, in an effort to just hang on.

I am sure you realize that to destroy agriculture will also destroy the America that we have known and loved.

Most Sincerely,

MRS. MARJORIE EILTS.

[Reprinted from *The Progress-Index*, Petersburg, Va., Thursday, February 21, 1980]

BERGLAND PLANS FARM CHANGES—PROGRAMS CALLED PATCHWORK

(By Judy Allen, Washington Bureau)

Washington—When most federal farm programs run out of money next year, they'll be scrapped or revamped if Agriculture Secretary Bob Bergland has his way.

If President Jimmy Carter is reelected and Bergland is reappointed to head the U.S. Department of Agriculture, farmers can expect venerable price support, credit and tax programs to be on the hit list.

"Government programs tend to go off like loose cannons," Bergland said recently in an exclusive interview, "There's no harmony, there's no objective, there's just sort of a reactive process."

Federal tax, commodity and credit policies, according to Bergland, are inflationary and give too many benefits to high income large-scale farm operations.

Bergland believes many USDA programs are a "patchwork" with no single goal in mind, and he intends to change that.

With Congress, Bergland hopes to examine the whole range of agricultural issues next year, including the tax advantages of land ownership over rental; price support systems; and the relationship of land values to food prices.

He will be treading on sacred ground, but Bergland thinks that Congress will acknowledge that current programs aren't working and that new approaches must be tried.

He is also prepared for the obstacles.

"We've had to deal with slogans like 'Give us 100 percent of parity to save the small family farm.' That's a contradiction in terms," the secretary said. "A hundred percent of parity would make the big farms super rich and further drive out the small farms, in my view. That's not the way to go at it."

Instead, Bergland would like to see a serious, exhaustive study of the complex factors that can make American agriculture more efficient and productive. That may mean letting the family farm die, eliminating price supports and changing attitudes about land ownership.

Bergland, himself, a farmer, questions the basic tenet that a farmer should pay for his farm during his lifetime.

"Is there anything wrong with renting a working farm for all one's life?" he asked. "The answer is no, and yet the system is set up in such a way that there are certain advantages in owning land, particularly in tax laws."

Bergland owns a section of land in northern Minnesota, which he leases to his daughter and son-in-law. With that arrangement, he said, he is making a 10 percent return on his investment and his offspring are prospering.

But if he were to sell the property to them, he claimed, "They would live in poverty."

Farmland prices are escalating, according to Bergland, because of the tax advantages of ownership. Then price supports are raised to help service the enormous mortgage debts farmers are incurring.

"We'll wind up with land that's worth \$10,000 an acre and food prices sky high," he predicted. "What's the advantage to the general public with that kind of setting?"

Indexing land values to food prices, an American tradition since the first federal farm programs were enacted in 1934, has to stop, Bergland said. He thinks Congress is finally realizing the folly of the cycle and is willing to cooperate.

He is still uncertain about the eventual shape of new federal farm policies, but the USDA secretary remarked, "We're not going to solve it with the old remedies."

Before anything can happen, Bergland argued, President Carter must be reelected. He's counting on farmers, who can tilt the electoral vote in 10 states, to rally around the president.

The negligible effects of the Soviet grain embargo, coupled with the current health of American agriculture, he believes, will be enough impetus to convince farmers to support Carter.

[Reprinted from the Progress-Index, Petersburg, Va., Monday, February 25, 1980]

IS THE FAMILY FARM ECONOMICAL?

(By Judy Allen, Washington Bureau)

Washington—It's almost blasphemous for a federal official to suggest that America might be better off without family farms and to remark that urban consumers have no stake in the future of small farms.

When the government official is Agriculture Secretary Bob Bergland, it amounts to what he terms "heresy."

Bergland recently toured the nation, meeting the farmers in 10 states whose most persistent worry was the preservation of the family farm. He returned with a conviction that Americans must change their attitudes toward farming.

In an exclusive interview conducted just before members of the militant American Agriculture Movement began their annual descent on the nation's capital, Bergland threw cold water on their demands for new protections for the 1.5 million family farms.

Asked if city dwellers have reason to be concerned with the dwindling number of small farms, Bergland responded, "I'm not sure they should. That's what I'm asking: does it matter?"

Bergland, himself a farmer and a former member of Congress from rural Minnesota, said, "What I've said is heresy in some quarters, but I'm really not sure." Is the family farm the foundation of America, he was asked. "Is it?" he replied. "I don't know that either."

Family farms simply don't produce food economically enough, he said. "It would be a mistake to systematically deny people who want to live in the country an opportunity to do so, and yet on the other side of the coin it can be argued that they're taking up a lot of land that could be producing for an increasingly demanding world," Bergland said.

The myth that small farms produce most of the country's food has led to the widespread belief that the demise of family farms would leave the nation and part of the world hungry, Bergland said.

In fact, the 1.5 million family farms are responsible for only 40 percent of the nation's food production. Less than one million cooperative farms produce the bulk of the food the nation consumes.

To reach the delicate balance between farms that are neither too small nor too large to be cost-effective, the secretary suggested, much of the data his U.S. Department of Agriculture is collecting about the structure of agriculture will have to be studied and legislation prepared for consideration in 1981.

It is a matter of efficiency; a family-operated farm has to be big enough to keep its members busy and big enough to mechanize, but not so large that it costs more to run it than the crops can be sold for without massive government subsidies.

The U.S. must also alter its attitude toward agricultural exports, Bergland noted. The country currently "exports raw materials like a colony," he said, and is losing potential revenues.

Instead of exporting bulk, unprocessed grains like corn and soybeans, he said, the U.S. could employ workers to manufacture the meals and oils the importers will eventually use.

"Our trading posture in the world is such that we're importing inflation and exporting jobs, and I think the time has come when we start looking at ways of adding value," he said.

Bergland, 51, a former wheat farmer who still owns a section of fertile cropland in northern Minnesota, is an unassuming man who served in Congress from 1971 to 1977. He is one of President Carter's least controversial Cabinet members, but he has quietly revamped the sprawling Agriculture Department (to the consternation of farmers who believe he has transformed it from a farmers' agency to one designed to aid consumers).

His security in his job is displayed in his fearless candor. He has taken a swipe at another favorite project of farm state legislators and the second goal of the AAM protesters: alcohol fuel production by erecting a gasohol still in every farmyard.

Although he touted gasohol as the fuel of the future, estimating that by 1985 10 percent of all motor fuels used will be alcohol-based, Bergland scoffed at suggestions that consumers can brew it at home profitably. "Backyard stills are too small to be economical," he said flatly.

STATEMENT OF DR. GLENN H. SULLIVAN, CHIEF ECONOMIC COUNSEL, NORTH AMERICAN CAR CORPORATION, RAILCAR DIVISION, TIGER INTERNATIONAL

The grain embargo against the U.S.S.R., announced by the Administration on January 4, 1980, will have severe and lasting negative economic impact upon the U.S. agricultural industries, farmers, consumers and taxpayers.

Agricultural commodities generate the largest volume of export trade for the United States, reaching nearly \$33 billion in 1979. Agriculture's net contribution to the U.S. balance of trade in 1979 was nearly \$20 billion. Fully three out of every ten workers in America are employed in some job related to agriculture. Over three million farm families are assisted by almost six million workers supplying production materials and over eight million workers engaged in storing, processing and marketing activities in meeting America's food and fiber needs. Yet the very economic foundations of this segment of the economy were placed in jeopardy with the January 4, 1980 grain embargo imposed by the Administration.

Agriculture remains the very foundation of prosperity in America. Without a strong and economically viable agriculture, there cannot be a prosperous domestic economy. It is the high productivity, efficiency and competitiveness of the family farms that has provided America's major hedge against inflation over the years. Without a strong agricultural export program, the United States could not fulfill its huge demand for imported oil without suffering devastating trade imbalances and ever-increasing rates of inflation. Without a strong and economically viable agricul-

ture in America, unemployment would be higher, the standard of living lower and prosperity for all our citizens but an elusive dream.

The alternative to a free market agriculture, is a government-supported agriculture. And a government-supported agriculture suffocates economic productivity and generates high costs to taxpayers. Between 1964 and 1972, federal farm income stabilization programs averaged nearly \$4 billion annually. Surplus grain storage costs alone totaled over \$500 million in 1964. In 1972, net farm income was \$18 billion, and federal subsidy payments to agriculture reached nearly \$6 billion. The price of corn in 1972 reached a low of 97 cents per bushel.

In 1973, the U.S. Department of Agriculture initiated substantive programs oriented toward free market policy in agriculture. By 1979, net farm income reached nearly \$30 billion, federal subsidies for farm income stabilization were reduced to one-twelfth of previous levels, no surplus grain was held in federal storage facilities at taxpayer cost, the price of corn reached \$2.50 per bushel and consumers still spent only 17 percent of their disposable income on food.

Quite often, the vast contributions of agriculture and rural America are overshadowed by achievements in other sectors of the economy. Yet it is an efficient and productive agriculture that affords the opportunity for America's achievements beyond meeting the basic food and fiber needs of its citizens. As the world's population continues to expand, and the world's natural resources become more scarce, an increasingly more critical role will be cast for American agriculture. The challenge of meeting international food and fiber needs, and yet assuring continued prosperity domestically, will be the challenge of the future for America. Agriculture will continue to provide the foundation for meeting this challenge only if we avoid reverting back to an era when production decisions were dictated by government, rather than the marketplace. Agriculture must be guaranteed free access to foreign markets, with minimum government interference, if we are to meet the challenges of the future and assure continued prosperity for all Americans. To this end the Administration's January 4, 1980 grain embargo is flagrantly counter-productive.

The Administration has offered few substantive solutions for removing the newly created grain surplus, precipitated by the embargo, from the marketplace. It is apparent that the proposal to utilize the surplus grain in the production of gasohol is not a substantive solution to the problem, as nearly two-thirds of the embargoed grain is corn and only minimal commercial capacity exists in the United States for processing corn alcohol. Current estimates indicate that only about one million metric tons of the 12 million metric tons of corn embargoed could be used currently in commercial gasohol production prior to the 1980 crop year.

On January 8, 1980, the Administration proposed a 10 cents per bushel increase in the loan rate on corn as part of the strategy to protect farmers from the effects of the grain embargo. Such action will be viewed as a signal to produce more in 1980, thus compounding the surplus grain problem if more substantive action is not initiated immediately to move the embargoed grain supplies through the market system. Currently, only competing grain supply nations are the beneficiaries of the Administration's imprudent actions surrounding the grain embargo.

American industry, in addition to the farmers and taxpayers, will be the loser if response-effective programs are not initiated immediately. Critical segments of industry have committed large sums of investment capital to meet the demands of a strong export market policy in agriculture. The transportation industries represent an excellent example. Railroads alone have invested nearly \$4.5 billion annually in new plant and equipment. The railroads pay out over \$7.6 billion annually in employee wages and compensation, and generate nearly \$2 billion of tax revenue annually. The January 4, 1980 grain embargo directly jeopardizes the economic welfare to these supporting industries. Storing surplus grains for deferred utilization does nothing to assure the future for these vital segments of the domestic economy. Proposing partial solutions, that assist only selected segments of the industry impacted by the embargo, does nothing to assure the long-term economic viability of the export markets . . . to which these supporting industries have committed their resources and planned their growth. The Administration should seek broad substantive solutions, that target the development of new demand for feed grains in the world marketplace.

STATE OF ILLINOIS, WASHINGTON OFFICE,
Washington, D.C., February 29, 1980.

Hon. H. E. TALMADGE,

*U.S. Senate, Committee on Agriculture, Nutrition, and Forestry, Russell Senate
Office Building, Washington, D.C.*

DEAR CHAIRMAN TALMADGE: I appreciate the opportunity to submit this statement for the record on the Committee's February 25 hearing regarding the Soviet grain embargo.

The state of Illinois is one of the states most severely affected by the Soviet embargo because Illinois is the nation's top grain exporter.

Illinois produces approximately 20 percent of the total grain marketed in this country so one could conclude that one-fifth of the 17 million metric tons of grain that have been embargoed is Illinois grain.

Agriculture is the number one industry in Illinois and in many other states. Thus, the loss of a major grain customer will have a significant effect on our Nation's economy. Some marketing experts, including Darwin Stolte, President of the U.S. Feedgrains Council, have told me that the embargo has taken 40 to 60 cents per bushel off the price of corn. Even though grain prices are now near pre-embargo levels, the direct loss brought by the embargo will total millions of dollars to Illinois farmers and other Illinois businesses and industries.

Within hours after the announcement of the embargo, I sent a telegram to President Carter asking him to take action to cushion the effects of the embargo.

I asked the President to consider three things—that the eligibility to participate in farm programs be opened to all farmers, that the loan rate on crops be boosted, and that the USDA announce a set-aside program prior to February 1 so that farmers could make planting decisions for the coming year.

I asked that eligibility be opened in the farm program because only seven percent of Illinois farmers now qualify for any type of government help.

Participation in the government's set-aside program in 1979 is a prerequisite to receiving loan support—and 93 percent of Illinois farmers opted to depend wholly on the marketplace, without any support from the government, for their incomes last year.

Markets looked good at planting time last year, and farmers had every right to depend on the markets—many of which they built—for a fair income. However, government in effect changed the rules after the crops were planted and harvested, and now a major market does not exist.

I also asked the President to consider boosting the loan rate on crops so that farmers would have something to borrow against to put a new crop in the ground. Subsequently, the loan rate for corn was boosted 10 cents per bushel, and the rate for wheat was boosted 15 cents. But that minute amount will not provide any measurable relief.

Finally, I asked that a set-aside program be announced prior to February 1 so that farmers could begin making purchase as well as planting decisions for the upcoming crop.

The Agriculture Committee of the National Governors' Association, of which I am a member, also contacted Agriculture Secretary Bob Bergland asking for a quick announcement of a set-aside program.

The Governors' Association also asked that the ceiling be increased in the Storage Facility Loan Program, that commercial financing programs be strengthened, and that 10 of the 17 million metric tons of embargoed grain by isolated from the market until the spring of 1981.

I submit this statement in hopes that the Committee will act soon to relieve the economic hardships being borne by the farmers of Illinois.

Sincerely,

JAMES R. THOMPSON, Governor.

96TH CONGRESS
2D SESSION

S. 2199

To authorize the Secretary of Agriculture to make price-support loans available to producers on their 1979 crops of wheat, corn, and feed grains without regard to whether they participated in the Federal programs in effect for such commodities, to authorize the Secretary to announce and carry out a cropland set-aside program for the 1980 crops of wheat, corn, and feed grains, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 22 (legislative day, JANUARY 3), 1980

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

A BILL

To authorize the Secretary of Agriculture to make price-support loans available to producers on their 1979 crops of wheat, corn, and feed grains without regard to whether they participated in the Federal programs in effect for such commodities, to authorize the Secretary to announce and carry out a cropland set-aside program for the 1980 crops of wheat, corn, and feed grains, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 *That notwithstanding any other provision of law—*

1 (1) the Secretary of Agriculture may make nonre-
2 course loans available to producers on their 1979 crops
3 of wheat, corn, and feed grains without regard to
4 whether such producers participated in the 1979 Fed-
5 eral programs for such crops; and

6 (2) the Secretary of Agriculture and the Commod-
7 ity Credit Corporation may make emergency loans to
8 producers of wheat, corn, and feed grains without re-
9 gard to whether such producers participated in the
10 1979 Federal programs for such commodities.

11 SEC. 2. Notwithstanding any other provision of law or
12 any prior announcement made by him to the contrary, the
13 Secretary of Agriculture may announce and carry out a crop-
14 land set-aside program for wheat, corn, and feed grains for
15 the 1980 crops of such commodities if he deems such action
16 to be in the public interest as a result of the suspension im-
17 posed on the export of grain to the Soviet Union. In order to
18 carry out effectively a set-aside program for the 1980 crop of
19 any such commodity, after having previously announced that
20 no such program would be in effect for such crop of such
21 commodity, the Secretary may make such modifications and
22 adjustments in such program as he deems necessary because
23 of the delay in instituting a set-aside program for such crop of
24 such commodity.

STAFF EXPLANATION OF S. 2199

S. 2199 would authorize the Secretary of Agriculture to—

(1) make available to producers who did not participate in the 1979 wheat and feed grain set-aside programs price support loans on the wheat and feed grains they produced in 1979; and

(2) establish set-aside programs for the 1980 crops of wheat and feed grains if he deems such action to be in the public interest as a result of the President's suspension of grain exports to the Soviet Union. The Secretary could make such adjustments in the set-aside programs as he deems necessary because of the delay in establishing the program.

96TH CONGRESS
2D SESSION

S. 2258

To alleviate the adverse effects of the suspension of trade with the Union of Soviet Socialist Republics on United States agricultural producers; and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 5 (legislative day, JANUARY 3), 1980

Mr. TALMADGE (for himself, Mr. HUDDLESTON, Mr. EAGLETON, Mr. PEYOR, Mr. LUGAR, Mr. ZORINSKY, and Mr. STONE) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To alleviate the adverse effects of the suspension of trade with the Union of Soviet Socialist Republics on United States agricultural producers; and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That this Act may be cited as the "National Agricultural
- 4 Security Act of 1980".

1 PARTIAL ELIGIBILITY FOR PRICE SUPPORT LOANS AND
2 PARTICIPATION IN THE PRODUCER STORAGE PRO-
3 GRAM WITH RESPECT TO THE 1979 CROP OF CORN

4 SEC. 2. Effective with respect to the 1979 crop of corn,
5 the Agricultural Act of 1949 is amended by inserting imme-
6 diately after section 105A a new section 105B as follows:

7 "PARTIAL ELIGIBILITY FOR PRICE SUPPORT LOANS AND
8 PARTICIPATION IN THE PRODUCER STORAGE PRO-
9 GRAM WITH RESPECT TO THE 1979 CROP OF CORN

10 "SEC. 105B. (a) Notwithstanding any other provision of
11 law, the Secretary may make available to any producer who
12 did not file a timely agreement to participate in the 1979 feed
13 grain set-aside program under section 105A of this Act—

14 "(1) loans and purchases under section 105A(a)(1)
15 of this Act, and

16 "(2) participation in the producer storage program
17 under section 110 of this Act,

18 on up to 50 per centum of the corn produced in the 1979
19 crop year on the producer's acreage normally planted to
20 crops designated by the Secretary under section 1001(a) of
21 the Food and Agriculture Act of 1977.

22 "(b) The Secretary is authorized to issue such regula-
23 tions as the Secretary determines necessary to carry out the
24 provisions of this section."

1 SALE OF COMMODITY CREDIT CORPORATION STOCKS FOR
2 USE IN MAKING ALCOHOL FOR MOTOR FUEL

3 SEC. 3. Section 110(d) of the Agricultural Act of 1949
4 is amended by—

5 (1) striking out “and” at the end of clause (1);
6 (2) striking out the period at the end of clause (2)
7 and inserting in lieu thereof a semicolon and “and”;
8 and

9 (3) adding at the end thereof a new clause (3) as
10 follows:

11 “(3) sales of corn for use in the production of
12 alcohol for motor fuel at facilities that (A) begin oper-
13 ation after January 4, 1980, and (B), whenever sup-
14 plies of corn are not readily available, can produce al-
15 cohoh from agricultural or forestry biomass feedstocks
16 other than corn.”.

17 NONAPPLICABILITY TO THE 1979 CROP OF SOYBEANS OF
18 THE REQUIREMENT FOR A REDUCTION OF NORMALLY
19 PLANTED ACREAGE

20 SEC. 4. Section 1001(a) of the Food and Agriculture
21 Act of 1977 is amended by striking out the period at the end
22 of the section and inserting in lieu thereof a colon and the
23 following: “*Provided*, That the reduction of acreage normally
24 planted to designated commodities required by the Secretary
25 under this subsection with respect to 1979 crops shall not

1 apply as a condition of eligibility for loans and purchases for
2 the 1979 crop of soybeans.”.

3 FOOD SECURITY WHEAT RESERVE

4 SEC. 5. (a) Congress hereby declares it to be the policy
5 of the United States to develop a wheat reserve solely to
6 provide for emergency food needs in developing countries.

7 (b) In order to carry out the policy and accomplish the
8 objective set forth in subsection (a) of this section, the Presi-
9 dent shall establish a reserve stock of wheat of up to four
10 million metric tons for use for the purposes specified in sub-
11 section (d) of this section.

12 (c) Stocks of wheat for the reserve may be acquired (1)
13 through purchases from producers or in the market if the
14 Secretary of Agriculture determines that such purchases will
15 not unduly disrupt the market, and (2) by designation by the
16 Secretary of stocks of wheat acquired by the Commodity
17 Credit Corporation.

18 (d) Notwithstanding any other provision of law, stocks
19 of wheat designated or acquired for the wheat reserve under
20 this section may be released by the President to provide, on a
21 donation or sale basis, emergency food assistance to develop-
22 ing countries at any time that the domestic supply of wheat
23 in the United States is so limited that quantities of wheat
24 cannot be made available for disposition under the Agricul-
25 tural Trade Development and Assistance Act of 1954, except

1 for urgent humanitarian purposes, under the criteria of sec-
2 tion 401(a) of the Act: *Provided*, That up to three hundred
3 thousand metric tons of wheat may be released from the re-
4 serve under this section in any fiscal year to provide urgent
5 humanitarian relief in any developing country suffering a
6 major disaster as determined by the President.

7 (e) Wheat released from the reserve for the purposes of
8 subsection (d) of this section shall be made available under
9 the Agricultural Trade Development and Assistance Act of
10 1954, except that section 401(a) of that Act, with respect to
11 determinations of availability, shall not be applicable thereto.

12 (f) The Secretary of Agriculture shall provide for the
13 management of stocks of wheat in the reserve as to location
14 and class of wheat needed to meet emergency situations and
15 for the periodic rotation of stocks of wheat in the reserve to
16 avoid spoilage and deterioration of such stocks, using pro-
17 grams authorized by the Agricultural Trade Development
18 and Assistance Act of 1954 and any other provision of law,
19 but any quantity removed from the wheat reserve for the
20 purposes of this subsection shall be promptly replaced with
21 an equivalent quantity.

22 (g) Stocks of wheat in the reserve shall not be consid-
23 ered a part of the total domestic supply (including carryover)
24 for the purposes of subsection (d) of this section or for the
25 purposes of administering the Agricultural Trade Develop-

1 ment and Assistance Act of 1954 and shall not be subject to
2 any quantitative limitations on export that may be imposed
3 under section 7 of the Export Administration Act of 1979.

4 (h)(1) The funds, facilities, and authorities of the Com-
5 modity Credit Corporation shall be used by the Secretary of
6 Agriculture in carrying out this section, except that any re-
7 striction applicable to the acquisition, storage, or disposition
8 of Commodity Credit Corporation owned or controlled com-
9 modities shall not apply with respect to the acquisition, stor-
10 age, or disposal of wheat for or in the reserve.

11 (2) The Commodity Credit Corporation shall be reim-
12 bursed from funds made available for carrying out the Agri-
13 cultural Trade Development and Assistance Act of 1954 for
14 wheat released from the reserve that is made available under
15 that Act, such reimbursement to be made on the basis of
16 actual costs incurred by the Commodity Credit Corporation
17 with respect to such wheat. Such reimbursement may be
18 made from funds appropriated for that purpose in subsequent
19 years.

20 (i) Any determination by the President or the Secretary
21 of Agriculture under this section shall be final.

22 INCREASE IN THE MAXIMUM CCC LOAN FOR FARM

23 STORAGE FACILITIES

24 SEC. 6. Section 1104 of the Food and Agriculture Act
25 of 1977 is amended by striking out "\$50,000" wherever that

1 figure appears therein and inserting in lieu thereof
2 "\$100,000".

3 EXTENSION OF ECONOMIC EMERGENCY LOAN PROGRAM

4 SEC. 7. The Emergency Agricultural Credit Adjustment
5 Act of 1978 is amended by—

6 (1) in section 207(c), striking out
7 "\$4,000,000,000" and inserting in lieu thereof
8 "\$6,000,000,000"; and

9 (2) in section 211, striking out "May 15, 1980"
10 and inserting in lieu thereof "September 30, 1981".

11 STUDY OF THE POTENTIAL FOR EXPANSION OF UNITED
12 STATES AGRICULTURAL EXPORT MARKETS AND THE
13 USE OF AGRICULTURAL EXPORTS IN OBTAINING
14 NEEDED MATERIALS

15 SEC. 8.(a) The Secretary of Agriculture, in cooperation
16 with the United States Trade Representative, shall perform a
17 study of the potential for expansion of United States agricul-
18 tural export markets and the use of agricultural exports in
19 obtaining natural resources or other commodities and prod-
20 ucts needed by the United States. The Secretary shall com-
21 plete the study and submit to the President and Congress a
22 report on the study not later than December 31, 1980.

1 (b) In performing the study, the Secretary shall
2 determine—

3 (1) world food, feed, and fiber needs over the next
4 twenty years;

5 (2) estimated United States and world food, feed,
6 and fiber production capabilities over the next twenty
7 years;

8 (3) potential new or expanded foreign markets for
9 United States agricultural products over the next
10 twenty years;

11 (4) the potential for the development, over the
12 next twenty years, of international agreements for the
13 exchange of United States agricultural products for
14 natural resources, including energy sources, or other
15 commodities and products needed by the United States;
16 and

17 (5) the steps that the United States must take
18 over the next twenty years to (A) increase
19 agricultural export trade, and (B) obtain needed natural
20 resources or other commodities and products in ex-
21 change for agricultural products, to the maximum
22 extent feasible.

1 AUTHORITY TO USE THE FUNDS, FACILITIES, AND
2 AUTHORITIES OF THE COMMODITY CREDIT CORPORA-
3 TION TO PURCHASE AGRICULTURAL PRODUCTS IN-
4 TENDED TO BE EXPORTED TO THE UNION OF SOVIET
5 SOCIALIST REPUBLICS

6 SEC. 9. Notwithstanding any other provision of law, the
7 Secretary of Agriculture is authorized to use the funds, facili-
8 ties, and authorities of the Commodity Credit Corporation in
9 purchasing and handling agricultural products, other than
10 grains, that—

11 (1) were intended to be exported to the Union of
12 Soviet Socialist Republics under contracts entered into
13 prior to January 5, 1980, but

14 (2) cannot be exported under such contracts due
15 to the imposition, on January 4, 1980, of restrictions
16 on the exportation of agricultural products to the
17 Union of Soviet Socialist Republics,

18 in the same manner and under the same conditions as the
19 Secretary purchases and handles grains under similar con-
20 tracts and subject to the imposition of the same restrictions.

SUMMARY OF THE NATIONAL AGRICULTURAL SECURITY ACT OF 1980—S. 2258

The bill would—

(1) Authorize the Secretary of Agriculture to make available to any producer who did not participate in the 1979 feed grain set-aside program—

(A) commodity program loans and purchases, and

(B) participation in the farmer-held grain reserve program,

on up to 50 percent of the corn produced in 1979 on the producer's normal crop acreage;

(2) Authorize the Commodity Credit corporation to sell, at not less than 115 percent of the national average loan rate, stocks of corn for use in the production of alcohol for motor fuel at new facilities that can use agricultural or forest biomass feedstocks other than corn (under existing law, the Commodity Credit Corporation may not sell its stocks of corn for such use at less than 150 percent of the national average loan rate whenever the farmer-held grain reserve program is in effect; the current loan rate for corn is \$2.10 per bushel);

(3) Exclude as a condition of eligibility for commodity loans and purchases for the 1979 crop of soybeans, the Secretary's requirement for the 1979 crops that a producer's acreage normally planted to designated crops be reduced by the producer's acreage covered by the 1979 wheat and feed grain set-asides;

(4) Require the President to establish a reserve of up to 4 million metric tons of wheat for use in providing for emergency food needs in developing countries. Wheat in the reserve could be used for emergency food assistance whenever other United States domestic supplies of wheat were so limited that quantities of wheat could not be made available, except for urgent humanitarian purposes, for disposition under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480). However, when needed to provide urgent humanitarian relief in any developing country suffering a major disaster as determined by the President, up to 300,000 metric tons of wheat could be released from the reserve in any fiscal year for such use;

(5) Increase—from \$50,000 to \$100,000—the maximum loan that the Commodity Credit Corporation may make to any producer of grain, soybeans, rice, or high moisture forage or silage for the construction or renovation of farm storage facilities;

(6) Extend—from May 15, 1980, to September 30, 1981—the authority for making new insured or guaranteed economic emergency loans to farmers and ranchers under the Emergency Agricultural Credit Adjustment Act of 1978, and increase—from \$4 billion to \$6 billion—the cap on the total principal balance that may be outstanding at any time for loans under that Act;

(7) Require the Secretary, in cooperation with the United States Trade Representative, to perform a study of the potential for expanding United States agricultural export markets and using United States agricultural exports in obtaining needed resources from other countries. The Secretary would be required to complete the study and submit to the President and congress a report on the study not later than December 31, 1980; and

(8) Authorize the Secretary to use the funds, facilities, and authorities of the Commodity Credit corporation in purchasing and handling agricultural commodities, other than grains, intended for export to the Union of Soviet Socialist Republics under contracts entered into prior to January 5, 1980, that cannot be exported under such contracts due to the President's suspension of exports to the Union of Soviet Socialist Republics (this is a clarifying amendment; under existing law, the Secretary is purchasing and handling grains that were under contract for delivery to the Soviet Union).

96TH CONGRESS
2D SESSION

S. 2264

To amend section 110 of the Agricultural Act of 1949 and section 4(h) of the
Commodity Credit Corporation Charter Act.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 5 (legislative day, JANUARY 3), 1980

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

A BILL

To amend section 110 of the Agricultural Act of 1949 and
section 4(h) of the Commodity Credit Corporation Charter
Act.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the first sentence of section 110(b) of the Agricultural
4 Act of 1949 (7 U.S.C. 1445e(b)) is amended by inserting
5 immediately before the period at the end thereof: “: *Pro-*
6 *vided*, That beginning with the 1979 crops of wheat and feed
7 grains, the Secretary shall make price support available to
8 producers who participate in a producer storage program

1 conducted pursuant to this section at such increased levels of
2 support as he deems necessary, but in no event shall such
3 levels with respect to the 1979 crops be less than \$3.50 per
4 bushel for wheat and \$2.50 per bushel for corn: *Provided*
5 *further*, That such increased levels of support shall not be
6 used for the purpose of making determinations provided for
7 by this section”.

8 SEC. 2. The fifth proviso in the second sentence of sec-
9 tion 4(h) of the Commodity Credit Corporation Charter Act,
10 as amended (15 U.S.C. 714b(h)), is amended by:

11 (1) striking out “\$50,000” wherever it appears
12 and inserting in lieu thereof “\$100,000”; and

13 (2) striking out “the size of such facility for which
14 a loan is obtained shall be based upon the amount of
15 space required to store the quantity of the commodity
16 estimated to be produced by the borrower during a
17 two-year period;”.

STAFF EXPLANATION OF S. 2264

S. 2264 would make changes in the farmer-held grain reserve program and the farm storage facility loan program. Under the bill—

(1) The Secretary of Agriculture would be required, beginning with the 1979 crops of wheat and feed grains, to make price support available to producers who participate in the farmer-held program for those commodities at such increased levels of support as the Secretary deems necessary. However, (a) the levels for the 1979 crops could not be less than \$3.50 per bushel in the case of wheat and \$2.50 per bushel in the case of corn, and (b) the increased levels of support would not be used in determining the release and call prices under the farmer-held reserve program.

(2) The maximum loan that the Commodity Credit Corporation may make to any producer of grain, soybeans, rice, or high moisture forage or silage for the construction or renovation of farm storage facilities would be increased from \$50,000 to \$100,000. The bill would also repeal the provision that the size of a facility for which a loan may be obtained must be based on the amount of space required to store the quantity of the commodity estimated to be produced by the borrower during a two-year period.

96TH CONGRESS
2D SESSION

S. 2277

To provide emergency relief to farmers adversely affected by the export embargo on grain sales to the Soviet Union, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 7 (legislative day, JANUARY 3), 1980

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

A BILL

To provide emergency relief to farmers adversely affected by the export embargo on grain sales to the Soviet Union, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Agriculture Emergency
4 Act of 1980".

5 SEC. 2. (a) Subsection (a) of section 107A of the Agri-
6 cultural Act of 1949 (7 U.S.C. 1445b) is amended by striking
7 out "and \$2.35 per bushel for each of the 1978 through 1981
8 crops of wheat" and inserting in lieu thereof " , \$2.35 per

1 bushel for the 1978 crop of wheat, and \$3.90 per bushel for
2 each of the 1979 through 1981 crops of wheat, adjusted by
3 the Secretary at the beginning of each semiannual period
4 after the beginning of the marketing year to reflect any esti-
5 mated change in the parity index during such semiannual
6 period (the first such adjustment to be made six months after
7 the beginning of the marketing year for the 1980 crop of
8 wheat)".

9 (b) Paragraph (1) of section 105A(a) of the Agricultural
10 Act of 1949 (7 U.S.C. 1444c(a)(1)) is amended by striking
11 out "not less than \$2 per bushel, for each of the 1977
12 through 1981 crops of corn" and inserting in lieu thereof the
13 following: "not less than \$2 per bushel for each of the 1977
14 and 1978 crops of corn and not less than \$2.50 per bushel for
15 each of the 1979 through 1981 crops of corn, adjusted by the
16 Secretary at the beginning of each semiannual period after
17 the beginning of the marketing year to reflect any estimated
18 change in the parity index during such semiannual period (the
19 first such adjustment to be made six months after the begin-
20 ning of the marketing year for the 1980 crop of corn)".

21 (c) The first sentence of paragraph (1) of section 103(f)
22 of the Agricultural Act of 1949 (7 U.S.C. 1444(f)) is amend-
23 ed by striking out the period at the end of such sentence and
24 inserting in lieu thereof the following: "for the 1978 crop of
25 cotton and 60 cents for each of the 1979 through 1981 crops

1 of cotton, adjusted by the Secretary at the beginning of each
2 semiannual period after the beginning of the marketing year
3 to reflect any estimated change in the parity index during
4 such semiannual period (the first such adjustment to be made
5 six months after the beginning of the marketing year for the
6 1980 crop of upland cotton).”.

7 (d) Subsection (e) of section 201 of the Agricultural Act
8 of 1949 (7 U.S.C. 1446(e)) is amended by striking out the
9 colon after “factors” and inserting in lieu thereof a comma
10 and the following: “except that the level of loans and pur-
11 chases for the 1979 through 1981 crops of soybeans shall be
12 not less than \$6.25 per bushel, adjusted by the Secretary at
13 the beginning of each semiannual period after the beginning
14 of the marketing year to reflect any estimated change in the
15 parity index during such semiannual period (the first such
16 adjustment to be made six months after the beginning of the
17 marketing year for the 1980 crop of soybeans):”.

18 SEC. 3. Subsection (d) of section 110 of the Agricultural
19 Act of 1949 (7 U.S.C. 1445e(d)) is amended by striking out
20 the matter preceding clause (1) and by inserting in lieu there-
21 of the following:

22 “(d) Notwithstanding any other provision of law, when-
23 ever the extended loan program authorized by this section is
24 in effect, the Commodity Credit Corporation may not sell any
25 of its stocks of wheat or feed grains at less than 10 percent

1 above the level at which the Secretary may call for the re-
2 payment of loans under subsection (b) or at less than 20 per-
3 cent above the then current level of price support for the
4 commodity, whichever is higher: *Provided*, That such restric-
5 tion shall not apply to—”.

6 SEC. 4. Subsection (b) of section 201 of the Agricultural
7 Trade Development and Assistance Act of 1954 (7 U.S.C.
8 1721(b)) is amended to read as follows:

9 “(b) The minimum quantity of agricultural commodities
10 distributed under this title—

11 “(1) for fiscal year 1978 shall be 1,600,000
12 metric tons, of which not less than 1,300,000 metric
13 tons shall be distributed through nonprofit voluntary
14 agencies and the World Food Program;

15 “(2) for fiscal year 1979 shall be 1,600,000
16 metric tons, of which not less than 1,300,000 metric
17 tons shall be distributed through nonprofit voluntary
18 agencies and the World Food Program;

19 “(3) for fiscal year 1980 shall be 1,600,000
20 metric tons, of which not less than 1,300,000 metric
21 tons shall be distributed through the World Food Pro-
22 gram; and

23 “(4) for fiscal year 1981 and each fiscal year
24 thereafter shall be 1,600,000 metric tons, of which not
25 less than 1,300,000 metric tons shall be distributed

1 through nonprofit voluntary agencies of the World
2 Food Program;”.

3 SEC. 5. Subsection (a) of section 1002 of the Food and
4 Agriculture Act of 1977 (7 U.S.C. 1310) is amended (1) by
5 striking out “, based upon a determination of short supply,”,
6 and (2) by striking out “with which the United States other-
7 wise continues commercial trade” and inserting in lieu
8 thereof “of the world”.

9 SEC. 6. (a) Notwithstanding any other provision of law,
10 the Secretary of Agriculture shall announce and put into
11 effect as soon as practicable after the date of enactment of
12 this Act a cropland set-aside program for wheat under sec-
13 tion 107A of the Agricultural Act of 1949 (7 U.S.C. 1445b)
14 and for corn and feed grains under section 105A of such Act
15 (7 U.S.C. 1444c). The Secretary shall require that cropland
16 acreage on the farm equal to not less than 10 percent of the
17 wheat, corn, or feed grain acreage, as the case may be,
18 planted for harvest for the 1980 crop year be set aside and
19 devoted to conservation uses as required under the appropri-
20 ate section referred to above.

21 (b) The Secretary of Agriculture may make such adjust-
22 ments in the operation of the 1980 cropland set-aside pro-
23 gram for such commodities as he deems necessary because of
24 the delay in initiating the program.

1 SEC. 7. Notwithstanding any other provision of law, any
2 producer of wheat, corn, grain sorghum, barley, rye, or oats
3 who obtained a price support loan from the Secretary of Ag-
4 riculture before January 11, 1980, on any quantity of the
5 1979 crop of any such commodity shall not be required to
6 pay any interest on such loan for any period after January
7 10, 1980. Any such producer who obtained a price support
8 loan after January 10, 1980, on any quantity of such crop of
9 such commodity shall not be required to pay any interest on
10 such loan.

11 SEC. 8. There are authorized to be appropriated such
12 sums as may be necessary to carry out the provisions of this
13 Act.

STAFF EXPLANATION OF S. 2277

S. 2277 would (1) increase the level of price support on the 1979 through 1981 crops of wheat, feed grains, cotton, and soybeans; (2) require the Secretary of Agriculture to establish set-aside programs for the 1980 crops of wheat and feed grains; (3) modify the minimum price at which the Commodity Credit Corporation may sell any of its stocks of wheat and feed grains when the farmer-held reserve program for those commodities is in effect; (4) relieve producers who obtain price support loans on their 1979 crops of wheat and feed grains from paying any interest on such loans after January 10, 1980; and (5) modify the conditions under which the loan levels for specified commodities are to be set at 90 percent of parity when export sales of the commodities are suspended.

Under the bill—

(1) The level of price support loans for the 1979 through 1981 crops of wheat, corn, upland cotton, and soybeans could not be less than \$3.90 per bushel, \$2.50 per bushel, 60 cents per pound, and \$6.25 per bushel, respectively (adjusted in the case of each commodity at the beginning of each semiannual period after the beginning of the marketing year to reflect any estimated change in the parity index during such semiannual period, the first such adjustment to be made six months after the beginning of the marketing year for the 1980 crop of the respective commodity).

(2) The Secretary shall establish set-aside programs for the 1980 crops of wheat and feed grains and require that an acreage of cropland on participating farms equivalent to not less than 10 percent of the wheat and feed grain acreage planted for harvest be set aside and devoted to conservation uses. The Secretary could make such adjustments in the set-aside programs as he deems necessary because of the delay in establishing the program.

(3) The Commodity Credit Corporation could not sell any of its stocks of wheat and feed grains when the farmer-held program is in effect at less than (a) 10 percent above the level at which the Secretary may call upon producers to repay their farmer-held reserve loans prior to the maturity date, or (b) 20 percent above the then current level of price support, whichever is higher (under existing law, the Commodity Credit Corporation generally may not sell any of its stocks of wheat and feed grains when the farmer-held reserve program is in effect at less than 150 percent of the then current level of price support for the commodity; existing law, which would be unchanged by S. 2277, excepts from this sales price restriction commodities which are substantially deteriorated or in danger of deterioration and sales for specified emergency or disaster assistance programs).

(4) Whenever export sales of wheat, corn, grain sorghums, soybeans, oats, rye, barley, rice, flaxseed, or cotton are suspended by any member of the executive branch of the Federal Government to any country or area of the world, the Secretary must set the loan level for such commodity at 90 percent of the parity price for the commodity (under existing law, the requirement that the loan level be set at 90 percent of parity is triggered whenever any member of the executive branch causes to be suspended—based upon a determination of short supply—the commercial export sales of any of the named commodities to any country or area with which the United States otherwise continues commercial trade).

96TH CONGRESS
2D SESSION

S. 2315

To authorize the Secretary of Agriculture to establish reserves of agricultural commodities to stabilize farm prices whenever export sales of agricultural commodities are suspended for reasons of national security or foreign policy and the prices producers receive for the commodities involved are, or will be, adversely affected by such suspension.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 20 (legislative day, JANUARY 3), 1980

Mr. HUDDLESTON (for himself, Mr. TALMADGE, Mr. HELMS, and Mr. FORD) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To authorize the Secretary of Agriculture to establish reserves of agricultural commodities to stabilize farm prices whenever export sales of agricultural commodities are suspended for reasons of national security or foreign policy and the prices producers receive for the commodities involved are, or will be, adversely affected by such suspension.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That this Act may be cited as the "Trade Suspension Com-
- 4 modify Reserves Act of 1980".

1 SEC. 2. Notwithstanding any other provision of law—

2 (a) Whenever the President or other member of the ex-
3 ecutive branch of Government causes the commercial sales of
4 any commodity (as defined in subsection (b) of this section) to
5 any country or area of the world to be suspended for reasons
6 of national security or foreign policy under the Export Ad-
7 ministration Act of 1979 or any other provision of law, and
8 the prices producers receive for such commodity are, or the
9 Secretary of Agriculture determines will be, adversely
10 affected by such action, the Secretary is authorized to act to
11 stabilize prices producers receive for such commodity by es-
12 tablishing trade suspension reserves of such commodity, as
13 provided in subsection (d) of this section.

14 (b) For purposes of this Act, the term “commodity”
15 shall include any of the following: wheat, corn, grain sor-
16 ghums, oats, barley, rye, and such other grains as the Secre-
17 tary determines appropriate for inclusion under the provisions
18 of this Act.

19 (c) Within thirty days after the commercial export sales
20 of a commodity to a country or area are suspended as de-
21 scribed in subsection (a) of this section, the Secretary of Agri-
22 culture shall announce whether trade suspension grain re-
23 serves under this Act will be established, and shall include in
24 such announcement the amount of the commodity that shall
25 be placed in the trade suspension grain reserves, which shall

1 be that portion of the suspended commercial exports that
2 should be removed from the market to maintain producer
3 prices at the levels producers had received for the commodity
4 immediately prior to the suspension of trade.

5 (d) To establish reserves necessary to stabilize prices
6 under this Act, the Secretary of Agriculture is authorized
7 to—

8 (1) through the Commodity Credit Corporation,
9 purchase commodities suitable for use in the production
10 of alcohol for fuel and pay such storage, transportation,
11 and related costs as may be necessary to permit main-
12 tenance of such commodities in reserve for the pur-
13 poses of this Act and disposition of such commodities
14 as provided in subsection (e) of this section; and

15 (2) if the export sales of wheat or feed grains are
16 suspended, increase the stocks held under the producer
17 storage program under section 110 of the Agricultural
18 Act of 1949 by making additional nonrecourse loans
19 available to producers under that program.

20 Except as otherwise provided in this Act, commodities placed
21 in reserve under clause (1) of the preceding sentence shall be
22 acquired, handled, and disposed of under the provisions of the
23 Commodity Credit Corporation Charter Act, and commod-
24 ities placed in reserve under clause (2) of the preceding sen-

1 tence shall be acquired, handled, and disposed of under the
2 provisions of section 110 of the Agricultural Act of 1949.

3 (e) The Secretary of Agriculture may dispose of com-
4 modities acquired by the Commodity Credit Corporation
5 under clause (1) of the first sentence of subsection (d) of this
6 section only through sale, at not less than the fuel conversion
7 price for the commodity involved, for use in the production of
8 alcohol for fuel: *Provided*, That such sales shall only be made
9 to persons for use in the production of alcohol for motor fuel
10 at facilities that (1) begin operation after January 4, 1980,
11 and (2) whenever supplies of the commodity involved are not
12 readily available, can produce alcohol from agricultural or
13 forestry biomass feedstocks other than the commodity
14 involved.

15 (f)(1) To facilitate the use of commodities that are held
16 in reserve under this Act by producers under the producer
17 storage program for fuel production purposes, the Secretary
18 of Agriculture may require such producers to repay nonre-
19 course loans under that program, plus accrued interest there-
20 on, prior to the maturity date thereof whenever the Secretary
21 determines that the then current market price for the com-
22 modity involved is not less than the fuel conversion price for
23 the commodity.

24 (2) Whenever nonrecourse loans under the producer
25 storage program are made available as provided in this Act,

1 the Secretary shall announce, at the time the availability of
2 such loans is announced, and every three months thereafter
3 while such loans are available or outstanding, the fuel con-
4 version prices of the commodities held in the producer stor-
5 age program under this Act.

6 (g) The fuel conversion price for a commodity shall be
7 the price determined by the Secretary of Agriculture that will
8 permit gasoline-alcohol mixtures using alcohol produced from
9 the commodity to be competitive in price with nonlead gaso-
10 line priced at the point it leaves the refinery, adjusted for
11 differences in octane rating. In determining the fuel conver-
12 sion price, the Secretary shall take into consideration the
13 energy value of the commodity and the value of byproducts
14 also recoverable from the commodity; the direct costs and
15 capital recovery costs for a grain alcohol distillery capable of
16 producing forty million gallons of alcohol and recovering by-
17 products annually; and Federal, State, and local tax and
18 other incentives applied to alcohol used for fuel.

19 (h) The Secretary of Agriculture shall establish safe-
20 guards to assure that commodities held in trade suspension
21 grain reserves under this Act shall not be used in any manner
22 to unduly depress, manipulate, or curtail the free market.

23 (i) All producers of a commodity shall be eligible for
24 nonrecourse loans under the producer storage program made
25 available as provided in this Act.

1 SEC. 3. The Secretary of Agriculture is authorized to
2 issue such regulations as may be necessary to carry out the
3 provisions of this Act.

4 SEC. 4. The provisions of this Act shall become effective
5 with respect to any suspension of commercial export sales, as
6 described in section 2(a) of this Act, implemented after De-
7 cember 31, 1979, except that, with respect to any such sus-
8 pension implemented prior to the date of enactment of this
9 Act, the provisions of section 2(c) of this Act shall become
10 effective on the date of enactment.

SUMMARY OF THE TRADE SUSPENSION COMMODITY RESERVES ACT OF 1980—S. 2315

The bill authorizes the Secretary of Agriculture to act to stabilize farm prices by establishing trade suspension reserves of agricultural commodities when export sales of the commodities are suspended.

The major provisions of the bill—

(1) Authorize the Secretary, whenever—

(a) the President or other member of the executive branch causes the commercial sales of wheat or other grains to any country or area of the world to be suspended for reasons of national security or foreign policy, and

(b) prices producers receive for the commodities are, or will be, adversely affected by the trade suspension,

to establish trade suspension reserves of the commodities;

(2) Authorize the Secretary to place commodities in reserve under the bill by—

(a) purchasing, and holding in a Commodity Credit Corporation fuel production reserve, commodities that are suitable for use in the production of alcohol for fuel, and

(b) if wheat or feed grains are involved in the suspension, expanding the stocks of the farmer-held grain reserve;

(3) Require the Secretary to announce, within 30 days after export sales are suspended, whether trade suspension commodity reserves will be established, and include in the announcement the amounts of the commodities to be placed in the reserve;

(4) Provide that the amount of a commodity to be placed in a trade suspension commodity reserve will be that amount that must be removed from the market to maintain farm prices for the commodity at the levels they were immediately prior to the suspension of trade;

(5) Provide that the Secretary may dispose of fuel production reserve stocks acquired by the Commodity Credit Corporation only by sale for use in the production of fuel, and that such sales may not be made at less than the fuel conversion price (which would be the price for the commodity that would make gasohol using alcohol produced from the commodity competitive in price with nonlead gasoline) (commodities could only be sold to new facilities that can use agricultural or forest biomass feedstocks other than the commodity involved);

(6) To facilitate the use for fuel production purposes of any commodity placed in the farmer-held grain reserve under the bill, authorize the Secretary to call loans when the market price for the commodity reaches the fuel conversion price;

(7) Provide that all producers of a commodity will be eligible to participate in the expansion of the farmer-held grain reserve under the bill; and

(8) Make the bill effective with respect to any trade suspensions implemented after December 31, 1979.



