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THE IMPORTANCE OF AGRICULTURE TO THE U.S. ECONOMY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-SEVENTH CONGRESS

FIRST SESSION

PART 1

SEPTEMBER 14 AND 15, 1981

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

89-300 O WASHINGTON : 1982

SPC1

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Congress)

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THE IMPORTANCE OF AGRICULTURE TO THE U.S. ECONOMY

MONDAY, SEPTEMBER 14, 1981

Congress of the United States,
Subcommittee on Agriculture and Transportation
of the Joint Economic Committee,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:04 p.m., in room 5110, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senators Abdnor, Jepsen, Symms, and Hawkins; and Representative Richmond.

Also present: Paul B. Manchester, Robert Premus, and Douglas N. Ross, professional staff members.

Opening Statement of Senator Abdnor, Chairman

Senator Abdnor. The Subcommittee on Agriculture and Transportation will come to order.

We would like to welcome you, Mr. Secretary, to the first in a series of hearings on the importance of American agriculture to the health of the U.S. economy.

The role of the agricultural industry has undergone many changes in the last 50 years. Agriculture has realized tremendous gains in ability to produce due to mechanization, improved technology, and scientific advancement. The agricultural sector productivity track record has been 75 percent greater than that of the manufacturing sector for the past 20 years. Without a doubt, our agricultural industry is the envy of the world.

At the same time, tremendous changes have occurred outside the agricultural realm. Low farm prices coupled with high production costs result in low revenues to farmers. Now, this is a major threat facing the agricultural industry today. The farm population of America, about 2.6 percent of the total work force, will receive less than 1 percent of the national income this year.

Yet, this 2.6 percent produces about 3½ percent of the gross national product. Another threat to the farm is high interest rates. With borrowing costs exceeding rates of return on the land, production becomes prohibitive. The changes could jeopardize the continuing improvements within agriculture. Lack of improvements in agriculture could affect the national economy in two ways.

Not only has agricultural productivity growth provided the "bootstrap" for economic growth in other sectors by freeing resources for ultimate development, it has also fostered continuing growth by keeping technological pace with the other sectors, always insuring abundance of basic necessities.

Two hundred and twenty-six million Americans benefit from low food prices. The average family in the United States spends about 18 percent of its income on food, but Europeans, for example, in some countries spend as high as 40 percent. Let me say, Mr. Secretary, I have heard the figure as low as only 15 percent of their take-home pay goes for food.

Agriculture must be recognized as a valuable, integral, and potent part of America's economy. The intention of these hearings is to provide that recognition. We have a strong economy due to a strong working interdependence among all facets of our complex economic structure. Let us, then, work together as we focus on agriculture's role in the economy at large.

I know there are others here who have opening statements. Senator Jepsen, our ranking member from the Senate side on the Joint Economic Committee, do you have an opening statement?

Opening Statement of Senator Jepsen

Senator Jepsen. First of all, I would like to welcome the Secretary. I look forward to listening to the give and take and the conversation. This is a very crucial time for farming and the agricultural community generally and it's a tough time for the Secretary and the Department of Agriculture.

The farm program is the next issue before the Senate. In my State today, corn has reached a $2.30 level per bushel. The cost of production of that bushel of corn is somewhere between $2.80 and $2.90. Interest rates are at an alltime high. I do not need to tell the Secretary of this. To the farming and agricultural community, this present situation is very, very serious.

Hopefully, we can explore together some of the things we might expect to do and see from the Department of Agriculture as we proceed in this hearing today. Thank you, Mr. Chairman.

Senator Abdnor. Thank you.

Next, I will call on Representative Fred Richmond.

Representative Richmond. Thank you, Mr. Chairman. I welcome the Secretary and look forward to his presentation.

Senator Abdnor. Thank you.

Mr. Secretary, we wanted you to lead off our subcommittee hearings. It's only proper that a man of your excellence in the field be called on. We are looking forward to your statement.

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY OF AGRICULTURE, ACCOMPANIED BY J. DAWSON AHALT, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS

Secretary Block. Thank you very much, Mr. Chairman. I am pleased to have a chance to appear before the subcommittee today and I think as some of the other members—certainly Senator Jepsen has heard me say in the past—my great concern and what I would like to see prevail and come about during this administration, is to see prosperity in agriculture.

I think it's vital to this economy and not from a selfish point of view as a farmer myself and farmer friends of mine, but appreciating the vast importance of this industry, as I shall discuss with you this issue here this morning.

I do have the same grave concerns that many of you may have about the economic conditions in agriculture and how we extricate ourselves from the problems that we face here today. My parents have come to join me here in Washington today. They bring to Washington word of the big corn crop we have in Illinois and in Iowa and across the Midwest.

The effort has always been to maintain a close association, a close proximity to what's happening in the country because agriculture is of such vital importance. I'm going to read to you a brief statement, certainly not the lengthy one that I will submit for the record. I have with me today Dawson Ahalt, the Deputy Assistant Secretary for Economics for the U.S. Department of Agriculture.

Following the brief statement, I will be pleased to answer any questions you may have frankly on any subject. We will do the best we can with what we have to offer.

Mr. Chairman and members of the subcommittee, it is indeed a privilege to appear before you today to discuss the importance of agriculture in the U.S. economy. I have submitted a detailed prepared statement for the record, and with your permission, I will condense my verbal remarks so as to focus upon the key points of that statement.

American agriculture today faces some of its most fundamental challenges in decades. Farming in recent years has become a complex business, subject to the pressures of both domestic and international economic, political, natural, and social events.

Modern agriculture produces more than just income and jobs for U.S. farmers. It accounts for a significant portion of our national income, employment, and export earnings for urban and rural residents alike. In fact, the food and agricultural sector is a principal component of all elements in our gross national product, accounting for about 20 percent of GNP.

Food accounts for slightly more than 20 percent of all U.S. consumer expenditures. This share is well below every other nation in the world, and is largely due to the efficiency of our agricultural system which provides us with an extraordinary variety of foods at very reasonable prices.

Approximately 23 million workers are employed in food and agricultural production, processing, and distribution. That is 22 percent of our entire labor force.

In recent years, agricultural exports have been a primary factor in limiting the size of our Nation's trade deficit. I might add that several members up here before me have been very instrumental in helping put emphasis on agricultural export programs in the countries around the world. It's nice to see Senator Hawkins here, also. In fact, agricultural exports last year paid for about one-half of the cost of imported petroleum and petroleum products.

Commodities exported directly from the farm represented about one-third of our total cropland production, and totaled $27.8 billion last year. Another $13.5 billion came from the nonfarm food economy bringing the total export value to $41.3 billion. These exports generated jobs for about 1.2 million workers—only a third of whom were farmers.

Japan continues to be our largest single customer, although the European Economic Community receives the bulk of our agricultural exports. The real growth potential is in the rapidly developing countries of the world.

Overall, agricultural exports totaled $41.3 billion in 1980, which were offset by $17.4 billion in agricultural imports. In contrast, however, nonagricultural trade showed a deficit of over $47 billion. Current projections point to continued agricultural trade surpluses throughout the eighties and nineties.

Farmers spent $130 billion on production inputs in 1980—of which 71 percent went for purchasing goods and services off the farm. These expenditures generate thousands of jobs and sales for energy suppliers, equipment and machinery manufacturers, the chemical industry, and financial institutions.

As we all know, the farmers across this vast land are not buying. When the farmers aren't buying, the small towns, and some of them not so small, suffer a tremendous amount.

More than $100 billion worth of farm commodities were marketed in 1980, to which nearly $180 billion worth of marketing services were added.

Clearly, a healthy agricultural sector is of vital importance to the overall performance of the economy in terms of an expanding GNP, rising employment in agriculturally related industries, and an improved trade balance.

That is only part of the picture. Farm income is an important measure of economic activity in rural America. Growth in farm income contributes to greater national economic growth and generates additional employment. But when net farm income declines, the process reverses itself. When farm income declines over several consecutive years—that's what I was earlier talking about—it leads to severe and prolonged recessions within agriculture.

Net farm income in 1981 is expected to improve only moderately from the 1980's low level—from $19.9 billion last year to a range between $20 to $24 billion. However, after adjusting for inflation, net farm income will be no better than during the Depression years of the thirties, and that spells trouble in rural America. Interest payments have risen drastically, and farmers contribute to pay higher prices for crucial production inputs such as chemicals and fuel.

The farm balance sheet for this year is equally bleak. Farm asset values are up 8.4 percent. But farm liabilities are up some 14.7 percent from last year—due primarily to the increasing cost of borrowing for land purchases and operations. The reduced assets-to-liabilities ratio illustrates a fundamental and important change in the financial structure of American agriculture. Fewer and fewer farms are now owned outright, and farmers today bear increasingly large mortgage burdens.

Focusing only on farm income, however, masks some fundamental changes in U.S. agriculture. Exports and debt financing help demonstrate how American agriculture's economic role has evolved significantly from its historical one. Enormous gains in productivity have transformed agriculture into a modern capital-intensive industry consisting of millions of independent producers contributing to the Nation's economic output.

Farm employment has declined drastically over the past half century. Whereas a single farmer produced enough food for 10 other people 50 years ago, today's farmer provides food for 60 people. This labor productivity growth in farming has consistently outpaced that in the rest of the economy, and, I might say, in the rest of the world, too.

Machinery and equipment have replaced human labor and animal power, and large quantities of resources have been freed to support growth in other sectors of the economy.

There also has been a tremendous expansion in the operational scale of American farms. The average farm today has 29 percent more land than in 1964, uses increasingly complex equipment and machinery, and must respond faster than ever to changing weather and market conditions.

These fundamental changes in American agriculture have produced some areas of real concern. High interest rates, inflation, rising taxes and the value of the dollar take their toll on farmers the same as with other businessmen. Today, many farmers are facing serious cash flow problems.

A basic objective of the administration's economic recovery program is to stimulate lagging productivity gowth in the pivate sector—including agriculture. Clearly, lower tax rates will allow farmers to increase their investments in equipment and machinery over the next few years. Lower interest and inflation rates will stimulate agriculture and improve net farm income. Declining inflation should reduce the demand for farmland as an inflationary hedge—which has caused land ownership costs to rise, and rent to rise.

As economic growth improves, the demand for food and fiber will increase as consumer incomes rise. As the U.S. economy grows, the demand for imports expands—thus, placing more dollars in the hands of foreigners who will likely purchase more U.S. farm products.

Agriculture is a unique sector of our economy, because production depends primarily on natural and biological forces which can drastically disrupt economic stability. Previous administrations and Congress have therefore supported a broad array of special programs designed to reduce risks and maintain stability. Without adequate supplies of food and fiber, our economy simply cannot perform.

A diverse set of programs have been utilized. But in some instances, commodity programs which started out with one or two basic features have become needlessly complex. This has distorted agricultural incentives, and induced inefficiencies because of little reliance on the workings of the market.

It is through the operation of markets and the price mechanism that supply demand are balanced and efficient resource allocation assured. This means that existing programs must be carefully reviewed to insure they provide appropriate price and income stability without distorting the workings of the marketplace.

This administration has taken a series of actions to bring about a shift toward a more market-oriented agriculture. At the same time, the

Department of Agriculture is reducing the regulatory burden placed on the private sector. And, we are working closely with Congress to formulate programs to be incorporated in the 1981 farm legislation.

In summary, agriculture is a primary contributor to the American economy, particularly with respect to our balance of trade. Our exports have grown rapidly in recent years, and will continue to grow as international markets expand and standards of living rise throughout the world.

The disappointing level of current farm income emphasizes the crucial need for the new omnibus agricultural legislation to provide for stability. This new legislation must not insulate agriculture with complex programs that prevent efficiency or restrict competition. Only a market-oriented policy will insure that agriculture continues to function successfully as a vibrant and dynamic component of our Nation's economic system. Thank you, Mr. Chairman.

[The prepared statement of Secretary Block follows:]

Prepared Statement of Hon. John R. Block

Domestic agriculture today faces some of the most fundamental challenges in decades. No longer is farming an isolated activity insulated from developments in the rest of the nation and the world. Instead, agricultural production is a complex business, highly dependent on and linked to supporting resource supply industries, food and fiber processors, distributors, and retailers, as well as consumers of finished food and fiber products. Domestic agriculture is more sensitive today than ever before to economic conditions in the general economy--particularly those relating to credit markets, fuel availability, and consumer demand. International economic conditions also impact crucially on U.S. farmers. Poor harvests in other countries can lead to large increases in the demand for U.S. agricultural exports, while a strong dollar generally serves to decrease demand.

A reverse linkage is also evident. Not only is domestic agriculture increasingly dependent on developments in other sectors of the economy and events elsewhere in the world, but the general economy and many other countries are dependent on American agriculture. This was clearly evident in the 1970's when poor domestic harvests led to surges in commodity prices and when production shortfalls elsewhere around the globe led to unprecedented demands for U.S. grain and oilseed exports. Shipments of U.S. agricultural products to developing countries each year prevent widespread hunger and allow dietary improvement. Even the developed countries depend on our exports of raw foodstuffs and fibers to supply their processing industries with the necessary raw materials.

Importance of Agriculture

Modern production agriculture in the United States accounts for a significant portion of national income, employment, and export earnings. This contribution is important, not just because it generates income and jobs for farmers, but because it produces income and employment for farm supply industries, food processing and distributing firms, and agribusiness in general.

Contribution to GNP

Gross national product (GNP) is the most commonly used economic measure of production and welfare in the United States, reflecting the final purchases or sales of goods and services in the economy. On the demand side, GNP consists of personal consumption expenditures, domestic investment, net exports of goods and services, and government purchases of goods and services. The food and agricultural sector contributes categorically to each of these accounts but is of major importance as a principal component of personal consumption expenditures and net exports. By summing gross private domestic agricultural investment, personal consumption expenditures for food, expenditures for other agricultural products (such as tobacco, cotton and wool apparel, flowers and plants), and net exports of agricultural products, it is estimated that farming and related activities have accounted for about 20 percent of GNP in recent years.

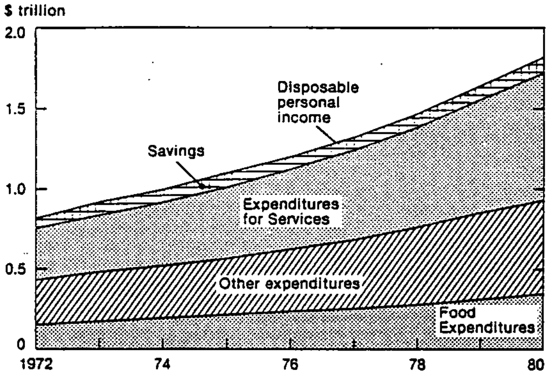
Food sales alone have accounted for more than 20 percent of all consumer expenditures in the last few years, clearly indicating the crucial importance of agriculture to the domestic economy. Although this share seems large, it is much less than the share of consumer expenditures accounted for by food in other developed economies. In particular, consumer expenditures on food in the United States are lower than food expenditures in the United Kingdom, France, Japan and virtually all other developed countries in the world. This is largely attributable to the efficiency of our capital-intensive domestic agricultural system which through innovation and initiative has provided us with an extraordinary variety of foods at extremely low prices.

Estimates of the contribution of the food and agricultural system to GNP 1/

Sector	Employment	Value added by sector	
	— Millions —	— $ Billion —	— Percent —
Farming	3.4	71.4	15
Food and agriculture less farming	20.1	414.8	85
Food processing	1.7	57.1	12
Resource suppliers	2.5	94.2	19
Manufacturing	5.0	84.3	17
Transportation, wholesaling, and retailing	7.6	146.0	30
Eating establishments	3.3	33.2	7
Total food and agricultural system	23.5	486.2	100
Total domestic economy	102.9	2,413.9	—
		— Percent —	
Food and agricultural system contribution	22.8	20.1	—

1/ Based on 1979 data.

Disposable Personal Income



Disposable personal income and expenditures, 1975 through 1980

Item	1975	1976	1977	1978	1979	1980
			— Billion dollars —			
Disposable personal income	1,096.1	1,194.4	1,311.5	1,462.9	1,641.7	1,821.7
Personal consumption expenditures	976.4	1,084.3	1,205.5	1,348.7	1,510.9	1,672.8
Food	213.6	230.6	250.3	276.4	312.1	345.7
Other goods	325.8	368.0	407.5	452.7	502.5	541.9
Services	437.0	485.7	547.7	619.6	696.3	785.2
Savings	94.3	82.5	74.1	76.3	86.2	101.3
			— Percent —			
Food expenditures as percent of all expenditures	21.9	21.3	20.8	20.5	20.7	20.7

Source: Department of Commerce.

Another way of looking at agriculture's contribution to GNP is through its contribution to sales instead of purchases. Industry sales contribution to GNP is measured by "value added"--the difference between raw material costs and the value of final products. Historically, farmers add 15 percent to the total value of domestic agricultural products. This amount is dispersed to hired labor, owner-operator labor and management, loan and mortgage companies, depreciation, and other resource suppliers.

The nonfarm portion of the food and agricultural system generates the bulk of the total final value of agricultural products--about 85 percent of total sales. Food processing contributes 12 percent, resource supply and service activities contribute 19 percent, manufacturing contributes 17 percent, eating establishments 7 percent, and transportation, wholesaling, and retailing generate 30 percent of domestic and foreign sales of agricultural products.

Employment

Over 22 percent of the entire labor force is employed in farming, farm product marketing, and supplying farmers with inputs--about 23 million workers. Farm production will utilize about 3.4 million workers this year--about 3 percent of the national labor force and 15 percent of total labor required by the food and fiber system. Other employment generated by the agricultural economy includes 2.5 million workers in resource and service activities, 7.6 million in transportation and retail trade, 5.0 million in the manufacture of feeds and other farm products, 1.7 million in food processing, and 3.3 million in eating establishments.

The 23 million workers necessary for moving agricultural products through the economic system include both direct and indirect labor. Direct labor includes, for example, meat processors, packagers, and distributors. Indirect labor requirements include workers necessary for producing packaging materials, as well as those needed to manufacture equipment used in meat packing and other food processing industries. These indirect labor requirements filter down through the economic system as additional labor services are used to transform resources into the plants and machinery that produce equipment for processing livestock and other products. All of these workers are necessarily dependent on a healthy and vibrant agricultural economy.

Exports

Rising agricultural exports in response to increased world demand for farm commodities have a crucial impact on the U.S. economy and farming, in particular. In recent years, agricultural exports have been a primary factor limiting the size of the United States trade deficit. Last year agricultural exports paid for about one half of the cost of imported petroleum and petroleum products.

The United States accounts for about 55 percent of total world grain exports (45 percent of total world wheat exports and 69 percent of coarse grain exports) 52 percent of world soybean exports, and 29 percent of total world cotton exports. More than 60 percent of our wheat crop, about 35 percent of feed grains production, and 40 percent of domestic soybean production are exported. The total value of food and fiber exports exceeded $41 billion in calendar 1980. For fiscal 1981, the total value of agricultural exports will be about $44.7 billion.

Commodities exported directly from the farm represented about one third of our total cropland production and totaled $27.8 billion last year. This was comprised mostly of grains, oilseeds, animal products, and other unprocessed farm products. Another $13.5 billion of agricultural exports came from the nonfarm food economy--milled grain and oils, processed meats, and flour, for example. These exports generated jobs for approximately 1.2 million workers, a third of whom were farmers.

Exports of traditional grain and oilseed crops continue to constitute the bulk of our domestic agricultural exports. But in recent years there have

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been substantial increases in our exports of fruits and fruit preparations, cotton, and nuts. The value of sunflower seed exports surged from zero in the early 1970's to $411 million in 1980.

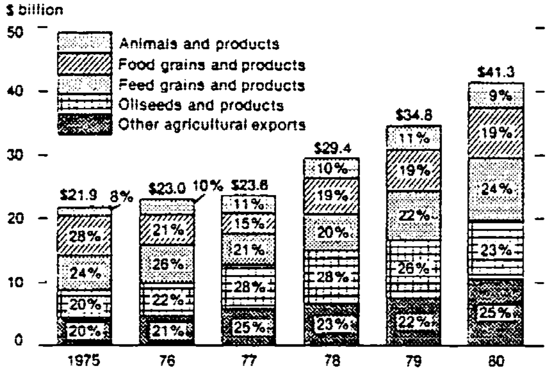
Japan continues to be our single largest customer, importing nearly twice as much as any other country. But on a regional basis, the European Economic Community receives the bulk of our agricultural exports, particularly the Netherlands, Germany, Italy, the United Kingdom, and France. Even so, agricultural exports to developing countries grew fastest last year—particularly China, Mexico, and Africa.

The net agricultural sector trade surplus totaled $23.9 billion in 1980—agricultural exports of $41.3 billion offset imports of $17.4 billion. In contrast, our nonagricultural trade account showed a deficit of slightly more than $47 billion. This general pattern of large agricultural trade surpluses and large nonagricultural trade deficits has persisted over the last decade. Current projections point to continued agricultural trade surpluses throughout the 1980's and into the 1990's.

Clearly, the agricultural sector benefits the economy through its positive trade balance. By reducing the trade deficit, domestic agriculture provides strength to the American dollar, permitting necessary imports to be acquired at prices less than would be the case with a lower-valued dollar. Reducing import prices in dollar terms implies a reduced domestic inflation rate.

Agricultural exports provide jobs for hundreds of thousands of Americans and contribute to GNP—a contribution that would not be forthcoming in the absence of trade. Agricultural exports in 1981 will generate over $94 billion of activity in the economy and will require the services of over 1.2 million full-time workers. It has been estimated that each dollar of agricultural exports will generate a little over two dollars of economic activity. Assuming no capacity restraints, new U.S. agricultural exports generate from $1.74 to

Value of U.S. Agricultural Exports, Calendar Years



Agricultural exports, value of selected commodities and groups, 1975 through 1980

Item	1975	1976	1977	1978	1979	1980
	— Billion dollars —					
Animals and products	1.69	2.38	2.67	3.03	3.76	3.79
Food grains and products	6.21	4.72	3.66	5.53	6.44	7.95
Feed grains and products	5.28	6.02	4.91	5.91	7.79	9.83
Oilseeds and products	4.45	5.07	6.61	8.18	8.89	9.39
Other	4.25	4.31	5.79	6.73	7.87	10.30
Total U.S. Agricultural exports	21.88	23.00	23.64	29.38	34.75	41.26

$2.31 of real GNP per dollar of real exports. If the United States were to increase the volume of its agricultural exports by 50 percent from 1979 levels, while retaining their composition, it would increase employment in the non-farm economy by at least 300,000. This could potentially reduce the unemployment rate by three-tenths of a percentage point. This export increase would also generate about $36 billion of economic activity, of which $7 billion would be retained by production agriculture.

Marketing Services

More than $100 billion worth of farm commodities were marketed in 1980. Of this amount, products valued at $81 billion were consumed domestically. Nearly $180 billion of marketing services were added to this total, however. The remainder of domestically produced farm commodities went primarily into export channels, generating $41.3 billion in export earnings after processing.

Marketing services accounted for 69 percent of total consumer expenditures on food in 1980. The highest level of services was provided for bakery products—$23.1 billion were added to a farm value of $3.4 billion. For meat, processing and marketing added about $47.5 billion to a farm value of $30.9 billion in 1980. Fruits and vegetables undergo considerable processing which accounted for 80 percent of their total cost to consumers. Poultry, eggs, and dairy products were the only foods for which farmers received half of total expenditures. In the aggregate, the farmers' share of consumer expenditures for all domestically produced foods was 31 percent, which has held relatively constant since the 1960's.

Labor is the largest beneficiary of agricultural product flows through the marketing system. About 46 percent ($81.7 billion) of the total food marketing bill went for wages and employee compensation in 1980. This included direct labor costs but not indirect labor used in hired transportation and distribution services, or the labor used to manufacture supplies, such as packaging materials used by the food industry. Total direct labor required to move farm products from the farmgate to consumers required 7.2 million workers with the largest number employed in restaurants, cafeterias, and fast-food chains. Food stores employed 1.9 million people, while food processors employed 1.2 million, and food wholesalers approximately .7 million people.

The packaging of farm products accounted for 12 percent of marketing expenses in 1980--about $22 billion. Transportation charges were about 8 percent of total food costs, or $14.2 billion. Fuel and energy expenses were $10 billion--6 percent of total marketing costs. Other food marketing expenses totaled 26 percent of the cost of food to consumers (mostly interest payments, rent, depreciation, and insurance). These were $57.1 billion in 1980. The profit realized on marketing services in 1980 amounted to 6 percent of the total marketing bill.

The flow of agricultural commodities from the farmgate to the consumer's table thus requires that a number of processing and service activities be performed along the way. Each of these activities has a direct economic effect on national employment and income while also giving rise to other indirect effects on employment and income in supporting industries.

The Agricultural Economy in 1981

A healthy agricultural sector is of vital importance to the overall performance of the economy. Rising agricultural output normally leads to an increase in GNP, the creation of more jobs in related industries, and a widening agricultural trade balance. But rising output largely reflects only physical production in the economy without relating sales to costs. Important indicators of performance in the agricultural sector are farm income and the farm balance sheet.

Importance of Farm Income

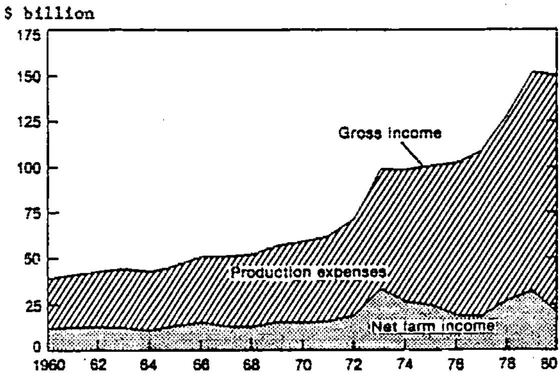
Farm income serves as one important measure of the current situation of the American farmer and also as a crucial indicator of future economic activity in agriculture. In years when crop and livestock prices rise and production is large, and there are only moderate increases in production expenses, farm income rises and agriculture is more profitable as a business. This leads to increased agricultural investment and greater output in successive years as farmers expand their operations in response to market signals. This expansion in turn contributes to greater national economic growth and generates additional jobs and employment.

When net farm income declines, however, this process reverses itself. Expansion plans are curtailed; some farmers sell-out and take more lucrative jobs in other sectors; and some producers simply attempt to "hold on" for better times. A major problem occurs when farm income declines over several consecutive years. Because the agricultural production cycle is lengthy--a full year for most crops--adjustment to low profits occurs slowly since production cannot be reduced quickly. This leads to severe and prolonged recessions within the sector which historically have been the fundamental problem in agriculture. The level of net farm income is a reflection of these cyclical fluctuations and a meter of their depth.

Farm Income Outlook

Net farm income in 1981 is expected to improve only moderately from 1980's low level. After inventory adjustment, net farm income is currently forecast to range from $20 to $24 billion, compared with last year's depressed $19.9 billion. Even then, much of this modest increase is due to the greater farm inventory buildup compared with the reduced inventory carryover in 1980.

Aggregate Farm Income



Aggregate farm income, 1975 through 1980 with 1981 forecasts

Item	1975	1976	1977	1978	1979	1980	1981 1/
	— Billion dollars —						
Gross income	100.3	101.8	108.7	127.5	151.9	150.5	162-166
Expenses	75.9	83.1	90.3	101.1	119.2	130.7	140-144
Net farm income							
Current dollars	24.5	18.7	18.4	26.5	32.7	19.9	20-24
Real dollars 2/	15.2	11.0	10.2	13.5	15.1	8.1	7-9

1/ Forecast.
2/ Current dollars divided by Consumer Price Index for All Items.

Major factors limiting farm income this year include (1) disappointing livestock receipts, attributable largely to greater than expected meat animal production and weak consumer demand; (2) more favorable weather and the outlook for larger 1981 crops here and abroad; (3) continuing record high interest rates, which have reduced demands for commodities and pushed up farm production expenses and cut into profits; and (4) the strengthening dollar, which has also contributed to declines in demand for U.S. agricultural exports.

Total cash receipts this year are anticipated to be only about 8 percent above the depressed 1980 level with livestock receipts up about 6 percent and crop receipts up approximately 9 percent. However, production expenses will likely climb about 10 percent, matching last year's increase. Interest payments have also risen drastically, while farmers continue to pay higher prices for crucial production inputs such as chemicals and fuel.

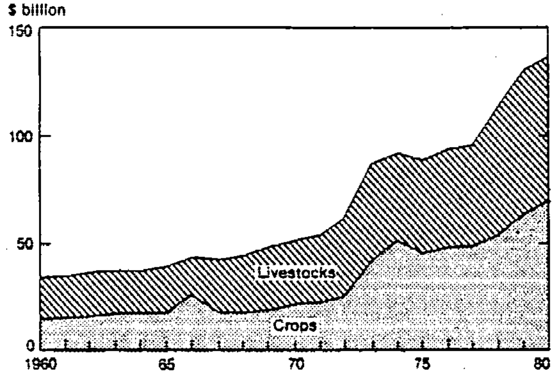
Crop Receipts

Crop receipts will be up this year, largely because of a record wheat production (up 16 percent) and large corn (also up 16 percent) and soybean crops (up 11 percent). In particular, cash receipts for rice and sorghum are expected to rise significantly because of increased production and relatively strong prices. But record large world production of grains (up 4 percent), as well as oilseeds (up 7 percent), will have a depressing effect on international grain and oilseed prices this year, holding domestic crop cash receipts below their potential. Even so, crop cash receipts should rise about 9 percent. This follows a 3 percent increase in 1980.

Livestock

Livestock receipts are rising more slowly this year than crop receipts. Red meat production remains large, but indications are that consumption will

Cash Receipts from Farm Marketings

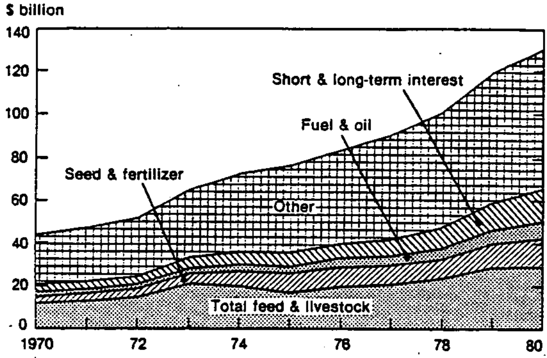


Cash receipts from farm marketings, 1975 through 1980 with 1981 forecasts

Item	1975	1976	1977	1978	1979	1980	1981 1/
	— Billion dollars —						
Crops	45.2	48.7	48.7	53.7	63.4	69.0	72-76
Livestock	43.1	46.1	47.6	59.2	68.5	67.4	68-72
Total	88.2	94.8	96.3	112.9	131.9	136.4	142-146

1/ Forecast.

Farm Production Expenses



Other includes depreciation, taxes and rent, labor and repair and all others.

Farm production expenses, 1975 through 1980 with 1981 forecasts

Item	1975	1976	1977	1978	1979	1980	1981 1/
	— Billion dollars —						
Feed and livestock purchased, total	17.6	20.2	21.1	24.4	29.8	29.0	28.0-30.0
Seed and fertilizer, total	8.7	8.7	9.0	9.2	10.4	12.8	13.5-15.5
Fuels and oils	3.3	4.0	4.4	4.8	6.4	8.3	8.5-10.5
Short and long term interest	6.4	7.0	8.3	10.0	12.7	15.8	17.5-19.5
Taxes and rent	7.9	7.8	8.0	8.5	9.2	9.9	9.5-11.5
Depreciation	12.6	13.8	15.3	17.3	19.7	21.8	22.5-24.5
Other 2/	19.4	21.6	24.2	26.9	31.0	33.1	35.0-37.0
Total production expenses	75.9	83.1	90.3	101.1	119.2	130.7	140.0-144.0

1/ Forecast.
2/ Other (expenses) includes hired labor, repair, and all other expenses.

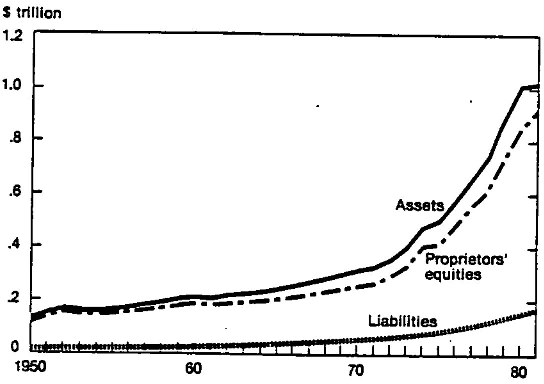
be lower this year on a per capita basis. This is due in part to large poultry supplies and consumer resistance to higher retail prices for red meats. Reduced pork production this year continues to have a positive effect on pork prices. Hog receipts are high as a consequence. But cattle receipts are not likely to rise significantly from last year's level because of increased production, higher feed grain prices, and weak consumer demand. Broiler production continues to expand and broiler receipts are expected to rise more than 10 percent in response to both higher prices and increased production. Cash receipts for eggs and milk are expected to increase about 10 percent from 1980.

Balance Sheet

Current forecasts indicate that the value of farm assets will reach nearly $1.2 trillion this year. This is almost 75 percent of the value of total corporate assets in the United States and up 8.6 percent from 1980's level. As in previous years, rising farm asset values this year are largely attributable to continued increases in the price of agricultural land. But land values have not risen much this year—substantially less than the rate of inflation. And farm liabilities are expected to exceed $180 billion—an increase of 14.7 percent from last year's level. As a consequence, owners equity will show the smallest increase in the last 5 years.

The large jump in farm liabilities this year is principally due to the increased financing of land purchases and operations through borrowing. This trend dates back well into the 1960's. In fact, the assets to liabilities ratio, which was 8.47 in 1960, fell steadily through the 1960's and 1970's reaching 5.86 last year. It will fall to about 5.54 this year, illustrating importantly a fundamental change in the financial structure of American agriculture. Fewer and fewer farms are now owned outright and farmers today bear increasingly large mortgage burdens.

Balance Sheet of Farming



U.S. farm balance sheet, 1975 through 1980 with 1981 forecasts

Item	1977	1978	1979	1980	1981 1/
	— Billion dollars —				
Assets	664.0	737.1	872.9	1004.4	1090.3
Propietors' equities	561.3	617.8	736.8	846.5	915.7
Liabilities	102.6	119.3	136.1	157.9	174.5

1/ Forecast.

Changing Nature of Agriculture

Even though the farm income and balance sheet outlook for this year is not optimistic, there is little question that the agricultural sector continues to have the capacity to function as a vibrant and dynamic component of the economy.

Focusing only on farm income masks some of the fundamental changes which have been occurring in U.S. agriculture, however. The heavier reliance on exports and debt financing already described are but two characteristics of a new American agriculture whose current role in the economy has evolved significantly from its historical role. In the past, agriculture was a labor intensive, somewhat isolated sector of the economy. Enormous productivity improvement has transformed it into a modern capital-intensive industry consisting of millions of independent producers contributing to national output.

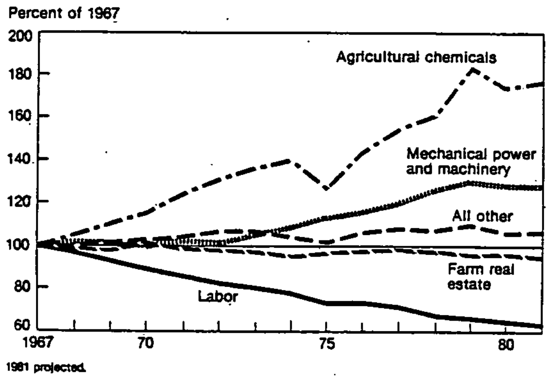
Employment

Farm employment has declined drastically over the last half century. Over 26 percent of the labor force was employed on farms in 1929--13 million workers. Today, only 3.4 million people--3.5 percent of the labor force—are currently involved in farming. But one farmer now provides food for 60 domestic consumers, while a single farmer could provide food for only 10 people 50 years ago. The decline in farm employment stems largely from the high level of labor productivity, or efficiency, experienced in agriculture. Labor productivity growth in farming has consistently outpaced that in the rest of the economy and has been a prime source of our nation's economic growth.

Capital Use

Farming is now a capital intensive activity in a mature and growing industry. Machinery and equipment now perform functions that only a few years ago were performed by human and animal power. The replacement of labor and

Use of Selected Farm Inputs



Use of selected farm inputs, 1975 through 1980 with 1981 forecasts

Item	1975	1976	1977	1978	1979	1980	1981 1/
	— 1967 = 100 —						
Farm labor	76	73	71	67	66	65	64
Farm real estate	96	97	99	97	96	96	95
Mechanical power and machinery	113	116	120	126	130	128	128
Agricultural chemicals	127	145	154	161	184	174	177
All other items	101	106	108	107	110	107	107

1/ Forecast.

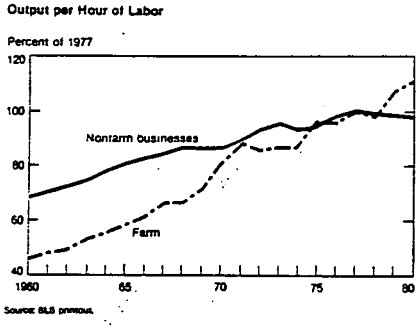
animal power with capital inputs has freed up large quantities of resources, which have been used to support growth in other sectors of the economy. The use of agricultural chemicals, fertilizer, hybrid seed and animals, and other forms of capital have increased tremendously—a consequence of technological progress. The resulting transformation of American agriculture has occured quite remarkably with little change in total land utilization. Land used for crop production and pasture actually declined from about 1.1 billion acres in the 1950's to just a little over 1 billion acres in the 1970's. Thus, despite popular myths to the contrary, the increased urbanization of the 1960's and 1970's appears to have had little effect on our ability to produce.

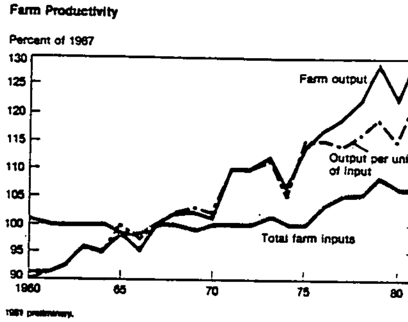
<u>Productivity</u>

Total agricultural output has increased more than 70 percent since 1950, with aggregate input use remaining almost constant. This is the result of capital for labor substitution combined with tremendous change in technology. The resulting productivity growth implies increased efficiency and the ability to produce greater levels of output with the same level of input.

Increased yields per acre in recent years reflect productivity growth in the crop industry. Capital for labor substitution, in the form of new, more sophisticated equipment and machinery, and technological change, such as the continued development of superior hybrid seed have been primarily responsible. In addition, improved managerial techniques and the use of more optimal combinations of fertilizers and chemicals have contributed enormously to productivity increases.

In the livestock industry, productivity gains have taken many forms: increased feeding efficiency (fewer pounds of feed per pound of gain), improved reproductive ability (more pigs per litter), greater labor efficiency (fewer





Farm output and productivity, 1975 to 1980 with 1981 projections

Item	1975	1976	1977	1978	1979	1980	1981 1/
				— 1967 = 100 —			
Farm output	114	117	119	122	129	122	130
Crop	121	121	129	131	144	131	145
Livestock	101	105	106	106	109	113	114
Farm inputs	100	103	105	105	108	106	106
				— 1977 = 100 —			
Output per man-hour							
Farm	95.7	95.7	100.0	98.1	107.4	111.2	N.A.
Nonfarm business	95.0	98.1	100.0	99.8	99.0	98.4	N.A.

1/ Projected.

hours per milkcow), and improved facilities utilization (year-round farrowing operations), for example. The development of confinement facilities in the pork industry has enabled producers to smooth out seasonal production patterns by allowing greater fall farrowings. The result has been an increase in annual hog production. In the cattle industry, the major innovation affecting productivity has been the development of feeding operations which combine high-energy feed rations with capital intensity to reduce both grow-out time and the hours of labor required to produce beef. Even so, the realities of the cattle cycle and biological production constraints continue to be an important determinant of the overall calving rate.

The growth of the large confinement-type broiler enterprises, and to some extent, the use of antibiotic feeds, is responsible for the phenomenal growth (more than 5 percent in some years) in poultry production. Improved feeding techniques and breeding have enabled egg production per hen to increase one to 2 percent a year. In the dairy sector, productivity increases have averaged almost 3 percent per year as a result of selective breeding programs and high-energy feed rations.

Farming as a Multi-Faceted Business

Coincident with the massive capital-for-labor substitution and productivity growth in agriculture has been a tremendous expansion in the operational scale of American farms. An average farm today produces 67 percent more than an average farm in 1964, while using only 48 percent more input. The average farm today has 29 percent more land than in 1964 (453 versus 351 acres), uses an increasingly complex equipment and machinery complement, and must respond more quickly than ever to changing marketing conditions and weather. A farmer now generally must not only be an expert resource manager but must be an accountant, a market analyst, an engineer, a mechanic, a tax expert, and be familiar with financial market developments. A planning or managerial error today can mean the difference between survival and default—more so than ever before. For this reason, the agrarian entrepreneur now must possess a bundle of skills and expertise drastically more sophisticated than his forebearers a generation ago.

In many respects, farming is little different from the operation of typical small businesses in the United States. Although weather and biology have a significant influence on final product, the American farmer is affected in much the same way as other businesses by high interest rates, inflation, rising taxes, and the value of the dollar. In particular, high interest rates have made it difficult for farmers to finance land purchases and capital equipment acquisitions in recent years, and many farmers have serious cash-flow problems. Inflation has increased the demand for farms as a hedge, driving up the price of agricultural land and forcing farmers to compete with speculators for their basic resource. Rising marginal tax rates in recent years have reduced disposable income for farmers the same way other sole proprietors have been affected. And high interest rates, which lead to increased foreign demand for dollars, have caused dollar appreciation against our trading partners' currencies—making U.S. farm product exports more expensive.

Although agricultural productivity is still increasing, farmers are faced with slowing productivity growth rates. Indeed, when the fifteen year period 1965-79 is compared with previous fifteen year intervals, the growth of a broad spectrum of farm productivity measures show significant declines. Total farm output per farm, per farm worker, per hour of labor, per unit of aggregate input, crop production per acre, and livestock production per breeding unit, all have dropped at least a full percentage point in annual growth rate. This slowdown is significant, and alarming, given the past record of rising productivity growth in agriculture.

The Economic Recovery Program

A basic objective of the Administration's Economic Recovery Program is to stimulate lagging productivity growth in the private sector. Because agriculture is a major component of the private sector, the beneficial effects of the President's program on general business will extend to farmers.

Basic Features

The Program for Economic Recovery is designed to reverse the trend towards an increasing economic role of government in the economy and to eventually eliminate Federal deficits. The transfer of resources from the public sector to a less regulated private sector, when combined with new incentives to work, produce, save, and invest is designed to break the economy out of the recent pattern of slow economic growth and productivity decline, to decrease inflation, and to reduce interest rates. The Administration's program has laid the groundwork for strong non-inflationary growth through 1986.

President Reagan's original program consisted of three specific fiscal policies: (1) 3-year cuts in marginal tax rates on personal income; (2) accelerated depreciation allowances combined with increased investment tax credits for business; and (3) broad-based cuts in Federal outlays except for defense. In addition, the President proposed a gradual restraint of money supply growth, and a market-oriented economic philosophy with emphasis on deregulation of industry.

Impacts on the General Economy

The Administration's program differs fundamentally from previous proposals in that its effects are long-run instead of short-run. No attempt is being made to solve all economic problems this year. The time horizon for success is several years off. Our current economic problems were not created overnight and will not be resolved immediately.

Personal tax cuts are expected to have an important supply-side effect on the economy. Lower taxes on wages and salaries combined with the reduction in marginal tax rates on interest income will lead to increased savings. Greater savings will stimulate investment and be used in part to finance the deficit. Increased investment will create more jobs and lead to greater industrial output as new plants are constructed and operations expanded. This will in turn induce higher personal income, which will generate increased demand for consumer goods and further stimulate savings. The net result will be higher growth in private sector GNP than would otherwise be the case. Importantly, as GNP grows substantially in the next few years, greater tax revenues will be generated. This, along with reductions in government expenditures, will allow the eventual elimination of Federal deficits.

The introduction of accelerated depreciation allowances is also designed to stimulate business investment. The result will be growth in our national stock of plants and equipment--an increase in capital accumulation necessary for the economic growth process. Since newly expanded capital stock tends to be more efficient in its use of labor, energy, and other inputs, significant productivity growth will result.

In addition to these fiscal policies, the Administration initially supported the Federal Reserve Board's gradual tightening of money supply growth. The result should be a gradual reduction of inflation over the next few years. As the inflation rate declines and as confidence in the Administration's economic program increases, expectations of increased future inflation should diminish. This will cause an even faster fall-off of inflation. Nominal interest rates will decline simultaneously since premiums for inflation are built into the term structure of rates.

Impacts on Agriculture

The Economic Recovery Program will have important supply-side effects on agriculture. Clearly, lower tax rates will allow farmers to increase their investments in equipment and machinery over the next few years, further stimulating needed productivity gains and enhanced agricultural growth in the future. Lower interest rates, coming with sustained reductions in inflation, will also stimulate agriculture. Lower interest rates mean that farmers' interest outlays will be lower. This will lead to improved net farm income, inducing more investment and providing productivity growth incentives within the sector. And declining inflation rates should reduce the demand for farmland as an inflationary hedge, causing a moderation in land ownership costs and rent.

Increased national economic growth also will generate important demand side effects for domestic agriculture. As economic growth rises, the demand for food and fiber will increase, since consumer incomes will be higher. This will generate additional farm income, further improving the health of the agricultural sector. In particular, the demand for apparel, meats, and fresh foods, tends to be highly sensitive to changes in consumer income. Thus, growth in these sectors of the food and agricultural economy can be expected. In addition, as the U.S. economy grows, the demand for imports of all goods and services expands. This places more dollars in the hands of foreigners who will likely purchase U.S. agricultural products. In particular, foreign demand for feedstuffs--grains and oilseeds--can be expected to increase because of the world-wide trend towards greater meat consumption.

The agricultural sector is already benefitting from other aspects of the Economic Recovery Program. The deregulation of the transportation sector has already led to lower grain transportation charges in some sections of the country. Further, decontrol of the domestic oil industry has assured that spot shortages of gas and diesel fuel in some rural areas of the country will no longer occur since the market is now free to allocate these resources to regions where they are needed most. And the passage of reduced estate taxes will facilitate the maintenance of the family farm—no longer will the next generation of farmers find it as difficult to continue operation of their parents' holdings.

Agricultural Program Proposals

Because agriculture is a unique sector of the economy plagued with lengthy cyclical recessions, previous administrations and Congress have supported a broad array of special programs designed to reduce risks and maintain stability. Clearly, a strong agriculture is in our national interest since the provision of adequate food and fiber supplies is the one function of highest priority within the economy. Without food and fiber, the economy simply cannot perform. Hence, it is in our own best interest to assure food abundance and continued availability. In this regard, agricultural program initiatives should never be taken lightly.

The Need for Agricultural Policy

The necessity for cohesive agricultural programs is obvious. Agriculture differs significantly from other sectors in that production depends primarily on natural and biological forces. The ravages of weather alone can transform crop abundance into scarcity; pests can cause millions or even billions of dollars in crop losses; and animal diseases can decimate livestock herds. Thus, there is a need for protection against natural disasters. This Administration has developed an expanded crop insurance program to meet this need.

There is also a necessity in agriculture for protection against economic disasters which are inherent in a commodity system with substantial output fluctuations each year. Without a reserve policy and price supports, basic agricultural commodity price variations can be enormous as supplies change and farm income would vary tremendously from year to year. This would lead to severe hardship for farmers--too much fixed capital investment during periods of high prices and income, with disinvestment during periods of low prices and income. For example, farmers who purchased expensive land or farm equipment and machinery during the peak price years of 1973 and 1974 were squeezed financially during successive low price years in the late 1970's.

Market Oriented Policy

In response to the obvious needs for farm commodity policy, a diverse set of programs have been utilized in the United States. Most have satisfied their designed goals effectively. But in many instances, commodity programs which started out with one or two basic features have become needlessly complex--so much so that farmers, policymakers, and program administrators have found them difficult to understand and comprehend. Importantly, these programs have distorted agricultural incentives and induced inefficiencies because of little reliance on the workings of the market.

It is through the operation of markets and the price mechanism that supply and demand are balanced and efficient resource allocation assured. This does not mean, however, that government activity should be eliminated. But it does mean that it is necessary to carefully review existing programs to determine whether they provide some protection against price and income instability without distorting the workings of the market. Programs should not insulate producers from market forces through an array of complex rules and regulations.

The commodity loan program and the farmer-held grain reserve are two key policy tools which are effectively used to encourage stability at the low end while maintaining reliance on market forces. Additions to reserves during periods of excess supply prevent grain prices from falling to disasterously low levels, while reserve reductions during periods of excess demand provide additional supplies and assure our foreign customers we are a reliable export market.

The nonrecourse loan program works similarly to stabilize prices by allowing farmers to obtain commodity loans, using their grain or cotton as collateral, while marketings are spread out over a period of months. Both programs provide for a broad range of market activity as long as reserve and loan prices do not interfere with the market clearing process.

Summary

Agriculture is one of the largest industries in the nation, accounting for about 20 percent of GNP in recent years and providing employment for about 23 million workers. Because of this, the economic health and well-being of the entire economy depend importantly on economic conditions in agriculture.

Through improved productivity in agriculture we have been able to move from a predominately agrarian nation to one of the most highly industrialized nations. In 1929 there were 13 million farmers on 6.3 million farms in the United States. Today less than 4 million farmers on 2.3 million farms supply our food and fiber. Increased use of capital in place of labor has enabled us to progress from one farmer producing for 10 consumers in 1929 to one farmer producing for 60 domestic consumers today.

American farmers are not only supplying food and fiber for more people in the United States, but around the world as well. This year the U.S. will export about $45 billion in agricultural products, accounting for over half of total world grain and soybean exports and almost 30 percent of world cotton exports. These exports generated almost $100 billion of activity in the U.S. economy and required the services of over 1.2 million full-time workers. Last year agricultural exports paid for about half of the cost of imported petroleum and petroleum products.

A healthy agricultural sector is of vital importance to the overall performance of the economy. Rising agricultural output normally leads to increases in GNP, the creation of more jobs in related industries, and an increased trade balance. Farm income, however, has been depressed in 1980 and 1981 at levels of around $20 billion compared with over $30 billion in 1979. Because of the lengthy production cycle in agriculture, adjustments to low incomes may take several years, leading to prolonged recessions in the agricultural sector.

Agriculture is unique, with a long production cycle and output depending primarily on weather and biological factors. Economic conditions in the farm sector impact substantially on the economic condition of the overall economy. Because of this important link, the Administration has established policy goals which seek to insure a healthy, profitable agriculture with the least possible Government interference in the marketplace and at minimal cost to U.S. taxpayers.

Increasing agricultural exports will be a key factor in the future economic health of the agricultural sector. Exports increase the demand for farm products and support farm prices. Agriculture's contribution to the balance of payments has become even more important as the non-agricultural trade deficit grows. Exports also contribute to economic activity at home and increase employment, both of which will contribute importantly to general economic recovery.

In addition to actions designed to make agricultural programs more market oriented, the Department has attempted to reduce the regulatory burden placed on the agricultural sector. Proposed regulations are now subjected to a rigorous review process. Through open hearings, proposed regulations are examined for their anticipated effects on the economy, as well as their costs to federal, state, and local government. The flow of regulatory proposals through the Department has been significantly reduced as a result. In addition, the Department has undertaken a comprehensive review of existing--some longstanding--regulations to determine whether they are still needed and whether those still needed can be simplified to reduce the burden of compliance and interference with the workings of competitive markets.

Soil and water conservation programs must be a major part of any long-term public policy if we are to sustain our ability to produce for the future. The productive capacity of our farm sector is directly related to the supply and quality of our soil and water resources. With growing world needs for food and fiber, it is crucial that the productivity of our vital soil and water resources be provided for the future.

Existing runoff, erosion, and water problems occur locally and regionally. Once damage occurs, replenishment is often impossible. Thus, state and federal cooperation is important in arriving at effective solutions. Existing conservation programs are being carefully reviewed and the Administration will offer a new program to the Congress by the end of this year.

A vital key to sustaining the productivity of American agriculture and therefore contributing to a healthy economy is the support of agricultural research. Adequate funding for research and education aimed at continued gains in the productivity of the agricultural sector will insure our ability to provide for a vibrant agricultural sector, expanded exports and improved soil and water conservation practices which will assure future generations an abundance of food and fiber products.

In summary, as Secretary of Agriculture, I am committed to restoring the economic health and prosperity of America's agriculture and to assuring agriculture's contribution to the recovery of the national economy. The key components of our program to restore the economic health of agriculture include: strengthening farm prices and incomes by expanding exports; reducing the dependence of agriculture on increasingly complex government programs and restoring the role of the private marketplace for allocating resources; improving the productivity of efficiency of the agricultural sector by reducing regulatory constraints on competition and efficiency and by strengthening research and education programs; and preserving and enhancing our productive capacity through more effective land and water resources. Success in these endeavors will contribute to the President's Economic Recovery Program by: reducing budget expenditures on commodity programs; increasing domestic economic activity and jobs through expanded exports; and reducing inflation through improved productivity and efficiency.

Senator ABDNOR. Thank you, Mr. Secretary.

I'm looking forward to the opportunity to ask questions. I think we will have an understanding right now that the five minute rule will be in effect, and I will apply it to myself as well as everyone else up here.

Mr. Secretary, that was an excellent statement. I wanted to focus on this particular subject, agriculture in the economy, because for far too long, I have felt that the average person in this country doesn't realize what an important part agriculture plays in the overall economy of this Nation.

I don't know if I ever have seen it particularly emphasized in reports at all, having been on this subcommittee since January. It very rarely comes up unless someone intentionally brings it into the discussion of the economy.

We need to realize that of the total work force, 2.6 percent are farmers, and they receive 1 percent of the income. And then I think of what the contribution we make to the Nation is and how low the price of food is, and what it does to the rest of the economy by freeing up dollars for spending on other goods and services. I sometimes think it hasn't been receiving its proper credit.

One of our greatest escape hatches for better farm prices has got to come from international trade. I'm wondering what role does the Department of Agriculture play in agricultural trade and what role does the State Department play? Who do you think these roles should belong to?

Secretary BLOCK. I feel that certainly, the Department of Agriculture plays a dominant role. I think that USDA should play the dominant role. For the most part in international trade, there is very little controversy as to who we trade with and under what conditions.

But, there definitely are occasions when we have to work with other Departments. It wouldn't just be the Department of State although that might be the primary one. We work very closely with the U.S. Trade Representative. Ambassador Brock is working on trade negotiations of all kinds to try to open up new markets for our products.

There are occasional differences of opinion. Primarily they have been with the Department of State, not with the U.S. Trade Representative. But even with the Department of State, we have been able to work out those differences. It's my considered opinion that the Department of State's trade objectives as they relate to most any country, including the Soviet Union, are not very far afield from my own.

If there is a difference, it is for the most part one of timing. I have been in a hurry; but at the Department of State they haven't been in quite such a hurry. I try to appreciate the large crops we have and the serious economic conditions in agriculture. I feel we must press forward to expand trade and find markets for these crops.

Senator ABDNOR. Well, Mr. Brock has taken leadership in most of the sales. I know you work together. It seems to me I read something in the paper sometime back that he would be the chief negotiator. Is that proper to assume?

Secretary BLOCK. Yes; Ambassador Brock probably will be the chief negotiator when we meet to discuss a new long-term agreement. I guess that isn't totally decided. But, he was the negotiator when we renewed or extended the current trade agreement for one more year. He was the leader of our team. The agricultural representative was the USDA Undersecretary for International Affairs and Commodity Programs.

Senator ABDNOR. You would agree that the farmers' hopes for improved income from the future have to come from foreign trade by and large?

Secretary BLOCK. I think that is one of the primary sources. We are looking toward a market oriented agriculture, and I think we have to recognize that the Federal Government can't go in and by large amounts of agriculture commodities to bail out agriculture. We have to find markets for our products to strengthen crop prices and stimulate the agricultural economy.

Obviously, the international market is a major opportunity for us. It has been a growth market. I think it will continue to be a growth market for us. I would not want to discount the potential of growth in the domestic market. But the domestic market is not going to really grow until we see the economy strengthen, see inflation start to come down, and see more domestic economic activity. We look at both international and domestic markets. But, international markets offer the greatest opportunity.

Senator ABDNOR. You would agree, wouldn't you, that that is the direction we are going? We have free trade and we shouldn't have experiences similar to the grain embargo. That's two times since I have been in the Congress. We have got to be free to find that trade and to be free of concern about restricting the trade.

One last thing I want to ask, and my time is up. What role should you play if some people express concerns such as "we are selling too much," "we may fall short of our domestic needs," or "we won't have a year's supply in hand." Is that something our traders have to be concerned about, or are we going to be free to continue to sell?

Secretary BLOCK. The administration believes in allowing the marketplace to allocate resources. I don't have any great concern about that. It's possible we could have just a horrible crop some years. If we do, prices would go higher. This would encourage more production, not only in the United States but other countries around the world. Although some wonder if higher prices encourage more production. However, I do not expect shortages in the foreseeable future.

Senator ABDNOR. Thank you.

Senator Jepsen.

Senator JEPSEN. Thank you, Mr. Chairman.

Mr. Secretary, as you know about an hour ago, we started work on the 1981 farm bill. We have held about 24 markup sessions last spring in order to come to an agreement on this extensive bill.

It was really the first time in history that the farm bill like other bills around here, has been written under such tight budget constraints and with the disciplined financial leadership that we have which I approve of in President Reagan's administration and the president himself.

So, when the Agriculture Committee came up with S. 884, nobody was totally satisfied. We were within $50 to $150 million of the total mark, budget mark, which came from your office of $2,135,000.

Last week we were told that new estimates had been made and the bill now cost $4.1 billion. Again, the committee went to work on a compromise. As we stand now, we have entered into this thing, we have no assurance that the Department of Agriculture will support a compromise. In fact, we have some indication that they will not. We are still working things out.

My question on the whole economic area is this: Based on the fact that, first of all, if we do not develop and have a farm bill by the end of this month, is this an accurate statement, then most of the farm programs will be governed by legislation that was passed in 1949? In other words, automatic reversion; right?

And by reverting back to 1949 programs, in a general statement first of all, the USDA would be put in a position where all of its requirements moneywise would cost a lot more money than it would be by accepting either our compromise or the first one to come out? Is that correct?

Secretary BLOCK. Yes, sir.

Senator JEPSEN. Then, we have developed even further, in fact, using the 1949 bill as a base. The latest figures from projections for wheat, for example alone, the cost of the wheat program would cost $1.8 billion, in other words, nearly as much in 1 year just for the wheat program under the 1949 bill as the entire 4 years of the whole new bill put together.

Has anyone presented you with that fact?

Secretary BLOCK. I'm aware of those figures and the cost of the 1949 bill. Yes, sir.

Senator JEPSEN. The reason I bring this up is because I had overheard that there was not—that the U.S. Department of Agriculture was quite possibly willing to accept and was implementing some groundwork toward going back under the 1949 legislation. Is that true?

Secretary BLOCK. That's true. As a precautionary measure, we have been securing a lot of figures about 1949 to make some preparation. I assure you, however, the last thing we want to do is to revert to the 1949 bill. We remain confident that the Congress and the administration can come forward with a bill. Congress and the administration can accept it, I hope, during the month of September.

Senator JEPSEN. Doesn't it seem financially totally unrealistic to say that we can work on any basis with the 1949 bill?

Secretary BLOCK. It's unrealistic to work with the 1949 bill. Yet we must be prepared to do something. I think we should know what the consequences are if we were forced into a position to deal with the 1949 act.

Senator JEPSEN. Mr. Secretary, as a pork producer, and a very outstanding one, with the bumper corn crop that we projected this year, and the fact that the Department of Agriculture does have some great influence on the school lunch program—I believe you have nutritionists advising folks and so on—can you tell me why the school lunch administrators are proposing to reduce meat portions in the school lunches by one-third this year?

Secretary BLOCK. The Department of Agriculture, first of all, has offered this only for consideration. I think we are getting a bum rap on this. What we proposed to do was to provide for flexibility to the local school districts, school boards, and nutritionists that lay out the food menus for the children.

We are not telling them to cut back. We are giving them more options and we are reducing the requirements that had once been imposed on them.

The truth is there are some forces within the administration and within my Department that would have chosen to take all requirements away from schools and allow them to write their own menus. What we proposed was to relax the requirements somewhat.

There has been an assumption that we did this to provide less to the children or to ration the quality or the value of the food that they get. That is not the intention, and I don't think the school districts will feel it is, either.

I think they are responsible people interested in their students and they are going to provide good, wholesome, balanced meals for them. They have good nutritionists. They are going to do the job.

Senator JEPSEN. I thank you for that answer.

Mr. Chairman, I bring this to the attention of this subcommittee and for the record purposes while you are here at this time because there is a concern by those in the agricultural community across this country for the deterioration of both the markets and frankly, the supplies of meat, red meat.

That gets into—as you well know, and those of us who understand agriculture know—soil conservation and all types of reasons why we should have that balance to shift meat and feed the corn and soybeans into finished products and then sell to Europe. There should be some balance rather than shipping on a whole kernel basis.

In closing, I would say I'm glad that you are aware and conscious of all this. I suggest that you might look at the total picture. We should also analyze why some of our early educational materials are presented to the young people today now with the stories and questions like, "What animal have you killed to eat today?" right on the same side of the page where they "see pup run" and "pup jump and skip." It kind of makes us wonder whether we are all going to end up eating turnip greens and vegetable tops and do away with this.

Secretary BLOCK. I hope there are some steaks left for the two of us, and pork chops.

Senator ABDNOR. Thank you, Senator.

Representative Richmond.

Representative RICHMOND. Thank you, Mr. Chairman.

Mr. Secretary, we are at a most incredible point in history. Here Senator Jepsen tells us—we know his State grows more corn than any country in the world—he tells us his corn is selling for $2.30 a bushel. That means from 1 acre, the total production you get from 1 acre of corn in Iowa is $230; correct?

Secretary BLOCK. Well, that depends on the yield.

Representative RICHMOND. You take that $230 of corn which if you prorated it for inflation would probably be the lowest price in history of corn, much lower than in the Depression, right? If you reduce the $230 for inflation for the past 30 years, you would get down to virtually nothing. We take this most valuable asset the United States has—next to the people of the United States I consider the most valuable asset we have is the soil. We have 2 billion acres of magnificent soil against the Japanese who have only 13 million acres. The Japanese, 120 million people, have 1.5 percent of the farmland we have. We have 2 billion acres of farmland.

We are shipping out products at historically low prices. Our farmers are losing money. Our land is being worn out. I don't believe the

American people realize that farmland is the biggest nonrenewable natural resource we have in this country.

I don't think anyone seems to have a national or international policy. We are giving our goods away to Japan. They are not allowing us to process the goods. We are not allowed to ship the cattle and the hogs and the poultry or the dairy products. We have to ship wheat, corn and soybeans.

Meanwhile, every time we ship 100 bushels of corn, we are shipping 17 tons of topsoil, according to your own Agricultural Research Service, taking the state of Ohio as an average. They tell me that a farmer who does not practice up-to-date conservation, and most farmers don't, loses 17 tons of topsoil on each acre.

We are selling $230 worth of corn, losing 10 to 17 tons of topsoil, making no money, and now we are looking at a bumper crop again and plan to do the same thing for our trading partners who insist on buying the stuff at the cheapest price in history and shipping us back a lot of manufactured goods that we Americans don't need in the first place. I think Americans have enough bicycles and cameras and television sets and radios and all the other accoutrements of the good life.

I think we should realize that the Japanese are taking us down the road to nowhere. They ship us these products and we ship them this wonderful corn. What is it going to take to right this terrible imbalance? Senator Hawkins just got back from Japan. I am sure she knows as much about it as I do.

Secretary BLOCK. How do we right this imbalance? Maybe, and I'm being only somewhat facetious, we should turn to the corn standard instead of the gold standard we keep hearing about because we can sure raise the corn. We can raise a lot of corn.

We raise so much that it frequently depresses the price. We don't do it every year. Last year, we had a little bit of a problem in production. Prices were higher. This year, we've got a huge crop. We came out last week with our estimate as of September 1 and it showed the biggest corn crop in history for the United States. That tends to depress the price. In spite of what we might like to do as an administration and as a Congress, the Government has only certain powers and can do only certain things. The prices of our grains and our crops are primarily a reflection of supply and demand. Once again, it's demonstrated by what's happended.

We have a huge supply but somewhat softening domestic demand because of an economy that's not as strong as we would like and because of weak demand internationally which has reduced our exports. The only thing we can do is try and shore up demand which can strengthen prices. We will continue to work diligently to do this.

One of the other possibilities is to ration or restrict supply. We chose to do this in the case of wheat by having a set-aside. Philosophically I'm not excited by this but I'm very much opposed to low farm prices. I know it's important to the farm economy to have some improvement in price. That's why we took that action.

Regarding some of your concerns about the preservation of farmland, and soil and water conservation, we are working with other Departments to formulate some kind of position on these matters. We haven't developed a program yet. There are some differences of opinion. It's not accomplished, but we will come up with a program in a united effort within the administration.

I have pledged to come back to Congress by the first of the year with a very comprehensive soil and water conservation program. I know that Senator Jepsen has enormous interest in that, as do many other Members of Congress. You quoted 17 tons of topsoil lost, however, losses are not this severe everywhere.

Representative RICHMOND. What's the average? Your own Agricultural Research Service gave me—they took Zanesville, Ohio.

Secretary BLOCK. Your figures are accurate.

Representative RICHMOND. Is it true that we lose 17——

Secretary BLOCK. If you say that's the average, that's probably right. I don't have the figures. We are looking toward bringing it down to about 4 or 5 tons, which is the average that production and crops will replenish each year. When it's above 5 tons, we know we are losing in our fight to preserve the topsoil, which is the richest part of the soil.

Representative RICHMOND. It seems to me that the agricultural economy in the United States is supporting the whole country today and all of us better start looking at that great asset; namely, topsoil.

Secretary BLOCK. I congratulate you for highlighting the problem. I am concerned also. I also express appreciation to Chairman Abdnor for highlighting this whole issue because I think it's extremely important in pointing out the contribution of agriculture to the total economy.

Senator ABDNOR. Senator Hawkins.

Senator JEPSEN. Will the Senator yield?

Senator HAWKINS. Yes.

Senator JEPSEN. I wanted for the record to state that I am pleased and thankful that our colleague from New York City has just said the things he's said and showed the interest and the knowledge that he has. It's refreshing.

Representative RICHMOND. Thank you, Senator.

Senator HAWKINS. I would like to second that. I will tell you that in traveling through Japan—on the subject of Japanese productivity—during the recess, Representative Richmond was one of the stars in that show by observing and writing down every minute detail on what we saw there. Japan is leading the world in technological development, robots everywhere producing a Nissan motor body every 48 seconds.

Our greatest asset and resource in this country next to its people, as the Congressman has stated, is its land. As we go to the farm bill this week on the floor, I, like other members of this subcommittee, and the Agriculture Committee, would like the housewives and the businessmen of this Nation to know that without the farmers of the United States, this country would really be in trouble.

We commented on it at factory after factory that we visited in Japan. They have so little land and here we are subsidizing the food that we sell them so they can mark up the price of superior products that they are eager and willing to make without ever having to use human beings that are subject to error. Our concern as we returned was to focus attention quickly on the plight of the farmer and the plight of the housewife, the American housewife. It runs in tandem. As you

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stated today, existing programs must be carefully reviewed to insure they provide appropriate price and income stability without distorting the workings of the market.

And yet, my concern in going to the grocery store Saturday was every gallon of milk, regardless of the brand, in my grocery store was exactly the same price, except that of the brand of the store that I was trading in. In Friday's paper, I read that milk is going up in Virginia from $1.69 a gallon to $2.09 a gallon. And yet, there is a dairy surplus in this country. A month ago we read we are giving away the butter because we have 200 million tons or some amount like that, to New Zealand who is going to reprocess it and sell it to somebody else.

The housewife is confused and cannot go to her employer and say this week I need 40 more cents to buy a gallon of milk or 20 more cents or whatever the instance is. It's always a constant across-the-board increase. There is not much competition in milk when you go to buy it. The housewife is confused when she reads headlines that we are subsidizing the farmer. I don't believe the farmer is getting that fat from what I have learned being a freshman member of the Agriculture Committee.

I would like to know your feelings as Secretary of Agriculture of what can the Federal Government do to produce the appropriate price and income stability you are talking about? And also moderate the fluctuations in food prices that the housewives have sustained, while at the same time giving it away to foreign countries.

Secretary BLOCK. That's a difficult charge, Senator Hawkins, but I think it's something we have to address. I trust after your discussion on the dairy issue, you will help us through the Senate Agriculture Committee to give the dairy program enough flexibility so we can bring supply and demand in balance. We are buying up enormous quantities of dairy products. We can't keep doing it.

Senator HAWKINS. There is a middleman involved.

Secretary BLOCK. Well, there is; but the price is determined according to a formula. The farmer has been encouraged to produce, you see. Until the farmer decides it's not to his advantage to produce, he's going to keep doing it. That's a price function working very effectively. The farmer says, "I can't make any money raising hogs or cattle. I will have a few more cows." He does and, of course, we get more milk.

The entire system works pretty well, but there are major fluctuations from time to time, some ups and downs. Right now, we are in a severe "down" in terms of price. I hate to constantly focus on the negative side, but that seems to have been the case recently. There were farmers last year that didn't raise hardly anything because of weather problems.

It didn't make any difference how high prices went. They didn't have anything to sell. This year they do have something to sell but prices are not what farm people would like to see. If we can strengthen demand enough to keep prices from going down—they are out of sight on the low side now—their gross returns will look a little better. That's our objective.

Talking about the consumer, I think that farm prices will have a minimum impact on consumer prices. Consumer prices are more than two-thirds accounted for after the product leaves the farm gate.

So, we can have strong farm commodity prices without major changes in consumer prices. That doesn't mean we won't see consumer prices go up, mostly from inflation. Inflation affects labor costs, transportation, packaging, distribution, and so on. It's very difficult to keep everyone in a position where they are able to make a little progress. We want to make this great agricultural industry of ours more prosperous than it's been and keep it in a position where it provides a great trading advantage over many other countries. We have to open up more overseas markets; and I'm sure you were a great spokesman for us on your recent trip to Japan.

If you look at the Soviet Union and the Eastern European countries, for the most part none of them can feed themselves. But we can, over and over again in the United States. It's a modern-day miracle, agriculture in the United States. It's true, for the most part agriculture isn't really appreciated by the people in this land. But I'll tell you something, it is appreciated by people in other countries that are having a very difficult time feeding themselves. They just marvel at us in the United States. That's just a fact of life. That's the way it is.

Senator ABDNOR. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

Welcome to the subcommittee, Mr. Secretary. I appreciate the statement that's been made by my colleagues here in the Senate and my colleague from the House Agriculture Committee, Congressman Richmond. I think he spelled out the problem quite well that faces the farmer. I know we were pleased to have you out west in Idaho. You talked to some of these farmers.

In your prepared statement here, you make a point about declining balance sheet with farm asset values up 8.4 percent and liabilities up 14.7 percent. As you know, when you talk to some of those potato and grain farmers in Idaho, they are feeling the pinch on interest rates. What does the Department look for and what is the Department of Agriculture's projection for the immediate future and next year for the American farmer in light of what has been said here so far, which I agree with?

Secretary BLOCK. Well, the first comment I would make would be on interest rates. I just don't think that there are many farmers making any money paying 20-percent interest. The latest money we borrowed on our farm was at 19½. You cannot make that kind of return in agriculture. It's just never been there. We must look toward a time when interest rates decline because our liabilities continue to increase. We go deeper in debt under these conditions.

It's our objective in this administration to reduce inflation and I think we are making progress there. It's our objective to bring interest rates down so farmers can borrow at a reasonable rate. Agriculture is a very capital-intensive industry.

It's our intention to create demand for our products by expanding export sales. And furthermore, it's our objective to not interfere in the marketplace. If we do see the time when farm prices are strong, we are not going to go in there and try and beat them down. I assure you of that, because you have to have some good times to make up for the bad.

Senator SYMMS. Can you give us some specifics of what the USDA's policy is to help encourage agricultural exports to Japan and the rest of Asia? What's changed now from what it was, say, a year ago?

Secretary BLOCK. We intend to have a much more intensified effort for one thing, and a coordinated effort throughout this administration. We will be working closely with Ambassador Brock; and the Secretary of State is encouraging an open door with Japan so they will import more from the United States.

I can assure you that with the kind of favorable trade balance Japan experiences with the United States, they need to be looking for something to buy. We will call that to their attention. I will be in Japan in October. I will make that point quite clear. There is one other point. I can see no reason why they should not be stockpiling some U.S. farm products, grains in particular. Why should we carry the reserve for the world here in the United States? That's precisely what we are doing with the kind of crops we have. I don't know precisely what we will accomplish, but we are going to be beating on that export door with great enthusiasm.

Senator SYMMS. I would like to encourage you to build a fire under the Foreign Agriculture Service. I would have to say in my limited experience in foreign travel, I have always been impressed with the people in the Foreign Agriculture Service in the American embassies in different countries. I think it's critical. I would hope that you can maintain a very strong hand in this, and you have my support, so the United States doesn't end up being a residual supplier. We have lost a lot of markets because of these embargoes over the last 5- to 10-year period. There is no question about it. We are becoming a more residual market instead of the primary market. I would encourage you to keep working on that.

What other markets besides Japan do you see as a potential for a great deal of increased American agricultural products?

Secretary BLOCK. On my trip, I will be meeting with our agricultural counselors and attachés in Korea. That is another potential growth market for our agricultural products.

We are going to be continuing to make every effort to expand trade there. I will give them the same message we have talked about here today, let them know our priorities and how important it is that we put all kinds of effort into expanding our exports.

I think a lot of the developing countries, especially in the Far East, are potential new markets, growth markets for us. We have had export teams looking at some other potential markets. We have pinpointed markets, in fact. We are going to continue to do that.

We have sent teams to Chile, Brazil, Venezuela, Morocco, and Algeria. There will be others.

Along with Japan and Korea, I will be in the People's Republic of China making an effort to expand our sales. We must work hard at finding markets for what we raise.

It's advantageous to the whole country when we can sell agricultural products—it strengthens our balance of payments. It provides money we can use to purchase products from abroad. If we are going to buy them, we need to sell something.

Senator SYMMS. Thank you very much, Mr. Chairman. I appreciate that, Mr. Secretary. I know my time has expired, but I think it is critical for the farmer that the economic recovery program get in place and that we do make more cuts on the Federal budget. If we don't, we will find our agricultural production will go down simply because there are farmers out there who can't continue to operate. Some of the farms will be lying idle. There are parts of the country right now where the farmers cannot operate and pay 20-percent interest rates.

Secretary BLOCK. I was talking to Ed Wheeler with the Farm Fertilizer Institute today at lunch. He tells me that sales of anhydrous and nitrogen are going quite well. But that's not where farmers skimp first. They skimp on phosphates and potash. Those sales are going very slowly, which confirms something we already knew, there is a great amount of financial pressure in the country and farmers will be looking for ways to cut corners. Limiting fertilizer is a first step, of course, in reducing production costs.

Senator ADBNOR. Thank you, Senator Symms. I couldn't agree more with you. It's critical that we come up with some answers in agriculture if we are going to keep agriculture and farmers going and if we ever hope to get young people to replace our farmers near retirement. It's impossible at this time. Some attention has to be placed on this.

I think we will take 1 minute each. Several times, Mr. Secretary, in questioning we have alluded to trade with Japan. I have heard it said that sometimes the duties on our exports to Japan have been extremely excessive in meats and even in grains. At one time they told me the duties were as great as the price they paid for the grain. Would you care to comment on that?

Secretary BLOCK. Well, that's precisely true. It's not simply in Japan that the duties are as high as the value of the products. In some cases in the Common Market, we have a similar situation.

Senator ABDNOR. How do we overcome that?

Secretary BLOCK. We must convince them to let the market work and allow their prices to fall to the world levels. There are political problems with this proposal—foreign officials get elected by farmers, too—so change will be difficult.

But we must continue the pressure to get this done. Their high prices and subsidies encourage excessive production. In the Common Market in particular, we see production expanding too much. For example, they are becoming major wheat exporters. This wouldn't be the case if their farmers were producing for a world market. But they are producing for a highly subsidized market.

There is somewhat of a surplus of rice in Japan because of high subsidies. We can put pressure on them as can other rice exporting countries who would like to see a freer market and a world market price.

We need to make sure other nations appreciate that we are a reliable supplier of what they need. You see, if they think we aren't reliable, they are going to continue high subsidies so that they can produce enough within their own country. Every time we demonstrate or indicate to the world that we are not a very reliable supplier, we encourage countries to subsidize their production so that they will not have to depend upon us.

Senator ABDNOR. Thank you, Mr. Secretary.

Representative RICHMOND. I can only wish you well on this trip you are taking. It's obviously a very necessary trip. I hope every chance you get, you can make these nations understand how important it is that they buy processed foods from us instead of raw materials.

Secretary BLOCK. I agree.

Representative RICHMOND. Rather than ship 7 tons of corn over to Japan and have total waste. As you know, the average herd of cattle in Japan is only two to three. They are the most wasteful farmers in the world. It takes the Japanese farmer—1 Japanese farmer can only feed himself and 1½ people.

Every American farmer feeds 69 people. Rice, the Japanese Government subsidizes their farmers up to $2,000 a ton. When Senator Hawkins and I toured Japan, every little tiny garden the size of this hearing room was growing rice when they should have been growing vegetables. You have to get across to the Japanese Government that they can't have everything their own way. Love is a two-way street, as I keep telling people.

Why shouldn't they buy our corn and beef so that the Americans could get the labor out of that beef? Right down the line. Why shouldn't they buy our hogs, our poultry, our dairy products, our finished products at $400 a ton instead of subsidizing their own farmers for $2,000 a ton?

If only we can get some sort of message across to these people that this imbalance has to stop.

Secretary BLOCK. That's important. It would help if we could get the consumers to appreciate what we are saying.

Representative RICHMOND. The Japanese newspapers haven't been very cooperative. They are also controlled by big business in Japan. There is a great statement: "In France, the French Government controls business. In Japan, business controls government." The newspapers won't publish it. The average Japanese person in the street is paying far too much for his food, almost twice as much as he has to if there were a free economy. Let's get to these Japanese people.

Thank you.

Secretary BLOCK. Those are important points. I would like to comment. We talked a lot about Japan, but other problems in the Common Market countries need to be addressed. They are potentially good markets for us. We can serve them better than we have so far if they give us a chance. It would be good for both sides.

Senator ABDNOR. Senator Hawkins.

Senator HAWKINS. I have several questions I would like to submit to you for the record.

Senator ABDNOR. We will keep the record open for questions.

Senator HAWKINS. Just in closing, we discovered that in Japan, the Government and business work hand in hand. Is there any way the Federal Government in your mind could offer some form of financial assistance to the farmers in light of the high interest rates right now? You can't put off planting, as Senator Symms said, until interest rates come down.

Secretary BLOCK. We are going to be obligated to make some deficiency payments as a result of declining wheat, barley, and rice prices. That could be up to $1 billion.

On a per farmer basis, it wouldn't take them very far. You can make deficiency payments to farmers but on a per farmer basis, it doesn't amount to very much. So, that's not the solution. The farmer must get his income out of the marketplace. I think that means we have to look toward greater demand or else reduced production to increase prices.

We are going to be able to reduce production a little bit with a wheat set-aside, but we have to look to other countries for markets.

Senator HAWKINS. Carry a big stick when you go.

Secretary BLOCK. Thank you. I will take that advice.

Senator SYMMS. Mr. Chairman, I agree that it's self-defeating for the farmers to have a big deficiency payment if it comes out of borrowed money. He's better off not to have the Government in the marketplace. We are in a "catch 22" situation. Will you be going to New Zealand on this trip?

Secretary BLOCK. Not on this trip, sir.

Senator SYMMS. I am curious about this past deal with New Zealand that was negotiated a couple of years ago, I think it was. How do we square this if we are selling butter at 70 cents a pound and we are paying more for it than that. Isn't that correct?

Secretary BLOCK. Yes, sir.

Senator SYMMS. How does that put you in a position to argue against this? What is the law?

Secretary BLOCK. In the first place, there are provisions that allow us to sell farm commodities to another government instead of a private industry. This is to avoid disrupting commercial sales in domestic markets. But in the second place, if you compare that butter price with the kind of butter that's on the world market which is not so old and is unsalted then it would have commanded a much higher price than the 70 cents per pound.

We could have probably sold it for the world market price, probably to New Zealand.

Senator SYMMS. I'm not against trying to clean out the storehouse. Do you have a plan to keep it from getting refilled?

Secretary BLOCK. Yes. We have to adopt the administration's recommended proposal on the dairy program. Anything short of that could mean huge stocks of dairy products which we cannot afford.

Senator SYMMS. Thank you.

Senator ABDNOR. Mr. Secretary, I know I shouldn't, but as chairman, I will take this privilege. This is a sore spot with me. We sold this butter to New Zealand at a lower price. We didn't require any restrictions whatsoever on them. They were selling the commodity of butter to the Russians?

Secretary BLOCK. They can sell their own butter to the Soviet Union.

Senator ABDNOR. What did we accomplish?

Secretary BLOCK. I didn't say we accomplished anything.

Senator ABDNOR. Is that a State Department decision? I read that in South Dakota after I left here and couldn't believe it. I saw with my own eyes. You don't have to be too brilliant to decide that's the biggest play that's come down the pike for a long time. I hope we have better negotiators in the future.

Well, Mr. Secretary, I guess I just had to say that.

Secretary BLOCK. You are questioning the wrong Secretary. [Laughter.]

Senator ABDNOR. We thank you very, very much for coming in. I'm sorry the hour slipped away so rapidly because I'm sure we all had additional questions. We are going to submit them for the record because we think this is an extremely important subject and we are just as concerned about it as you are. We thank you for coming.

Secretary BLOCK. Thank you. Pleased to be with you.

[The following information was subsequently supplied for the record:]

RESPONSE OF HON. JOHN R. BLOCK TO ADDITIONAL WRITTEN QUESTIONS POSED BY SENATOR ABDNOR AND SENATOR HAWKINS

Question 1. The Administration seems to favor letting market forces reallocate resources. For example, the Administration has removed oil price controls and is discussing removing controls on natural gas. What is the Administration's attitude regarding the government's involvement in agricultural prices, including price supports? What are possible undesirable after affects that the farm sector will have to endure?

Answer. Over the past two decades, farmers have been given more freedom to decide what and how much to produce and when and how to market their crops. Programs have been more closely geared to market performance with recognition that U.S. farmers can manage their destiny far better than the Government. This Administration seeks to continue this thrust—further unleashing the production potential of America's agriculture.

While closely examining our farm programs, we must recognize that agriculture is an inherently unstable business. Natural forces—weather, pests, and diseases—help dictate the annual outcome. Added to these forces are market uncertainty and instability arising from changing economic and political events throughout the world. As we export more agricultural products, world conditions have a greater influence and add a new dimension of instability. However, such instabilities do not justify returning to a regulated set of programs that easily lose their relationship with fundamental economic conditions and end up sending the wrong signals to producers. Therefore, it is our belief that we should continue to evolve food and fiber programs that further the long-standing trend toward greater market orientation and significantly reduced complexity and cost.

With respect to price supports, basic loan rates (price supports) will continue to be set at levels that will allow U.S. commodities to compete in world markets. However, these rates will be high enough to provide an effective safety net and help farmers with their short term financing needs for production and marketing.

By allowing farmers to operate within a market environment, we do not anticipate major undesirable effects that the farm sector will have to endure. One of the consequences of free markets is increased price variability. However, the Administration will effectively deal with this through the farmer-owned reserve programs, basic loan programs to insure against drastic price declines and an expanded program of providing farmers with adequate crop insurance to protect themselves from adverse weather. We are well aware of the important contribution that this sector makes to the economic health of this Nation.

Question 2. Does the trend towards growing capital intensity of American agriculture mean that the family farm will eventually decline in importance? Will the recent tax changes help or hinder the preservation of the family farm?

Answer. It is unlikely that increased capital intensity in agriculture will result in a decline in the importance of the family farm. However, it has had and will continue to have an impact on the internal organization and financial structure of the family farm. This is most apparent in the manner in which farmers gain access to the resources used in production. The classic concept of the family farm depicts it as an enterprise in which one individual, the farmer, owns all the fixed resources as well as provides most of the labor used in production, with production primarily being financed internally through retained earnings.

By contrast, today's capital intensive family farmer depends heavily on outside debt financing, and purchases farm services from other individuals or specialized agricultural firms as needed. For example, a farmer may rent or lease a substantial part of the land being farmed, or may hire specialized firms, who provide both labor and equipment, to perform specific tasks such as applying fertilizer and pesticides and harvesting crops. The result of increased capital intensity in agriculture, then, is not a decline in the importance of the family farm, but a separation of the ownership and use of capital resources.

The Economic Recovery Tax Act of 1981 will have a minimal effect on the constantly changing character of the family farm. Changes made in the tax treatment of depreciation, the investment credit, and estate and gift transfers provide greater incentives to existing owners of farm capital to expand their farming enterprises. These incentives, however, will be moderated in the short term by the cash flow problems resulting from high interest charges associated with debt financing. For example, farmers' incentives to shift from owning to renting machinery may be increased by new leasing rules if farm machinery suppliers respond to these new rules by reducing the price of rented machinery services relative to that of purchased capital. However, the new depreciation rules make ownership of capital more attractive relative to rental capital and are like'y to offset the incentives to lease, given sufficient farm sector purchasing power.

Question 3. Are the estate tax changes more important to agriculture than the income tax reforms? What further tax changes are needed down the road to maintain America's strong agriculture?

Answer. The Federal income and estate taxes are two very different taxes. In dollars terms, the income tax clearly causes the greater cash drain on the farm sector when compared to the estate tax. Income tax payments by farm operators are slightly lower than would be indicated by the farm population as a percentage of the total population. Conversely, larger farms, high land values, and increasing capital intensity cause the farm sector to pay a larger portion of the estate tax than their relative share of the total population would suggest. Thus, a greater percentage of the estate tax reductions will accrue to the farm sector vis-a-vis other sectors, while a smaller percentage of income tax reductions will benefit the farm sector. However, total income tax reductions accruing to farmers will clearly exceed total estate and gift tax reductions. Although a large portion of income tax payments by farmers represents taxes on off-farm income, these tax payments reduce the amount of funds available for debt retirement, farm production expenses, and asset acquisition.

If importance were measured strictly in dollar terms, the income tax changes would clearly be of greater importance to the farm sector. However, the extent and/or the nature of the impact must also be considered. While both taxes affect resource allocation, input supplies and prices, and farm production and efficiency, the frequency and the extent of their impacts vary. The income tax affects most farm operators and thus their management decisions on an annual basis. The estate tax, on the other hand, affects the farm business only once in the farm operator's lifetime though this one-time impact often results in a significant disruption of the farm business. Thus, while the virtual elimination of the estate tax for most farm operators is certainly important, the personal and corporate rate reductions, savings incentives and the implementation of the accelerated cost recovery system are of greater importance to the farm sector.

A potential area for tax reform are those provisions that provide tax shelter or tax-loss farming opportunities. Tax-induced investment often results in inflated input prices and lower product prices. Although the Economic Recovery Tax Act of 1981 addressed this issue to a degree, farming may continue to be an attractive tax shelter as long as cash accounting and other special farm provisions facilitate the deferral of taxes on large amounts of nonfarm income.

Question 4. What role does the Department of Agriculture play in agricultural trade? What role does the State Department play? What should those roles be?

Answer. USDA is responsible for promoting U.S. agricultural exports and managing the Food for Peace Program. The Secretary of Agriculture advises the President on the effects of imports on USDA programs and is involved in the administration of various programs affecting imports such as the meat import law, cheese import quotas, and sanitary protection measures.

The Department is the focal point of operational responsibilities in the agricultural trade area not otherwise delegated to the United States Trade Representative under Executive Order 12175 of December 7, 1979 (Reorganization of Functions Relating to International Trade). USDA is a member of the Trade Negotiating Committee, as is the Department of State, that is chaired by the U.S. Trade Representative. The Committee is charged with coordinating the operational aspects of trade negotiations. The U.S. Trade Representative is authorized to delegate responsibility for negotiations to other agencies with expertise on the issues under consideration.

The Secretary of State, as the President's principal foreign policy advisor, is properly responsible for the overall direction, coordination, and supervision of U.S. foreign relations. USDA is properly responsible for assuring that trade policy decisions taken within the Executive Department take full account of U.S. agricultural interests. Final responsibility for resolving any differences in viewpoint between these two cabinet departments lies with the President.

Question 5. Does the Agriculture Department generally favor price support and a restricted agricultural output or increased trade and improved marketing?

Answer. Generally, we are in favor of a combination of price supports, increased trade, improved marketing, and acreage and/or land diversion programs when and if needed. The price support system, coupled with the Farmer-Owned Reserve program, is basically a means by which wide fluctuations in prices can be reduced. Additionally, Government needs to regularly reexamine its role in the farm sector in order to make sure that American farmers can take advantage of market opportunities. A market-oriented farm policy, which retains Federal support against large supplies and sharp downturns in farm prices, will allow the producer greater flexibility in production and marketing decisions. We want to even further assist U.S. farmers in taking advantage of expanding world agricultural markets. To help accomplish this step, trade teams have been sent all over the world to encourage the purchase of our agricultural products. Furthermore, if in the event that domestic and foreign demand are too weak to absorb available supplies and the farmer-owned reserve is full, we will stand ready to offer producers acreage reduction programs in order to balance supply and demand. We believe this varied approach will ensure a profitable agricultural sector.

Senator ABDNOR. I see we have with us Hon. Murray L. Weidenbaum, Chairman of the President's Council of Economic Advisers. We asked Mr. Weidenbaum to come here today and participate in our hearings. We are pleased that you are able to join us, Mr. Weidenbaum. I think you know from other hearings that in agriculture, we face a number of short-term and long-term challenges which Secretary Block has just outlined for us. We look forward to your views.

STATEMENT OF HON. MURRAY L. WEIDENBAUM, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS, ACCOMPANIED BY WILLIAM DOBSON, SENIOR AGRICULTURAL ECONOMIST

Mr. WEIDENBAUM. Mr. Chairman, I want to thank you for this opportunity. I prepared a short oral statement—Mr. Dobson has given your staff a copy of that. In other words, I have submitted a full prepared statement for the record. Saving time, I have written down a very short oral statement. You may find it easier to follow my short oral statement once we get going.

Senator ABDNOR. That's fine.

Mr. WEIDENBAUM. I'd also like to introduce you, Mr. Chairman, to our senior agricultural economist, Mr. William Dobson, who is here with me today and has given me expert assistance in preparing the report.

Senator ABDNOR. We are happy to have you. I'm happy to know you have an expert in the field of agriculture.

Mr. WEIDENBAUM. Full time.

Senator ABDNOR. Good. That's what these whole hearings are about, trying to make people aware of the importance that agriculture plays in the economy. I, for one, have not felt that enough people in this country realize what that importance is. Please proceed.

Mr. WEIDENBAUM. Mr. Chairman, Senator Hawkins, Congressman Richmond, it's a real pleasure to be back here at the Joint Economic Committee. I would like to take stock of the role of agriculture in the American economy and to examine how the President's economic program will affect this important sector.

At the outset, I would like to review five key trends affecting agriculture. They influence, in turn, how the economic program will impact on farmers. First, farming has become industrialized. Three-fourths of the inputs used in farming are purchased from the nonfarm sector. Farming is now the most capital-intensive sector of our economy. In turn, the industrialization of farming has caused agriculture to be influenced to a greater extent by outside economic developments such as interest rates and inflation.

Second, commercial farmers have become more heavily dependent upon exports. During the 1940's, only 10 percent of the farm cash receipts were obtained from exports. Last year, the percentage was up to 30 percent. Grain exports tripled during the 1970's. Increased dependence on exports means farmers are affected substantially by what happens overseas. Third, income obtained off the farm has become very important. The average farm family received 57 percent of its income from off-farm sources during 1975 to 1980.

Fourth, capital gains have become important to farmers. Last year, the value of the average farmer's real estate increased by $40,000 from $250,000 to $290,000.

Fifth, labor productivity in farming has increased faster than in the rest of the economy.

Not all of these developments, frankly, are positive. For example, farmers face numerous risks because of the closer linkages of the farm economy to the rest of the economy and to foreign markets.

Agriculture thus will receive economic shocks from other parts of the economy. But the President's program will lessen these by providing more stable environments. The President's program also will, by increasing real growth, expand the demand for farm products and increase off-farm employment opportunities for the small and middle-sized farmers who depend so heavily upon off-farm work.

These changes in agriculture I just described, call for changes, in my judgment, in farm programs. Significant vestiges remain of programs which, we must acknowledge, were designed originally to deal with problems caused by the depression back in the 1930's. A few USDA programs still restrict market supplies through use of acreage allotments or quotas. Some Federal marketing orders restrict supplies and authorize price discrimination. Farm programs which restrict supplies and sanction price discrimination, we must recall, were designed to reflate prices and increase farmer incomes during the Great Depression. In my judgment, there is little justification for such programs when inflation is such a major problem for the country and we are following a supply side oriented strategy.

Recent administrations have phased out some of the restrictive programs. In particular, the Government has largely gotten out of the business of acquiring and storing grain and idling crop acreages. Support prices for a few crops—notably soybeans—also have been established at levels substantially below market prices.

Government expenditures in the United States for agricultural programs declined from 3.9 percent of the value of agricultural production during the first half of the decade of the 1970's to 3.3 percent during the more recent period. These figures do not include off budget items and price supports obtained by farmers from Federal marketing orders.

I find it very interesting to note that in the United States, where we have such great farm productivity, that the role of Government is small and has been declining. In striking contrast, and this goes back to some of the points that Senator Symms made when Secretary Block was speaking, Government expenditures for agriculture have been increasing in Japan, the EEC—the European Economic Community—and the Soviet Union. I believe the high productivity of U.S. farming is due substantially to the fact that there is a smaller role for Government in this country and the market incentives faced by our farmers.

Let's now focus on some effects of the President's program on agriculture. It is important to emphasize the basic framework in which economic policy in this administration is made. We start with a fundamental and deeply felt view of the role of Government: To provide a stable environment in which private individuals can plan and make their own decisions. A critical feature of our approach is that it is long-run oriented. We are skeptical of economic fine tuning. We have tried to avoid a stop-and-go policy.

The four parts of the President's economic program—tax cuts, spending cuts, regulatory relief, and slower monetary growth—are mutually reinforcing. Together they are designed to achieve the economic goals of reduced unemployment, lower inflation, lower interest rates and rising standards of living in the entire decade of the 1980's.

The first program, curbing Government spending, is essential. No part of the budget has been exempt from tough budget scrutiny and frankly, I include farm programs in that statement. But, I believe farmers will especially benefit from the reduced pressures on interest rates that will result from bringing down budget deficits and Government borrowing.

The second major element in our program is the tax cuts. Many important benefits will accrue to farmers under the new tax law, which is the most sweeping revision of business—and, may I include agricultural—taxes, since World War II.

Farmers will benefit from across-the-board cuts in personal taxes—5 percent this October 1, 10 percent next July 1, and another 10 percent July 1, 1983. Also, the reduction in the corporate tax rates on profits of less than $50,000 will reduce the tax burden on family farm corporations. The tax cuts will also help increase the demand for more farm products.

Farmers who are heavy users of capital equipment will benefit from the depreciation provisions of the new tax law. The shortening of the writeoff period for capital investments will give farmers incentives to purchase new and more productive capital equipment. This renewal of capital stock is very important if farmers are to increase their productivity gains in the 1980's.

Third, many farmers who are concerned about how to transfer the family farm intact from one generation to another will benefit from the estate tax changes. Under present law, as the subcommittee knows, some heirs have found it necessary to sell all or at least a major portion of a highly productive family farm after the death of a parent simply to pay the estate taxes. Our new law reduces Federal estate taxes and provides a full exemption when it passes from husband to wife or vice versa. Also, estates valued at under $600,000 will in effect be exempt from Federal estate taxes by 1987.

There are also exclusions in the gift tax. The new tax law will produce some important indirect benefits to farmers. The new law provides a 25-percent tax credit for increased research and development expenditures. Farming, as we all know, is a very high-technology enterprise requiring frequent infusions of new seeds, fertilizers, chemicals and other capital equipment to remain productive. Some of the most exciting research on agricultural technologies—such as genetic engineering—is being done today by private firms. The new law will expand the role of private firms in research on agricultural technologies.

The third element of the President's economic program is monetary restraint. This administration stresses the great importance of a steady anti-inflationary monetary policy. Achievement of our economic growth and employment objectives depends on a significant reduction of inflation, inflationary expectations, and the inflation premiums in nominal interest rates.

Thus, it is clear that the economic policies of the Reagan administration are designed to bring about low interest rates. I recognize that interest rates are of great concern to farmers since farming is so capital-intensive and high interest rates contribute to a serious profit squeeze. Yet farmers and farm lenders—like many others in the economy—have shown an impressive ability to adapt to a high interest rate environment.

Farmers have shopped wisely to obtain the lowest available interest rates from the farm credit system. They have used equity in farm real estate to expand borrowing from the Federal land banks, which during 1980 and again this year, extended loans to farmers at interest rates several percentage points lower than other lenders.

Finally, some farmers have postponed purchases of farm machinery and farmland in anticipation of lower interest rates later. The ability of farmers and farm lenders to adapt to the recent temporarily high interest rates illustrates the kind of innovative behavior needed to deal with the risks and income variation produced by the closer linkage between the farm and nonfarm economy.

I recognize that some adjustments made by farmers to high interest rates cannot be continued indefinitely. I also have to acknowledge that progress toward lower interest rates has been slow. We have not yet seen the major downward movement in interest rates that would ordinarily be expected to follow clear-cut evidence of a moderation in inflationary pressures and business activity. However, there is little doubt in my mind that we should begin to see in the near future a substantial unwinding of the large inflationary premium built into short- and long-run interest rates over the past several years.

The final element of our program is regulatory relief. To provide leadership for the entire effort, the President set up a Cabinet-level task force on regulatory relief chaired by the Vice President. As an active member of that task force, I am pleased to note the progress toward regulatory relief that already has been made. Here are some of the programs at USDA which are being reviewed by our task force: Mechanically processed meat; marketing orders for fruits and vegetables; National Forest Service planning regulations; and the Packers and Stockyards Act, just to cite a few.

For the mechanically deboned meat regulatory item, the regulatory relief could benefit consumers in two ways: By reducing an element of costs while simultaneously adding an element of nutrition.

The Federal marketing orders—authorized by the Agricultural Marketing Agreement Act of 1937—are regulations allowing the handlers of certain fruits and vegetables to restrict the quantity or quality of a commodity that can be marketed and to practice price discrimination.

The President's task force on regulatory relief ordered the review of these orders earlier this year, specifying that the review should focus on the effects of the program on efficiency, costs and productivity. I will not prejudge the results. But I think it will be useful to see whether the fruit and vegetable marketing orders have adjusted to the very different economic world of the eighties.

Looking overseas, the administration's economic program has some important implications for international trade in farm products. This administration recognizes the importance of maintaining healthy levels of agricultural exports. But at this point, let me say a few words about imports and exports.

A strong international trade position is based on both a high volume of imports and high volume of exports. In fact, the only way in the long run to increase American exports is to increase American imports. Our exporters need to find foreign buyers with dollars necessary to buy our goods and services. In general, they obtain these dollars when Americans import and pay for foreign goods and services.

Restrictions on imports will result in fewer dollars in the hands of those in other countries who might wish to buy our wheat and industrial products, unless we make up the difference in loans or gifts to foreigners. In some cases, the connection between imports and exports is direct. In one example, U.S. exports of hides to foreign shoe producers probably suffered as a result of our restraints on the import of foreign shoes. Clearly the benefits from trade are a two-way street.

The basic responsibility for expanding farm exports belongs to the private sector. But government has an important role. We are sensitive to the implications of high interest rates in this country for exchange rates and thereby for farm, and nonfarm, exports.

We in the Reagan administration are consciously following a set of policies that will lead to lower interest rates. We will not be passive toward other nations' trade barriers or export subsidies. That attitude is, you will recall, an integral part of the administration's white paper on trade policy. I strongly support the Secretary of Agriculture in his criticism of the European Community's export subsidies on wheat which have reduced our export opportunities. He's absolutely right. Those subsidies are precisely the kind of interferences in private markets that we oppose.

The stronger demand for farm products and the incentives farmers will have to invest in new capital equipment under the Reagan economic program will permit agriculture to exhibit greater economic vitality and productivity. I recognize that some developments are squeezing farm profits. The lower profits are a genuine disappointment to producers. However, these developments cannot be permitted to raise farm program costs to the point where they jeopardize the entire program of spending restraint—which is basic to restoring the economic health and lower interest rates for agriculture, commerce, and industry alike.

Farmers do face income variability associated with developments outside the farm economy. However, I am pleased to report they have shown an impressive ability to adjust to the "shocks." They will need to continue to innovate and adjust. I believe that the administration's economic policies will provide the environment in which farmers can make those additional adjustments needed, plan and make appropriate decisions.

In closing, I want to argue, Mr. Chairman and members of the subcommittee, for giving the market a chance to work in agriculture as well as the rest of the economy. Indeed, I believe that those who advocate departures from the free market approach bear the burden of proof that Government intervention will do more good than harm. In the past it has been the reverse. Advocates of intervention must show that the market failure, so to speak, is greater than the Government failure that we know is inherent in the political and bureaucratic process. Thank you very much.

[The prepared statement of Mr. Weidenbaum follows:]

PREPARED STATEMENT OF HON. MURRAY L. WEIDENBAUM

It is useful to take stock of the agricultural sector's role in the American economy and to examine how the President's economic program will affect this important sector.

At the outset I want to review five key trends affecting agriculture and describe relationships that have developed between the farm sector and the rest of the economy. These developments will influence how the Administration's economic program will impact on farmers.

- <u>Farming has become industrialized</u>. Three-fourths of the inputs used in farming are purchased from the nonfarm sector. Farming has become the most capital intensive sector of our economy. The industrialization of farming has caused the sector to be influenced to a greater extent by economic developments such as changes in interest rates and inflation.
- <u>Commercial farmers have become more heavily dependent upon exports as a source of income</u>. During the 1940s, only about 10% of U.S. farm cash receipts were obtained from exports. During 1980, the percentage was up to 30%. Grain exports tripled in quantity during the 1970s. The increased dependence on export markets obviously causes farmers to be affected substantially by international developments.

- <u>Income obtained from off farm sources has become important to farmers</u> (Table 1). During 1975-80 the average farm family received about 57% of its income from off-farm sources. Small and medium size farmers get the highest proportion of their incomes from off farm sources, while large commercial farmers get most of their incomes from the farm business. Incomes obtained from off-farm sources add stability to farm incomes, especially for the small and medium-sized farmers who comprised 78% of all farmers during 1975-80.
- <u>Capital gains have become important to farmers</u>. From 1979 to 1980, the nominal value of the average farmer's real estate increased from about \$250,000 to \$290,000 or by \$40,000.
- <u>Labor productivity in farming has increased faster than in the rest of the economy</u>. Real hourly output per person in farming increased by 408% during 1947 to 1980. The comparable increase for the rest of the economy was 128%. Also, during 1977 to 1980 labor productivity in farming increased by about 11% while sector labor productivity elsewhere remained relatively constant. However, the rate of increase in labor productivity in farming slowed during the 1970s, relfecting a lower rate of outmigration of labor from farming.

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Table 1. Annual Income per Farm Family by Source, Average for 1975-80

Farms with Sales of	Percent of Farms	Net Farm Income as a Percent of Total Income	Off-Farm Income as a Percent of Total Income	Average Total Family Income Per Year
$40,000 and Over	22	79	21	$36,474
$10,000 to $39,000	24	46	54	16,105
$9,999 and Less	54	12	88	16,738
All Farms	100	43	57	20,766

Source: U.S. Department of Agriculture.

Not all of these developments are positive. For example, farmers face new risks because of the closer linkages of the farm economy to the nonfarm economy and to foreign markets. Agriculture will receive economic "shocks" from other parts of the economy and from overseas. As will be evident, President Reagan's programs will lessen these risks by providing a more stable environment in which farmers and others can plan and make appropriate decisions. The President's economic recovery program also will, by increasing real economic growth, expand the demand for farm products and increase off-farm employment opportunities for the small and middle-size farmers who depend heavily upon off-farm work for their livelihood. However, as I will emphasize, farmers also will need to use new private sector tools and different strategies for dealing with these risks and with the associated variations in income.

Effects of the President's Program on Agriculture

The changes in agriculture call for changes in farm programs. Significant vestiges remain of farm programs which were designed originally to deal with problems caused by the Depression of the 1930s. For example, a few USDA programs still restrict market supplies through use of acreage allotments or quotas. Some Federal marketing orders restrict supplies and authorize price discrimination to enhance producer incomes. Farm programs which restrict supplies and sanction price discrimination were designed to reflate prices and increase farmer incomes during the Great Depression. There appears to be little justification for such programs when inflation is a major problem for the economy. Moreover, these restrictive farm programs impede resource adjustments and contribute to other economic inefficiencies.

I recognize that recent Administrations have phased out some restrictive farm programs. In particular, the government has largely gotten out of the business of acquiring and storing grain and idling crop acreages. Support prices for a few crops -- notably soybeans -- also have been established at levels substantially below market prices, showing a greater market orientation. Some effects of these changes are apparent in the figures in Table 2 relating to the cost of government programs for agriculture in the U.S., EEC, Japan and the Soviet Union. These figures indicate that U.S. government expenditures for agricultural programs declined from 3.9% of the value of agricultural production for 1970-1975 to 3.3% of the value of agricultural production during 1976-1980.

The figures in Table 2 understate the U.S. Government's role in agriculture since they do not include off budget items and price support obtained by farmers from Federal marketing orders and other supply restricting measures. Nonetheless, it is apparent that in the U.S. agricultural sector, which is known for its productivity and ability to feed other nations, the role of government was relatively

Table 2. Government Expenditures for Agricultural Programs, Averages for 1970-75 and 1976-80 -- Fiscal Years

Country	Government Expenditures for Agricultural Programs as a Percentage of Value of Agricultural Production 1970-75	1976-80
United States[a/]	3.9%	3.3%
European Economic Community[b/]	14.7	16.1
Japan[c/]	19.5	26.9
Soviet Union[d/]	26.6	27.9

Source: U.S. Department of Agriculture

a/ Budget expenditures for farm income stabilization (price supports, crop insurance, agricultural loans, other income stabilization measures and related administrative expenses). No expenditures for the Food Stamp program are included.

b/ Reflects price and income support expenditures by both the European Community and national governments within the European Community. Includes expenditures for direct commodity intervention, land retirement programs, land diversion payments, hill land conservation programs, adjustment incentive payments for producers and livestock breeding improvement programs.

c/ Reflects expenditures for rice diversion, rice surplus disposal, other price support programs, investments for improving productivity in crop and livestock production and investments for improving the efficiency of agricultural marketing practices.

d/ Includes government investments in crop production, livestock production, land improvement, capital construction, machinery, fertilizer and agricultural chemicals.

small and declined moderately during 1970-1980. In contrast, government expenditures for the agricultural programs described in Table 2 increased in Japan, the EEC and the Soviet Union during this period. I believe that the relatively high productivity of the U.S. farming sector is due substantially to the smaller role of government in this country's agriculture and the market incentives faced by our farmers. President Reagan's economic plan calls for furthering initiatives which would permit the private sector to be the primary engine for promoting growth and progress in agriculture. Farm programs will be carefully scutinized to see that they are compatible with the President's plan.

My remaining remarks will focus mainly on some effects of the President's overall economic program on agriculture rather than on specific program provisions. Let me begin this discussion by emphasizing the basic framework in which economic policy in the Reagan Administration is made. We start with a fundamental and deeply felt view of the role of government. That role, as laid out in our White Paper of February 18, 1981, is "based on the premise that the people who make up the economy -- workers, managers, savers, investors, buyers and sellers -- do not need government to make reasoned and intelligent decisions about how best to organize and run their own lives....the most appropriate role for government economic policy is to provide a stable and unfettered environment in which private individuals can confidently plan and make appropriate decisions."

A critical feature of our approach to economic policymaking is that it is long-run oriented. We are skeptical of economic "fine tuning" which assumes extraordinary prescience and a degree of economic expertise that few would presume to possess. We have tried to avoid the shortcomings of the "stop-and-go" policies of the past.

Components of the President's Economic Program

The four parts of the President's economic package -- tax cuts, spending restraint, regulatory relief, and slower monetary growth -- are mutually reinforcing. Together they are designed to achieve the economic goals of reduced unemployment, lower inflation, and rising standards of living for the 1980s. I will briefly describe the rationale for each of these measures and some probable effects of each on the agricultural sector.

Spending Restraint

The first major element in our program, curbing government spending, is essential both to the control of inflation and to the encouragement of more rapid economic growth. Lower spending levels, of course, reduce government borrowing and relieve pressure on the Federal Reserve System to create money. The Reagan Administration's efforts to restrain the growth of Federal spending have been comprehensive. No part of the budget -- including farm programs -- has been exempt from tough budget scrutiny. But farmers will especially benefit from the reduced pressures on interest rates that will result from bringing down budget deficits and government borrowing.

Tax Cuts

The second major element in our program, represented by the tax measure recently signed into law by President Reagan, is designed to foster more rapid growth of saving, investment, productivity, and employment. The U.S. tax structure and a legacy of inflation have resulted in barriers to growth that need to be reduced. The tax rate reductions and depreciation reforms contained in the law will counterbalance rising tax burdens due to the inflationary policies of the past. We believe that the revenue losses will ultimately be more than paid for by spending reductions, additional revenues from faster economic growth, and higher levels of private saving.

I will mention only a few benefits that will accrue to farmers under the new tax law, which has been characterized as the most sweeping revision of business taxes since World War II.

First, farmers will share in and benefit from the across-the-board reductions in personal tax rates -- 5% on October 1, 1981, 10% on July 1, 1982 and another 10% on July 1, 1983. Also, the reduction in the corporate tax rates on profits of less than $50,000 will reduce the tax burden on family farm corporations. These tax reductions will give the people of this country more discretionary income, permitting them to spend, save and invest more of their earnings. The tax cuts also will help to increase the demand for farm products.

Second, farmers, who are heavy users of capital equipment, will benefit from the depreciation provisions in the new tax law. The shortening of the write off period for capital investments will give farmers incentives to purchase new, more productive capital equipment. This renewal of capital stock must be achieved if farmers are to continue to increase their productivity gains in the 1980s.

Third, many farmers who are concerned about how to transfer the family farm intact to their children will benefit from the estate tax changes. Under the present tax law, some heirs have found it necessary to sell all or a portion of a highly productive family farm after the death of a parent in order to pay estate taxes. The new law reduces Federal estate taxes and provides a full exemption from Federal estate taxes for estates passing between spouses. In effect, estates valued at under $600,000 will be exempt from Federal estate taxes by 1987.

The new law also increases the annual exclusion for gifts from $3,000 to $10,000 per year. This change in the gift taxes will provide valued flexibility to farmers who wish to transfer shares of the family farm corporation to their children during their working years.

Finally, the new tax law may produce important indirect benefits for farmers. For example, the new law provides a tax credit equal to 25% of a private firm's increased research and development spending over a base period of the previous three years. Farming is a high technology business, requiring frequent infusions of new seeds, fertilizers, chemicals and capital equipment if it is to remain productive. Some of the most exciting research on agricultural technologies -- e.g., genetic engineering -- is being done today by private firms. The new law will help to expand the role of private firms in research on agricultural technologies.

Monetary Policy

The third element of the President's economic program is monetary restraint. This Administration from the beginning has stressed the great importance of a steady, persistent anti-inflationary monetary policy. Achievement of our economic growth and employment objectives during the next several years depends on a significant reduction of inflation, inflationary expectations, and the inflation premiums in nominal interest rates.

Thus, it should be clear that the economic policies of the Administration are designed to bring about low, not high interest rates.

I recognize that interest rates are of concern to farmers since farming is so capital intensive and high interest rates have contributed to a profit squeeze. Yet farmers and farm lenders -- like many others in the economy -- have shown an impressive ability to adopt to a high interest rate environment. Farmers have shopped wisely to obtain the lowest available interest rates from the Farm Credit System and elsewhere. They have used equity in farm real estate to expand borrowing from the Federal Land Banks, which during 1980 and 1981 extended loans to farmers at interest rates several percentage points lower than other lenders. Finally, some farmers have postponed purchases of farm machinery and farmland in anticipation of lower interest rates later. The ability of farmers and farm lenders to adapt to the recent temporarily high interest rates illustrates the kind of innovative behavior needed to deal with the risks and income variation produced by the closer linkages between the farm and nonfarm economy.

I recognize that some adjustments made by farmers to high interest rates cannot be continued indefinitely. I also have to acknowledge that progress toward lower interest rates has been slow. We have not yet seen the major downward movement in interest rates that would ordinarily be expected to follow clear cut evidence of a moderation in inflationary pressures and business activity. However, there is little doubt in my mind that we should begin to see, in the near future, a substantial unwinding of the large inflationary premium that has been built into short and long-run interest rates over the past several years.

I believe that the Administration's long-run economic program more effectively copes with problems which previously were addressed through interest subsidies and loan guarantees. For example, study after study has shown that during inflationary periods in the 1970s, beginning farmers experienced negative cash flows during their early years of farming. Their incomes from sale of farm products simply would not cover production costs and debt repayment expenses. Costs exceeded the incomes of these beginning farmers partly because they paid high nominal interest rates (which include an inflation premium), high prices for farmland (which reflects the value of farmland as a hedge against inflation) and high prices for inputs purchased from the nonfarm sector.

Interest subsidies are frequently advocated to help the beginning farmer deal with cash flow problems caused by inflation. The subsidies deal with symptoms. The Administration's policies deal with inflation, which is the root problem. I believe that our long-run strategy makes the most sense.

Regulatory Relief

The final element of our program is regulatory relief. Early in his Administration, the President instituted important procedural reforms to establish an effective process of regulatory relief. To provide leadership for the entire effort, he created a Cabinet-level Task Force on Regulatory Relief, chaired by Vice President George Bush. The Task

Force has the principal responsibility for overseeing the entire process of regulatory reform, including the review of existing and proposed regulations and evaluating the basic legislation authorizing regulatory programs. The President also issued a new Executive Order requiring Federal agencies to choose the most cost effective alternative for achieving each regulatory objective. As an active member of that Task Force, I am pleased to note the progress towards regulatory relief that already has been made.

The following programs of the U.S. Department of Agriculture are among those being reviewed by the President's Task Force on Regulatory Relief:

- o Mechanically processed meat.
- o Marketing orders for fruits and vegetables.
- o National Forest Service planning regulations.
- o The Packers and Stockyards Act.

It is illustrative to examine issues involved in the review of two of the USDA programs -- mechanically processed meat and marketing orders for fruits and vegetables -- which were among the earliest targeted for review.

The meat industry has developed technology for producing a product called "mechanically deboned meat". The product is produced from red meat. Beef or pork carcasses are hand trimmed of meat before being broken up and pushed under high pressure through specialized equipment with pinpoint openings.

The openings allow meat, along with a small amount of finely powdered bone, to pass through. The product, which has a spread-like consistency, can be used in finished meat products such as cooked sausages.

Presently, products containing mechanically deboned meat are not being marketed. Meat processors fear that consumers would not purchase the product since USDA labelling requirements state that (1) the name "Mechanically Processed Meat" must appear next to the product name on the package and (2) the name of all finished meat products must describe their powdered bone content on the package.

As part of regulatory relief regarding this product USDA has proposed to rename the mechanically deboned meat product and include the new name in the list of ingredients, but not next to the product name on all finished products. The Agency also would permit meat processors to employ the term "calcium content" to describe the percentage of bone content.

These changes are designed to make the product acceptable to consumers and allow use of new meat processing technology. The USDA has given the public until October 29, 1981 to comment on the proposed changes regarding mechanically deboned meat. I will not prejudge what changes will emerge in meat labelling and related requirements after the public comments are received. But, this example illustrates well, I think, how the Administration is trying to combat inflation and increase efficiency in the agricultural sector through regulatory relief. The regulatory relief could benefit consumers in two ways: reducing an element of costs while simultaneously adding an element of nutrition (the calcium from the bone particles).

Federal marketing orders -- authorized by the Agricultural Marketing Agreement Act of 1937 -- are regulations allowing the handlers of certain fruits and vegetables to restrict the quantity or quality of a commodity that can be marketed and to practice price discrimination.

The President's Task Force on Regulatory Relief ordered the review of these orders earlier this year, specifying that the review should focus on the effects of the program on efficiency, costs and productivity. I will not prejudge what will emerge from this endeavor. However, it will be useful to see whether the fruit and vegetable marketing orders -- which originated during the Great Depression -- have adjusted to the very different economic world of the 1980s.

International Trade

The Administration's economic program has significant implications for international trade in agricultural products. The primary objective of U.S. trade policy is to foster a strong economy, one that uses our Nation's fundamental economic strengths in the most productive and efficient manner possible. The maintenance of open markets both at home and abroad is one of the principal requirements for achieving this key objective.

The long-run benefits of free trade are well known. But requests for trade protection are frequently received from specific industries. Requests for any form of trade restraint to help a specific industry really call for an internal transfer of income and wealth to that industry from U.S. consumers in the form of higher prices for domestically-produced goods and services. For example, a 1981 study by the U.S. Department of Agriculture regarding casein illustrates this point well. Casein imports are being investigated by the International Trade Commission (ITC) to determine whether they interfere with the dairy price support program. The USDA study shows that the maximum casein import reduction permitted under law would reduce Commodity Credit Corporation expenditures for dairy price supports by about $9 million per year while costing consumers almost $115 million in higher prices. I will not prejudge the outcome of the ITC investigation. Nonetheless, potential income transfers of this magnitude are obviously matters of concern.

The Administration recognizes the desirability of maintaining healthy levels of agricultural exports. But, at this point, let me say a few words about a close -- but not generally appreciated -- connection between imports and exports. A strong trade position is based on <u>both</u> a high volume of imports and a high volume of exports. In fact, the only way in the long run to increase our exports is to increase our imports. Our exporters need to find foreign buyers with the dollars necessary to buy our goods and services. In general, these dollars are obtained when Americans import and pay for foreign goods and services. It follows that restrictions on imports will result in fewer dollars in the hands of those in other countries who might wish to buy our wheat, aircraft, chemicals or machinery -- unless we wish to make up the difference by loans or transfer payments to foreigners.

In some cases, the connection between imports and exports is very direct. For example, U.S. exports of hides to foreign shoe producers probably suffered as a result of our restraints on the import of foreign shoes.

The importance of this discussion for agriculture, which is heavily dependent upon export sales, is obvious. The relationship between imports and exports underscores the point that the benefits from trade are a two-way street.

The basic responsibility for expanding farm exports belongs to the private sector. But government also has an important role. We are sensitive to the implications of high interest rates in the United States for exchange rates and thereby for farm, and nonfarm, exports. The Administration is consciously following a set of economic policies that

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will lead to lower interest rates. Secondly, we cannot take a passive stance toward other nations' trade barriers or export subsidies. That attitude is, you recall, an integral part of the Administration's "white paper" on trade policy. Thus, I applaud Agriculture Secretary Block's criticism of the European Community's export subsidies on wheat which have reduced our export opportunities.

The increase in U.S. grain exports which many economists believe to be in prospect for later in the 1980s may place additional pressures on our land resources. One concern is that farmers will expand production of corn and soybeans on erosion-prone land as they respond to the larger export demand. A second concern is often expressed by non-economists as: "The U.S. will not have enough land to meet export demands of the 1980s". The latter point has generated proposals calling for the Federal Government to become involved in efforts to prevent further conversions of farmland to nonagricultural uses.

These are deeply-felt concerns. But I contend that market forces will remedy some problems relating to land resources. For example, the rising real grain prices which would accompany any major expansion in the export demand for grains would limit grain exports, reducing the pressures on our land resources and lessening the need for government involvement in farmland conversion issues. If, however, the Federal Government does become more involved in these issues, we need to consider a full range of policies to meet well-defined objectives. Thus, for example, we need to assess whether measures to increase crop yields would be more effective than restrictions on conversion of farmland to nonagricultural uses for retaining the productive capacity of our farms.

Developments in Agriculture and the President's Economic Program

Over the long-run, all sectors of the economy must be strengthened if the President's economic program is to achieve its objectives. The stronger demand for farm products and the incentives farmers will have to invest in new capital equipment should permit agriculture to exhibit the economic vitality and productivity that is anticipated. Agriculture's strong performance as an exporter also should strengthen the economy. I believe that the pressures on our land resource arising from increased crop exports are manageable.

Persons in agriculture have it within their means to influence just how much the sector will strengthen the economy. The sector can influence whether the economy will be permitted to obtain the long-run benefits of free trade. The sector also can influence how much is spent on farm programs. I recognize that a number of developments -- larger than expected crops, lower than expected farm exports and high interest rates -- are squeezing farm profits. The lower profits are a genuine disappointment to producers.

However, these developments cannot be permitted to raise farm program costs to the point where they jeopardize the President's program of spending restraint -- which is basic to restoring economic health to agriculture, commerce and industry alike.

Give the Market a Chance to Work in Agriculture

It is stiking how often government intervention is recommended to solve problems in agriculture. Farmers do face new risks and income variability associated with developments outside the farm economy. However, they have shown an impressive ability to adjust to the "shocks" and to capitalize on these developments without involvement from government. They have adjusted relatively well to high interest rates, expanded farm exports and secured off-farm work to supplement and stabilize their incomes. Some have employed crop insurance and futures markets to reduce risks. They will need to continue to innovate and adjust. I believe that the President's economic policies will provide the environment in which farmers can make additional adjustments needed, plan and make appropriate decisions.

In closing, I want to argue for giving the market a chance to work in agriculture. Indeed, I believe that those who advocate departures from this approach bear the burden of proof that the resultant government intervention will do more good than harm. Advocates of intervention must show that "market failure" is greater than "government failure" inherent in the political and bureaucratic process.

Senator ABDNOR. Thank you, Mr. Weidenbaum. Do you feel the majority of economists in this country pay enough attention or are concerned enough about the part agriculture plays in the entire economy? I know that farmers make up 2.6 percent of the population. But, in our meetings with economists, I have learned here in our subcommittee, that it seems to me that it's something that doesn't really play any importance in their deliberations. Am I wrong in concluding that?

Mr. WEIDENBAUM. The short answer is, you are right, Mr. Chairman, which is precisely why I welcome this opportunity to present a comprehensive statement on the important role of agriculture in the American economy.

Senator ABDNOR. I appreciate that. For instance, we have heard this many times, that we have the cheapest food of anywhere in the world by far. Maybe, 15 to 18 percent of the take-home pay is used for food. What kind of a contribution would you say that makes to the economy, the fact that they are able to buy food at this price and put the rest of their dollars in other parts of the economy? Isn't that a great contribution?

Mr. WEIDENBAUM. I think clearly one of the reasons we have our high standard of living in the United States is that we can feed our people with a small part of our work force, that in turn the average family can feed itself with a relatively small part of its income, and therefore we have more resources, more family income available for other purposes.

Senator ABDNOR. We talk about what high interest rates are doing to us, high costs. I just wonder about the importance of cheap food, particularly if we had to put 25, 28 percent of our income into food. I think then along with the high interest rates and all, this country would be in an economic tail spin.

Mr. WEIDENBAUM. I frankly hestiate to use the word cheap. I think our food is abundant. I think our prices certainly are usually very competitive around the world. But to the average consumer who sees prices of everything—whether it's agricultural products, industrial products, or services—rising each year, frankly "cheap" isn't a term that hits the mark for the average consumer.

Senator ABDNOR. As a matter of fact, it seems to me that I heard expressed a number of times over the past few years about how we have got to keep the price of our food down. It seems to me in past years, I have seen a tendency to deliberately keep agricultural prices down, or prices of commodities down because we don't want the price of food to go up.

Mr. WEIDENBAUM. I suggest that a constructive way of doing that is by increasing agricultural productivity, increasing agricultural output.

Senator ABDNOR. Now we are being told that there is no one that has greater productivity than agriculture. I'm sure you agree to that. Its growth has been 75 percent greater than other sectors lately. We are reading now that we have all these surpluses and wheat prices down to where it was 10 or 15 years ago. The same thing is true for corn. Maybe we should be less productive and make people pay more. That's not the way to go, either.

Do you want to comment on that. My time is running out and I want to ask you one last thing. You heard the discussion when Secretary Block was here. We were talking about the inequities in duties. It's fine that we allow imports into our country if we are going to export to them. What are we going to do about these great inequities that persist in trade? That's totally unfair when we see some of these differences. Is there anything being done about it?

Mr. WEIDENBAUM. Yes, indeed. When every senior member of the administration meets—I can speak for myself first hand—with representatives of European countries and Asian countries, we put it very bluntly. If they are concerned about, as they put it, American protectionist sentiment, limiting our imports of their products, they should recognize that the real problem starts the other way around.

America is the most open, large economy in the world. What they have to do is reduce the barriers to our exports. There is no alternative to that. All nations would suffer from a return to protectionism. The real answer is for them to reduce the barriers to our exports so that we in turn do not have to increase or even set up barriers to their exports.

In an open competition, American agriculture and American industry I think would do extremely well. But we are not shy about that. We have fought the high barriers to our farm exports every step of the way.

Senator ABDNOR. I appreciate that. But, are we making progress; is asking getting the job done? Is the message getting through? Have we seen any concrete results?

Mr. WEIDENBAUM. I will give you one modest result to date. The Japanese Government in many ways has taken steps very recently to open up their economy. Now, they don't admit they have a closed economy. But they don't have an open an economy as we do. There is no question in my mind about that.

They are deliberately now trying to import more from the United States and from other nations. This is welcome. This is a constructive approach. It is not a tariff barrier war, but an application of our free market views on a world wide basis. That, I think, is healthy.

Senator ABDNOR. That's good. My time has expired but I must ask, what would happen if we could sell meat at the price they could afford to buy it? Wouldn't they have a much better diet? Wouldn't they consume and we would be selling a greater amount of beef and meat?

Mr. WEIDENBAUM. There is no question in my mind that if we eliminate all these barriers to agricultural exports around the world, the people of the world would have better diets. They would have a higher living standard and we would have a more prosperous agriculture. But let me say as many of us here have said this afternoon, free trade is not a one way street. I have spoken out repeatedly against the barriers to American agricultural exports and I have, I assure you, supported Secretary Block as staunchly as any member of the administration in his battles to enhance American exports to eliminate any obstacles we impose on American exports of agricultural products.

The other side of that is I have also opposed American attempts to inhibit imports, whether it's agricultural products or commerce. I think that's the only way of maintaining a consistent foreign trade policy. Sometimes I have to admit in all candor, Mr. Chairman, the farm people who support me strongly and welcome my support on freeing up farm exports somehow lose courage when I talk about eliminating the barriers to farm imports. But if free trade is to be a two-way street, we have to be consistent.

Senator ABDNOR. I have taken too much time.

Representative RICHMOND. Thank you, Mr. Chairman.

Mr. Weidenbaum, some day I would like to sit here and review your testimony. You wax eloquent about the tax cuts this prepared statement. We all realize that the average farmer in the United States is losing so much money, he's not worried about his taxes. He's worried about surviving. Then you go on to discuss how wonderful it would be if we Americans would import more. We all realize that this great country of ours is operating under a horrendous deficit balance of trade. I don't think we need more imports. We need more exports. Who needs imports? Who needs the quality of imports that we Americans are importing? Luxuries, highly manufactured goods in exchange for which we are shipping out nonrenewable natural resources with no labor content and we are shipping them off basically at a loss.

Personally, I think you are a wonderful, wonderful man but I always find such trouble with your testimony. I think, Mr. Weidenbaum, you've got to agree that this Nation doesn't need any more imports. We import far too much as it is. It still hasn't occurred to the American people that the party is over and we have to start conserving everything now.

Mr. WEIDENBAUM. I always welcome this opportunity for mutual education, Congressman Richmond. Let me say that the facts, unfortunately or maybe fortunately, are at variance with some of the statements I just heard. There is a squeeze on farm income, but the average farmer is not losing money. The average farmer isn't making as much money as I would like to see him make maybe, or as he or she would like to make——

Representative RICHMOND. Senator Jepsen was here. He's the largest producer of corn in Iowa. Corn is selling $2.30 a bushel. You can't make money selling at that price.

Mr. WEIDENBAUM. I suggest that the average farmer has net income, especially if you look at his total income. Don't take my word for it. Take the word of the Department of Agriculture and the Department of Commerce. Now, in terms of our exports, in the service-oriented economy, I don't look at exports of goods only or only exports of services, I look at goods and services. The pleasant truth is that we export consistently more goods and services than we import. That's the truth. Those are the facts. I think we need to acknowledge that.

I may spend 5 percent of my time talking about reducing barriers to imports and 95 percent of my time talking about the need to encourage exports. I suggest that's not overdoing it on the import side.

Representative RICHMOND. We are operating under a terrible deficit balance of trade, aren't we?

Mr. WEIDENBAUM. Our exports of goods and services exceed our imports of goods and services.

Representative RICHMOND. Our export of manufactured and agricultural goods are far less than our imports of manufactured and——

Mr. WEIDENBAUM. Our imports of manufactured goods exceed our exports. Our exports of agricultural——

Representative RICHMOND. That's why we have 8-percent unemployment.

Mr. WEIDENBAUM. No. On the contrary, our exports of agriculture, that is one of the great virtues of the American economy.

Representative RICHMOND. No. It's not a virtue when you are giving the stuff away and you have no land to boot. I want to ship processed beef, processed hogs, processed lumber. What are we, a primitive colony of the Japanese Government? Why don't you use your enormous power with the administration to get everyone to realize that we must demand from some of our trading partners' equality. The Japanese only import 65 percent of a plane and they insist, when they import that plane, that they rebuild that plane. Why don't we say if you want it that way, ship us only 65 percent of your automobile and we will supply the tires and all the rest?

Mr. WEIDENBAUM. On some of those cars, I think that may be the case.

Representative RICHMOND. How do you approach this whole idea that the Japanese and many of our other trade partners must buy processed food from us and not just raw grain? It's cheaper for them and much more efficient for us.

Mr. WEIDENBAUM. I noticed that for some of the most highly technological items like jet aircraft, we have a very substantial trade surplus. In fact, it's the high technology products that generate an excess of exports over imports. It's the low technology where we have the surplus——

Representative RICHMOND. We have the highest technology in the world in agriculture.

Mr. WEIDENBAUM. So, we are not quite the backward Nation that you worry about.

Representative RICHMOND. In 2 years, Japan will be the No. 1 industrial country in the world.

Mr. WEIDENBAUM. I will put my money on the United States being the leading nation economically and militarily for the indefinite future.

Representative RICHMOND. Two years from now, Japan will overtake us on industrial exports, on capital investment, on every indicator on manufactured goods. Japan will beat us in 2 years. I will show you all the documentation after this meeting. It's a frightening fact. It doesn't make me very happy. I at least want to pick up that slack by forcing the Japanese to buy more processed food from us instead of just plain raw material.

Mr. WEIDENBAUM. I would like to see Japan reduce their barriers to American exports across the board.

Representative RICHMOND. Thank you.

Senator ABDNOR. Senator Hawkins.

Senator HAWKINS. What are the economic ramifications of the declining resource base, which you mentioned in your prepared statement, for agriculture, in your opinion?

Mr. WEIDENBAUM. I think the maintenance of our resource base is essential to the future productivity and the future economic growth of this Nation. A serious question is, what actions do we take that have that positive effect?

Senator HAWKINS. You mentioned also in your prepared statement something that caused me to think that there may be some weaknesses when we have an increase in the size of operations and when the operation gets so large, such as the farming operations are getting so large. Does not that make them more vulnerable to both market and natural conditions?

Mr. WEIDENBAUM. It's a two-edged sword. One of the problems, very frankly, that arises from the nature of some of our farm price support operations is to encourage the larger scale enterprise because, typically, the larger enterprise has lower unit costs and hence gets a larger dollar benefit from various farm programs per unit of production than the small farm.

On the other hand, it's the large scale enterprises in this country, agricultural and commercial and industrial, that are able to compete so effectively in the world markets. It's precisely as the chairman indicated earlier this afternoon, Japanese agriculture doesn't have American productivity. It's because their scale is so much smaller than our large scale.

What's the upshot of this? In my view—I'm no arm expert—the Government should avoid taking actions that specifically encourage large scale operations. But, the economies of scale that come from open market competition, should be just accepted and welcomed.

Senator HAWKINS. Well, I'm concerned also about comments made here today about free trade. We all know that that's a one-way street with the United States. Almost every country that I have studied has barriers.

I would like to specifically talk about the Mexican problem that we have with agriculture. I would like to have you answer if you would like to. I have two or three pages of questions I would like to submit to you for answers in the record because of our time constraints. But in just one specific instance, the Mexican Government is giving preferential treatment regarding winter vegetables. What it boils down to is, there is free trade for Mexico into the United States, but there is no trade of the same products from the United States into Mexico.

I mean, we have had a long discussion of what is free and fair and now we have a situation where there is absolutely no trade from the United States into Mexico.

Mr. WEIDENBAUM. Not being an agricultural expert, I am not aware of that specific instance. But, I will oppose any instance of discrimination against American exports, American goods. I think it's important that in all of our international negotiations, that those who represent the interests of the United States represent our agricultural interests very fully.

Mr. Dobson tells me, if I'm reading his note correctly here, that our favorable balance of trade for agriculture is approximately $20 billion a year, or higher. I think that it's a vital figure. In other words, I don't underestimate the inroads of foreign competition and imports. But, we have an overpowering stake in world trade. American agriculture benefits so much from free world markets and we would be the major country to suffer if there were trade wars whereby each country would try to limit the amount of agricultural imports.

So, I'm not saying there aren't important restrictions on our farm exports. But, on balance, American agriculture benefits tremendously from world trade for the net exports of farm products.

Senator HAWKINS. I think you would have to amend your statement to say Americans benefit, altogether.

Mr. WEIDENBAUM. I take that amendment with enthusiasm.

Senator HAWKINS. If I were to give a helpful hint for the week to your department, it may be to give an annual award for the best productivity across the board. I bet you the farmer wins it. Across the board, again, he's unrecognized. They are absolutely demoralized and editorialized against because of subsidies. I think it's most important that that change in the mind of the consumers and also the mind of economists and the administration especially as we approach the farm bill.

As you just said, agriculture has about a $20 billion favorable trade balance or better. If you take agriculture out of the whole picture, then we are in a pickle that I don't know how we would get out. So, I know you lecture a lot and I admire your discourses and watch you a lot on television. I would like to see a plug for the farmer who if the automobile manufacturers were to copy the productivity of the individual farmer, they would not be in the pickle they are in today, in my opinion.

Mr. WEIDENBAUM. Yes, indeed.

Senator HAWKINS. I will submit these questions. Thank you.

Senator SYMMS. Mr. Weidenbaum, welcome to the subcommittee. I wanted to get into the subject with you about the administration's attempt to—if there is an attempt, what it is—to help control the money supply because of the direct impact that that's having on interest rates and ask you a couple of questions about it.

Is it true that the Federal Reserve only controls the portion of the money supply called M_{1B} but it's actually M_2 and M_3 that are expanding ever more rapidly and going beyond control?

Mr. WEIDENBAUM. The Federal Reserve has a general control over the entire money supply, however you measure it, M_{1B}, M_1, M_2. But, different parts of the money supply in practice, really, reflect decisions by individuals such as you and me. In other words, as we put money in or take money out of a money market mutual fund, for example, that could increase or decrease M_2 as it's measured.

One of the reasons that a lot of us don't pay much attention to M_2 as much as we used to is as the all-saver's certificates are issued next month and in the future, that likely will pull money out of the money market funds and reduce M_2 without really changing the liquidity of the average American.

Senator SYMMS. Do you have any suggestions regarding what those of us in the Congress can do to bring about lower interest rates. Because, problems have reached crisis proportions in a State like Idaho which is largely a resource-producing State, primarily agriculture but also forest products which is part of agriculture, and also minerals?

Mr. WEIDENBAUM. Yes, sir. In fact, I gave a speech on the subject of how to bring down interest rates this morning. I will be glad to give you a copy before I leave.

Senator SYMMS. I appreciate that.

Mr. WEIDENBAUM. Let me summarize the heart of it. There is no single reason for high interest rates. There is no one thing that can get them down.

But one of the factors in the judgment of many economists, myself included, is the Federal Government's own role, our borrowing. There is the budget financing and the budget deficit financing, the off-budget agencies, the credit agencies. This puts pressure on interest rates. This is a direct contribution that we all can make in terms of reducing Government spending, reducing Government borrowing requirements. It's not just my view. The credit market analysts have been writing and speaking on the subject in recent months, especially in recent weeks, urging just that as the most vital contribution that we can make in terms of bringing interest rates down and reducing the tremendous competition by the Federal Government itself.

Senator SYMMS. Well, would it be wise for us in Congress not to raise the debt lid, then, and get the Federal Government to start living within that——

Mr. WEIDENBAUM. No, sir, because I think that that is the tail end of the process. That's like building a small doghouse and telling a overweight dog you have to get into this small doghouse. There is no substitute for slimming down the size of that beast in the first place. How do you do that? I think we have all learned that you have to—when I say you, I mean all of us—have to give Government less money to spend in the first place.

Senator SYMMS. How do we answer some of the economists who are saying that if we did reduce spending, which I favor doing, to remove the Government competition for borrowing money, how do we answer those critics that say that you're being deluded if you think that's going to lower interest rates because they are based on an expectation of expansion of the money supply, M_2 and M_3, and the only way to go about this would be to start on the track toward tying the dollar to gold?

Mr. WEIDENBAUM. Well——

Senator SYMMS. So that people would know that a dollar would be the same value 10 years from now as it is today?

Mr. WEIDENBAUM. There isn't any doubt in my mind that every time the Government does its borrowing, it puts pressure on the money markets and credit markets. That has a direct effect on interest rates. Now, would changing the monetary standard be an improvement over the status quo? I will be blunt. I'm a member of the Gold Commission which is studying that under an act of Congress passed last year. I promised the President two things: One, I will take the assignment very seriously. Two, I will take the assignment with as open a mind as I possibly can. So at this point, rather than coming in with a prejudgment, I am listening to and reading everything I can on the subject of gold so I can be as judicious as I can in making a decision.

Senator SYMMS. I appreciate that. I would want you to do it that way. I'm very interested in what the report will be. I understand the meeting will be open to the public starting this Friday. Is that correct?

Mr. WEIDENBAUM. Yes, sir, at 10 a.m.

Senator SYMMS. I look forward to your work and the others on the Commission with great interest.

Would you care to make any predictions so that at least Mr. Abdnor and I can go back home this week and next week and tell our farmers what to expect on interest rates? That's a question that's asked of me everywhere and I always tell the audience if I were an expert on that, I would be on Wall Street and not in the U.S. Senate.

Do you have any predictions for any less burdensome interest rates?

Mr. WEIDENBAUM. Yes, but in only a very generalized way. I expect in fiscal 1982, interest rates will be lower than in fiscal 1981. But I can't give you any timetable. Very frankly, our forecasts of interest rates has not been very good.

There are two factors that make me believe strongely that interest rates will be coming down in the years ahead. One, is the progress we have made on inflation. I think we are clearly reducing the inflation premium in interest rates. It is taking the financial markets quite a bit of time to adjust to that new reality. That's understandable. They have been burned in the past by administrations that promised more than they could deliver. That's why there is a second reason that I'm confident that interest rates will be coming down, although I don't have a fixed timetable. It's the strong action being taken on both ends of Pennsylvania Avenue on the budget.

We are surely reducing substantially the growth rate of Government spending. I think that's the key to a lower deficit in the years ahead. That of course is basic to reducing the real rate of interest. I think we are working on both sides. We are reducing inflation which brings down the nominal rate of interest and we are reducing Government borrowing which helps bring down the real rate of interest.

However, I think it will take a number of years until the positive side of the tax cuts fully work their way into the economy in terms of increasing the pool of saving. That to me is the most constructive way of dealing with the interest rate question and that is making available more funds for borrowers in agriculture, in commerce, in industry, across the board. Here, of course, on October 1, we are seeing just the first installment, the 5 percent. We won't get the full 25 percent reduction in personal tax rates until a year from next July 1. So quite clearly, this program is not a quick fix, but designed to work over a period of time.

Senator SYMMS. Would you say then that savings are going to be an aid in increasing productivity?

Mr. WEIDENBAUM. Yes indeed, by making available the funds to invest in additional capital equipment and research and development, which are the key factors in rising productivity.

Senator SYMMS. I talked to my old economics professor Friday and he said that increasing productivity is based on expectations of higher product profitability and that that's the basis of it. If we can't create a climate for higher profitability, all this talk about saving won't have that much impact. He's very pessimistic and it bothered me to hear him.

Mr. WEIDENBAUM. Well, I'm another old professor. I'm rather optimistic these days. I'm much older than I was when I first came here in January.

But seriously, Senator, I think that the prospects over the 1980's for profitability of American industry, commerce and agriculture are very positive. I think the tax cuts and the regulatory relief that I described in my prepared statement, will make important corrections to that environment. They will produce greater capital formation and greater productivity, which is at the heart of increased profitability.

Senator SYMMS. Thank you very much, Mr. Weidenbaum. Thank you for your statement.

Senator ABDNOR. We are going to take a little extra time, but we may exclude you on that last item.

I guess I want to make more of a statement in closing here on my part. I don't have the figures in my hand to back me up, but I would have great difficulty in going along. I think you said the farmers are making money these days. Just the fact that we have 2.6 percent of the population receiving 1 percent of the income tells you something. There is no doubt in my mind that there is no group or individual in business today who receives as small a return on his investment as those in agriculture receive.

Many of those who are showing some income are individuals who have put their operation together back before the days of inflation and when farm prices were somewhat better and when land prices were a great deal lower. I honestly don't believe that any cattle feeder who has to borrow all the money to feed his cattle at 15 or 20 percent interest rates could ever hope to make it pay off because there isn't that kind of profit margin in cattle.

Someone should have a questionnaire sent out to successful farmers. As far as I am concerned, the day of weeding out the poor and unproductive farmers happened a long time ago. That 2.6 percent of the population is a pretty rugged, capable, and talented lot. They are more than just hard workers. They are smart people or they wouldn't be in business today.

It's impossible for anyone under 35 to get into the business of farming. You say productivity is the way to go. I don't know the full definition of productivity, perhaps, but as farmers got more productive, the profit margin they have been making has decreased because of the lower prices as a result of the increase in production.

This country is fortunate that farmers are a group of individuals who generally refuse to be cooperative with one another. If they ever put together any kind of a program to limit their production, they could bring this country to its knees rapidly, as well as the Japanese and everyone else who depend on our food.

Food is something you can't do without. That's why I don't understand. I think we are going to have to get tough with these countries. We have been a long time hoping and pleading with them to be reasonable. We have been fair and equitable in this matter of duties because the markets are there and people would buy if they could do it, as you said earlier. Don't you think we are going to have to bring some force to bear against these countries to bring them in line?

Mr. WEIDENBAUM. I think we should fully utilize all the international arrangements which are being violated by the countries that discriminate against American products.

Senator ABDNOR. Go ahead.

Representative RICHMOND. I hate to belabor the point but you say the Japanese Government has recently opened itself to imports. Can you give me one example of that?

Mr. WEIDENBAUM. The short answer is no.

Representative RICHMOND. Of course not. I just got back from Japan and we didn't find them opening themselves up. We find them giving little by little by little and erecting all types of rigid regulations.

When you talk about how wonderful it is that the farmers are able to export farm products, I'm sure you realize that nobody buys corn, soybeans, and wheat unless they actually need it to live on. They don't have any choice. The Soviet Union doesn't want to do business with the United States. They are buying grain from us this year because their own grain fell short by 40 million tons.

Mr. WEIDENBAUM. Because capitalism is so much more productive than communism.

Representative RICHMOND. The American farmer is the most efficient in the world. He's got a great deal to operate with. He's got 2 billion acres of farmland whereas the Japanese only have 2 million acres. But to say the farmers of America should be grateful that America has free trade I think is to not understand the problem.

The people don't buy our grain because we have free trade. They don't buy it as a luxury. They need it to live on. We sell to nations all over the world goods which they require to survive. What do we do? We buy back from them luxuries. I think we have got to get across equality and quality of trade. That bothers me more than our trade deficit.

Before I leave, I'm going to hand you volume 9 of our Joint Economic Committee report which will show you chapter and verse that Japan will be the No. 1 industrial power in 2 years.

Mr. WEIDENBAUM. I will read it with interest. In turn, I will be pleased to present the distinguished Congressman with some of the recent reports of the Council of Economic Advisers.

Senator ABDNOR. Very fine. You gentlemen will both profit, I'm sure.

Mr. Weidenbaum, we appreciate your being here today. Maybe before we conclude these hearings, we may have you back and have an opportunity to speak with you again. Thank you very much.

Mr. WEIDENBAUM. Thank you, Mr. Chairman.

Senator ABDNOR. The subcommittee stands in recess.

[Wherepon, at 4:10 p.m., the subcommittee recessed, to reconvene at 2 p.m., Tuesday, September 15, 1981.]

[The following information was subsequently supplied for the record:]

RESPONSE OF HON. MURRAY L. WEIDENBAUM TO ADDITIONAL WRITTEN QUESTIONS POSED BY SENATOR ABDNOR

Question 1. How important is agriculture to the economy and why is it important?

Answer. It is clear that agriculture makes important contributions to the U.S. economy. These contributions can be measured in a number of ways. Farm employment in recent years has accounted for about 3 percent of total U.S. employment. The firms which market and process food and supply farmers with inputs account for an additional 19 percent of U.S. employment. The value added to the GNP by the farming sector was about 3 percent in 1979. The food marketing and processing sectors and farm input supply industries contributed an additional 17 percent of the value added to GNP in this same year. Net agricultural exports averaged nearly $21 billion during 1979 and 1980. Also, as I mentioned in my testimony, the rate of growth of labor productivity in farming has been several times greater than in the rest of the economy during the post World War II period. Thus, agriculture raises the average labor productivity levels for the economy.

It is of course important to the overall health of the economy to have a productive agricultural sector such as ours which contributes to a favorable balance of trade and permits the avearge family to purchase food with a relatively small percentage of its income. These characteristics of the U.S. agricultural sector have contributed to increases in our standard of living.

Question 2. Farmers are often blamed for high food prices; but farmers receive only 39 cents out of the retail dollar spent. What can be done to inform the public that price increases take place at many stages of production?

Answer. The Council of Economic Advisers recognizes that food prices vary because of changes in both the so-called marketing margin and prices of raw products supplied by farmers. The marketing margin of course reflects charges for labor, transportation, and packaging materials as well as profits of processing and marketing firms. We also realize that the marketing margin is large for the average food item—about 60 percent as your question suggests—and that it varies substantially from product to product.

We explicitly recognize these facts when we discuss food prices in testimony and reports. We believe that the U.S. Department of Agriculture and other Agencies that deal with food prices also generally do the same. However, it might be useful if the Administration and the Congress encouraged Agencies to devote more effort to explaining the causes of changes in food prices, since sometimes there is confusion on this point.

Question 3. The Soviet Grain Embargo had a tremendous effect on the agricultural sector. Do you have an estimate of what it cost agricultural producers?

Answer. We have only general indications of the cost of the Soviet grain embargo to U.S. farmers. We do know that prior to the embargo the United States had agreed to sell the Soviets up to 25 million metric tons (mmt) of grain during October 1, 1979 through September 30, 1980. When President Carter announced the grain embargo on January 4, 1980, he also announced that U.S. grain sales to the Soviets during this period would be limited to the 8 mmt called for under the Long Term U.S.-Soviet Grain Sales Agreement. However, U.S. exports of grain during October 1979–September 1980 did not fall by the 17 mmt difference between the earlier agreed upon sales of 25 mmt and 8 mmt, since U.S. sales to third countries increased because of trade adjustments during the embargo period. University researchers suggest that U.S. corn exports to the Soviets were reduced by 10–12 mmt and U.S. wheat exports were reduced by up to 4 mmt during October 1979–September 1980 as a result of the embargo. We have no estimates of the reductions in grain shipments to the Soviets caused by the embargo during October 1980 through mid-April 1981, when the embargo was lifted by President Reagan. However, the United States did agree to supply the 8 mmt of grain called for in the U.S.-Soviet Long Term Grain Sales Agreement October 1980–September 1981.

The USDA took several steps during 1980 to limit embargo-related declines in grain prices. Among other things, the Agency (1) assumed the contractual obligations for wheat, corn and soybeans previously committed for shipment to the Soviet Union, (2) increased the nonrecourse loan rates for 1979 and 1980 crop wheat, corn and other feed grains, (3) provided increased incentives for farmers to place or keep grain in the farmer-owned grain reserve, and (4) bought grain from farmers. Part of the USDA's strategy was to "isolate" the embargoed grain from the market. University researchers estimated that the budget costs of the efforts were $2.5 to $3.0 billion. About one half of these costs were recovered when crop loans were repaid and grain purchased by the government was sold.

Corn prices declined for a few days following the announcement of the embargo on January 4, 1980, but recovered to pre-embargo levels late in the winter of 1980. During July and August 1980, corn prices rose to levels substantially above those existing prior to the embargo. There is evidence that the embargo on grain shipments to the Soviets prevented corn prices from increasing sharply during the summer and autumn of 1980. Wheat prices fell immediately after announcement of the embargo and remained weak relative to pre-suspension levels during most of last year. The suspension of up to 4 mmt of wheat exports to the Soviets doubtless contributed to this price weakness. But the large U.S. wheat crop for 1980 also was a factor producing lower prices. U.S. soybean prices were affected relatively little by the embargo since the Soviets never planned to purchase large quantities of soybeans during the embargo period.

In sum, during 1980 the grain embargo probably reduced corn prices the most, wheat prices by the next largest amount and soybean prices least. It is impossible to estimate precisely how much the embargo reduced grain prices to farmers during 1980 and how much residual effect the embargo had on farm grain prices during 1981. However, the Treasury costs incurred in connection with the grain embargo and the reduction in grain prices caused by the embargo during 1980, at least, were obviously substantial.

Question 4. The farm population represents about 2.6 percent of the total U.S. population. Yet farmers receive less than 1 percent of National Income. What accounts for that very disproportionate difference and what can be done to correct it?

Answer. Farmers do receive a share of National Income which is smaller than their share of the population. The apparent income disparity arises partly because of the way the National Income statistics are constructed. The National Income statistics consist of proprietors' income with inventory valuation and capital consumption adjustments. Thus, the National Income statistics for farmers exclude off-farm income and capital gains. As I suggested in my testimony, these excluded items are important sources of income or wealth for farmers. The average farmer received 57 percent of his/her income from off-farm sources during 1975 to 1980. Also, the real estate of the average farmer increased in value by about $40,000 during 1979. If these excluded items were included in the National Income statistics, the income disparity facing the farmer would be lessened substantially.

We believe that the President's Economic Plan will improve the income position of farmers by expanding the demand for farm products and reducing the cost the new capital investments the farmer makes. Moreover, the President's Economic Plan will lessen government intervention in agriculture. This will permit citizens to invest their labor and capital where they will yield the greatest return. In this unfettered economic environment, unwarranted income disparities between the farm sector and the rest of the economy should tend to disappear.

Question 5. Will recent changes in the tax laws materially alter the rate of return on agricultural investment? Will it lead to major changes in the amount of investment in agriculture?

Answer. The tax measure recently signed into law by President Reagan includes the following changes in business taxes: (1) a shortened write off period for new capital investments, including those for certain breeding livestock, (2) increased investment credits for certain types of capital investments, (3) lower tax rates on capital gains, (4) lower tax rates on corporate profits, and (5) lower Federal estate taxes and a full exemption from Federal estate taxes for estates passing between spouses.

Many things in addition to taxes (e.g. commodity prices and interest rates) affect the rate of return on agricultural investments. Therefore, it will be difficult to separate the effects of the tax reforms from the effects of other factors affecting returns on investment. However, some generalizations appear possible. Agriculture is a capital intensive sector. Accordingly, these tax measures, which will substantially reduce the after-tax costs for capital investments, should increase returns on agricultural investments—especially during the next few years. So will the lower taxes on capital gains which are an important source of returns to farmers. However the new, more productive capital equipment and the additional breeding livestock that will be purchased as a result of the changes in the tax laws willl be output expanding. The larger output, other things equal, would reduce farm prices, reduce consumer prices and lessen the higher returns earned initially from the new capital investments.

Let me consider the second part of your question briefly. As suggested above, the tax law changes should increase the amount of capital investment in farming, especially after interest rates decline from present levels. This infusion of new capital equipment will help the farming sector to maintain its high productivity during the 1980s. The change also may cause additional substitution of capital for labor in farming.

Question 6. Is the family farm still economically feasible?

Answer. Let me provide some background information at the outset. There is no single accepted definition of a family farm. I will consider a family farm to be one which is run by the farm operator and the operator's family with a limited amount of hired labor. The number of farms has declined substantially in recent decades. In 1950, there were 5.6 million farms; in 1978, 2.6 million. Between 1950 and 1978, the average size of farm increased from 200 acres to about 400 acres. Many smaller family farms were consolidated into larger units as large numbers of farm people migrated to urban areas during this period. As farm size has increased, many farmers incorporated. But over 90 percent of the farm corporations that were formed are closely held, family farm corporations.

We believe that the family farm—which is an efficient producer of food—is still very viable. We see no developments in prospect that will cause the family farm to be replaced by other types of business organizations. Thus there is no evidence that the giant firms which oligopoly theory is concerned with will dominate farming. But, family farms will continue to evolve and grow. They will probably find it necessary to grow if the farmer operator and the operator's family are to earn a living comparable to that of nonfarmers. As I said in response to a question by Senator Hawkins the government should avoid taking actions that specifically encourage large scale farming operations. But if farm growth occurs to achieve economics of scale, realize other efficiencies or to deal with the economic shocks from the nonfarm economy, then we should welcome this growth.

Question 7. Does the Reagan Administration generally favor price support and a restricted agricultural output or increased trade and improved marketing?

Answer. The Administration strongly favors a market-oriented agricultural sector. We believe that farm price support programs must adjust to fit the times. Therefore, we believe that in most circumstances there is little justification for farm programs which restrict supplies when inflation is a major problem for the economy. Increased trade and improved marketing can be important elements of a market-oriented agricultural economy. As I suggested in my testimony, the basic responsibility for expanding exports of farm products belongs to the private sector. But the Administration will seek to eliminate other nations' trade barriers and export subsidies which limit our export opportunities. We will also remain sensitive to the implications of high interest rates in the United States for exchange rates and farm exports.

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THE IMPORTANCE OF AGRICULTURE TO THE U.S. ECONOMY

TUESDAY, SEPTEMBER 15, 1981

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 2:05 p.m., in room 5110, Dirksen Senate Office Building, Hon. Paula Hawkins (member of the subcommittee) presiding.

Present: Senator Hawkins and Representative Richmond.

Also present: Kent H. Hughes and Douglas N. Ross, professional staff members.

OPENING STATEMENT OF SENATOR HAWKINS, PRESIDING

Senator HAWKINS. I apologize for being late. We will call the subcommittee to order and we will come to you, Mr. Ambassador, for the second in the set of hearings that the Subcommittee on Agriculture and Transportation has been holding on the subject, "The Importance of Agriculture to the U.S. Economy."

Agriculture is a significant partner in the national economy. The farm sector directly employs about 3.7 million people. An additional 19.2 million workers are employed in related fields—farm machinery, chemical fertilizer, natural fibers, food processing, and transportation. These workers depend almost exclusively on the farm sector for their jobs. In 1980, agricultural production contributed 5.5 percent to the gross national product.

American agriculture is at a crossroads. Are we to work toward increasing production and trade or are we to pursue Government-regulated supplies and controlled markets?

Should our efforts be directed toward reducing agricultural trade barriers erected by our trading allies or should we be adding more protective measures?

We come to this domestic agriculture policy crossroads at a time when global agricultural interdependence is increasing. Demand for U.S. agricultural exports has grown rapidly, caused in part by the shift in some centrally planned economies from net exporter to net importer, the devaluation of the dollar, and the rise in population and income in many developing countries, linking America's agricultural economy to the world as never before.

One-third of U.S. agricultural exports go to Western Europe, one-third to Asia, and nearly 10 percent to the Soviet bloc-Eastern European countries. Still, self-sufficiency, often coupled with high tariff protection for inefficient domestic agriculture, remains a major policy in developed countries.

From the U.S. perspective, our domestic market and agricultural income policies must be consistent with our export policies and the realities of trade in world markets.

Before we proceed, several of the members of this subcommittee, as you know, have other calls on their time. At any time they may come in and out and we have agreed to keep the record open.

Congressman Rousselot has a written opening statement that he would like entered into the record, which I will do at this point, and we will provide you with a copy.

[The written opening statement of Hon. John H. Rousselot follows:]

WRITTEN OPENING STATEMENT OF REPRESENTATIVE ROUSSELOT

Senator Hawkins, it is a pleasure to welcome Special Trade Representative Bill Brock and Assistant Secretary of State Robert Hormats to our subcommittee.

The American farmer is an astounding productivity success. Improvements in farm machinery, fertilizer, and other farming techniques have enhanced the farmer's ability to produce. From 1929 to the present, the volume of crops produced per hour of work has risen 11.8-fold.

Crops and livestock production in 1980 accounted for nearly 20 percent of our Gross National Product, and in 1979, U.S. agricultural exports totaled $34.7 billion.

Expanding agricultural markets will improve farm incomes. Free trade in agricultural foodstuffs lowers prices to consumers, besides providing additional revenues for farmers. Reducing the barriers to U.S. food importation abroad may require genuine and candid discussion.

Bill, and Mr. Hormats, I wish you the best of success in your very important mission.

Senator HAWKINS. Mr. Brock, we look forward to your statement, please proceed.

STATEMENT OF HON. WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Ambassador BROCK. Thank you very much. May I express my personal pleasure at your being in the present chair. I am delighted to see you there and I can't think of any Member of the Senate that is more interested in and thoughtful about the subject. And I appreciate the chance to testify.

Senator HAWKINS. Thank you.

Ambassador BROCK. I have just completed a trip that took me to a number of countries in the Pacific area—countries that are our trading partners, countries that look to us to provide leadership in the world trading community. I was impressed time and again with the extent to which these countries depend on trade and the extent to which their economies are at the mercy of the trade policies of their customers. I was asked repeatedly to continue to speak out forcefully for a free and open trading system. That is something I did there and I intend to do here today.

America's first exports were agricultural—the tobacco and cotton that were so much in demand in Europe—but in later years attention tended to focus on manufactured goods. It wasn't until 1960 that the value of our agricultural exports first began to exceed the value of our agricultural imports on a consistent basis. This fiscal year agricultural exports are expected to reach $45 billion. Subtracting the $17 billion anticipated for agricultural imports we'll have an agricultural trade surplus close to $28 billion this fiscal year—the largest ever. There are a lot of statistics packed in my statement, probably too many, but let me submit for the record a table which explains what I've been talking about so far. I will do that at the completion of my statement.

The real importance of these trade statistics is that they've allowed the Government to get out of farm commodity markets.

In 1960, USDA's Commodity Credit Corporation had invested in the price support program an amount of money equivalent to almost one fourth of farmer's cash receipts from marketing. By 1970, this percentage had fallen to one-tenth, and at the end of 1980 the Government's investment in price support operations was down to 5 percent—clearly an indication of the declining importance of Government as a factor in the agricultural market.

Meanwhile, agricultural exports have traded in the opposite direction, becoming more important as an element in farm markets and farm income. In 1960, the value of agricultural exports represented only about 15 percent of farmers' cash receipts. That percentage changed little between 1960 and 1970. By 1980, however, exports delivered about 25 percent of farmers' cash receipts.

Yesterday, this subcommittee heard Jack Block and Murray Weidenbaum discuss the President's economic package and the healthy effect it will have on the economy in general and on agriculture in particular. I heartily endorse those views. We have a comparative advantage in the production of a number of products, both agricultural and industrial. When we get our domestic house in order, we will be in a much better position to use our comparative advantage. When farmers can invest with the reasonable return on their investment, they will make that investment. When they can buy the inputs necessary to further improve their efficiency they will do so—but they can't be expected to pay inflated prices for those inputs when faced with debt-servicing demands that make it impossible for them to keep their heads above water. I believe it is the responsibility of the administration to provide a healthy economy in which the free enterprise system can work.

When we provide such an environment we have one additional obligation before stepping back and letting the farmer produce and sell his output. That additional obligation is to assure that the producer is not faced with unfair competition in marketing his product or that the commerce in that product is not unduly burdened by artificial barriers to trade. It is to that point that I would like now to address myself.

I've already said that we are efficient producers of a number of agricultural products. We are indeed the most efficient in the world for most temperate products, and we've gotten very good at marketing those products worldwide. I think it unfair, though, when our private sector, on its own volition, goes into a country and develops a market for its product in that country and then loses that market share to other countries whose exports are subsidized by national treasures. We simply must eliminate this unfair competition.

The subsidies code that was developed during the multilateral trade negotiations was designed to bring some discipline into the use of export subsidies. To date, there have been no disputes brought under the provisions of the code. However, we are seriously disturbed by the increasing use of agriculture subsidies by the European Community. We find ourselves facing subsidized competition on poultry, wheat, wheat flour, beef, and many other agricultural products. When these subsidies displace our exports, it's not fair competition. If we are unable to settle our problems with their subsidy policies bilaterally, we intend to use the GATT Subsidies Code to bring our complaints before international review.

Senator Hawkins, you and I have both recently been in Australia, New Zealand, and Japan. All three are large agricultural trading countries, and all three have a great stake in the current trading system. We are troubled by trade barriers maintained by all three, but those in Japan are perhaps the most bothersome to us, to me. I have several times discussed with Japan's leaders the need to open their agricultural markets to competition. We have found in our own market that such competition is healthy because it benefits the consumer and forces the producer to become more efficient—to our economy's ultimate benefit. The Japanese, though, plead severe political problems at home as a justification for the continued maintenance of their restrictions. For many years now we have accepted that justification, but I feel that the time has now come for Japan to be as open with its market as it expects others to be with theirs. Trade is, indeed, a two-way street—and I want that street to carry U.S. food products directly to the neighborhood grocery store in Tokyo.

I also visited a number of other countries in the Pacific area, countries that do live largely on their exports of primary products. I have stressed to them the importance I personally feel toward their participation in the various codes of the GATT. I believe that it is only through such involvement that these countries can have a real voice in the operation of that important organization.

Let me give you one example. There is presently pending before the GATT Council a panel report on Spain's consumption quotas on soybean oil. The United States had challenged these quotas but the panel which examined the case did not accept the arguments the United States presented. Furthermore, the panel made new, novel interpretations of GATT law in rendering their report. We are extremely troubled by the panel findings and have circulated our own rebuttals, both of which will be taken up by the full GATT Council, we hope in November.

The panel finding is only advisory. During my trip to the Pacific area, I sought to acquaint the countries I visited with the U.S. position and also sought their support in the GATT Council. After all, many of them export oilseeds and vegetable oils, products that are directly affected by Spain's marketing restrictions on vegetable oils. If the GATT Council adopts a panel report legitimizing Spain's system, these countries stand to lose a lot. I have urged them to become activists on this and on other issues of importance to them. I've done so because I feel that the GATT will only work the way it should if all of its members begin to have faith in its ability to be a real forum for the resolution of disputes.

The original rules that were written to govern international trade were loosely written and have been further refined by years of interpretations rendered by the council, largely in cases involving disputes.

If we fail in this endeavor, we will continue to have a proliferation of bilateral arrangements and biluateral settlements of disputes, settlements that involve arrangements that may not be in the long term interest of the international trading community.

We are presently reviewing the GATT policies on the settlement of disputes and will be making some suggestions within the context of the GATT as to how we think the system might better operate for both agriculture and for other trade. Because these thoughts are still in their early stages, I will not be specific at this time. However, in the formulation of these proposals we will continue to work with the Congress.

In closing, I would like to stress that the American farmer feeds millions of people around the world. The efficiency built into this large-scale production provides low-cost food at home, and the jobs created are multiplied many times throughout our economy. This administration is pledged to provide a healthy economic environment in which American farmers can operate. I pledge myself to do my best to give these farmers an open world market in which they can sell the fruits of their labor. I thank you very much.

[The table referred to by Ambassador Brock follows:]

TABLE I.—HISTORICAL SUMMARY: VALUE OF U.S. FOREIGN TRADE AND TRADE BALANCE, CALENDAR YEARS 1940–80

[Dollar amounts in millions]

	U.S. exports				U.S. imports				Trade balance		
Year	Agricultural	Nonagricultural	Total	Percent agriculture	Agricultural	Nonagricultural	Total	Percent agriculture	Agricultural	Nonagricultural	Total
1940..	$517	$3,417	$3,934	13	$1,284	$1,257	$2,541	51	−$767	+$2,160	+$1,393
1941..	669	4,351	5,020	13	1,668	1,554	3,222	52	−999	+2,797	+1,798
1942..	1,179	6,824	8,003	15	1,271	1,509	2,780	46	−92	+5,315	+5,223
1943..	2,073	10,769	12,842	16	1,513	1,877	3,390	45	+560	+8,892	+9,452
1944..	2,096	12,066	14,162	15	1,818	2,069	3,887	47	+278	+9,997	+10,275
1945..	2,254	7,331	9,585	24	1,709	2,389	4,098	42	+545	+4,942	+5,487
1946..	3,140	6,360	9,500	33	2,297	2,528	4,825	48	+843	+3,832	+4,675
1947..	3,957	10,295	14,252	28	2,760	2,906	5,666	49	+1,197	+7,389	+8,586
1948..	3,472	9,060	12,532	28	3,149	3,943	7,092	44	+323	+5,117	+5,440
1949..	3,578	8,358	11,936	30	2,893	3,699	6,592	44	+685	+4,659	+5,344
1950..	2,873	7,269	10,142	28	3,987	4,756	8,743	46	−1,114	+2,513	+1,399
1951..	4,040	10,839	14,879	27	5,166	5,651	10,817	48	−1,126	+5,188	+4,062
1952..	3,431	11,618	15,049	23	4,518	6,229	10,747	42	−1,087	+5,389	+4,302
1953..	2,847	12,805	15,652	18	4,183	6,596	10,779	39	−1,336	+6,209	+4,873
1954..	3,054	11,927	14,981	20	3,961	6,279	10,240	39	−907	+5,648	+4,741
1955..	3,199	12,220	15,419	21	3,971	7,366	11,337	35	−772	+4,854	+4,082
1956..	4,170	14,770	18,940	22	3,950	8,566	12,516	32	+220	+6,204	+6,424
1957..	4,506	16,165	20,671	22	3,952	8,999	12,951	31	+554	+7,166	+7,720
1958..	3,855	13,890	17,745	22	3,881	8,905	12,786	30	−26	+4,985	+4,959
1959..	3,955	13,496	17,451	23	4,099	10,895	14,994	27	−144	+2,601	+2,457
1960..	4,832	15,543	20,375	24	3,824	11,190	15,014	25	+1,008	+4,353	+5,361
1961..	5,024	15,730	20,754	24	3,691	10,967	14,658	25	+1,333	+4,763	+6,096
1962..	5,034	16,397	21,431	23	3,868	12,383	16,251	24	+1,166	+4,014	+5,180
1963..	5,584	17,478	23,062	24	4,011	12,990	17,001	24	+1,573	+4,488	+6,061
1964..	6,348	19,808	26,156	24	4,082	14,518	18,600	22	+2,266	+5,290	+7,556
1965..	6,229	20,906	27,135	23	4,087	17,196	21,283	19	+2,142	+3,710	+5,852
1966..	6,881	23,003	29,884	23	4,491	20,869	25,360	18	+2,390	+2,134	+4,524
1967..	6,380	24,762	31,142	20	4,452	22,281	26,733	17	+1,928	+2,481	+4,409
1968..	6,303	27,896	34,199	18	5,024	28,042	33,066	15	+1,279	−146	+1,133
1969..	6,022	31,440	37,462	16	4,957	30,906	35,863	14	+1,065	+534	+1,599
1970..	7,259	35,331	42,590	17	5,770	33,986	39,756	15	+1,489	+1,345	+2,834
1971..	7,693	35,799	43,492	18	5,823	39,693	45,516	13	+1,870	−3,894	−2,024
1972..	9,401	39,475	48,876	19	6,467	48,815	55,282	12	+2,934	−9,340	−6,406
1973..	17,680	52,566	70,246	23	8,419	60,605	69,024	12	+9,261	−8,039	+1,222
1974..	21,999	75,145	97,144	23	10,247	89,893	100,140	10	+11,752	−14,748	−2,996
1975..	21,884	84,334	106,218	21	9,310	87,167	96,477	10	+12,574	−2,833	+9,741
1976..	22,997	90,131	113,128	20	10,992	110,803	121,795	8	+12,005	−20,672	−8,667
1977..	23,636	95,308	118,944	20	13,439	135,280	148,719	9	+10,197	−39,972	−29,775
1978..	29,384	111,770	141,154	21	14,805	158,147	172,952	9	+14,579	−46,377	−31,798
1979..	34,745	143,833	178,578	19	16,725	189,198	205,923	8	+18,020	−45,365	−27,345
1980..	41,256	175,336	216,592	19	17,366	222,577	239,943	7	+23,890	−47,241	−23,351

Senator HAWKINS. Thank you, Mr. Brock. I was interested when we were both in New Zealand—on different missions, I might add—that when Senator Packwood and I met with the planning council there, that they gave us their country's long-term planning. And also a slight lecture on the amount that we subsidize agriculture, they felt.

However, one of their long-term goals in their planning council was to produce aluminum in New Zealand which, as we know today, is an energy-short environment. I asked who subsidizes the aluminum manufacturer, indeed, since they were so concerned with subsidies. They call them different names in different countries and I am sure you all ran into that as you traveled around the country.

One of the biggest problems that I have discovered, being from Florida, of course, is the close-by problem with Mexico. The new problems were just exposed to me as I traveled around the country this last month. In July of this year, the Mexican Government decreed import controls, permits plus duties charged on 865 additional products, thus making 90 percent of the total value of imports covered by import control. Can you tell us how this administration views this position in view of your stated policy of supporting free trade and the existing pressures which we have discussed here before?

Ambassador BROCK. We are very concerned about it. One of the problems that we have with our closest neighbor, Mexico, is that Mexico has, by its own choice, decided not to join the international forum, the GATT, within which there is a legitimate logical predictable mechanism for solving some of these problems on a multilateral or bilateral basis. That creates an absence of institutional processes within which you can work with the Mexican Government.

At about that time, as a result of the President's meeting with President Portillo at Camp David where Secretary Baldrige and I attended that particular meeting, we decided to try to set up a trade group that would hopefully find a way to resolve some of these difficulties before they became critical. We formed that trade group with Administrator Della Vega and myself and Secretary Baldrige as the three heads and we are having on Monday next our first meeting in Mexico City. I will chair this group for the first 6 months and Secretary Baldrige and I will resolve that over 6-month periods.

But that is precisely the kind of thing that we hope to try to deal with in this trade group, to demonstrate our concern and to find a way to work these problems out, because it just cannot be in Mexico's interest to raise the price to its own consumers in that kind of fashion. It cannot be in Mexico's interest to take actions which can only result in reduction of trade and reduction of job opportunities for both countries. And that is precisely what we hope to address.

Senator HAWKINS. In view of the fact that President Reagan will be visiting President Portillo shortly—later in this month, I believe—will you discuss the agricultural trade issues which may be on the agenda?

Ambassador BROCK. I have a meeting not only with Administrator Della Vega—I am going to be in Mexico City on Monday—but I will also be meeting the Minister of Agriculture as well.

Senator HAWKINS. Have you abandoned entirely the idea of Mexico ever becoming a member of GATT? Is that why this additional study group has been formed?

Ambassador BROCK. I would hope that policy is subjected to further consideration. I don't know—I have seen no indication that they have yet decided to change their position. But one of the purposes of this trip to Asia was to convince those countries that they should not only belong to the GATT but should be active participants in the GATT.

The only country, for example, that doesn't belong to this is Thailand, but Thailand has committed itself to meet with GATT officials to try to resolve the questions that they have. I thing it is an excellent prospect that they will become a part of the GATT as a consequence of some of the explorations we have made together.

I think perhaps the kind of conversation we are going to have next week could demonstrate to Mexico that there is real value to them to belong to the GATT. There is nothing more important to a developing country than the openness of the world trading system. They have to export to create jobs for their own people, to create real income. And there is no way we are going to maintain an open and liberalized world trading system unless we do it within the code of law under the GATT. Their participation is more important to them than it is to us, but it is important to us as well, because it does provide them a regular logical process within which we can work out our problems. You have to have problems when you deal with people in business. You do that with full knowledge that the ultimate benefit is the constant.

Senator HAWKINS. I am really encouraged by that. Congressman Richmond has joined us.

Representative RICHMOND. Thank you. You and I have discussed trade with Japan so often I won't take up your time today. I know we benefit on 1 percent of it, probably 1 percent. I assume my wonderful colleague agrees. Are there other countries in the world which belong in that same category which I call locked in a one-way street, a one-way trading? Should we take that into consideration where we are absolutely getting the short end of the marketing deal?

Ambassador BROCK. Probably more than 144 or 150 other countries. One of the great difficulties that we have is that we never can quite resolve the question of if people face up to what they do, that is a two-way street, and it wouldn't work unless it is reciprocal and it has beneficial opportunities for both sides. We have very serious problems among almost all of our trade partners. Canada—you know well some of the difficulties we are having with the discriminatory aspects of the Canadian national energy policy, the prime investment view that they have. Particularly in this area, in agriculture, we are very, very seriously concerned about the growing problem with regard to subsidized exports of Europe in their agricultural products.

Representative RICHMOND. As are they? I believe the members of the European Economic Community know that the bulk of their budget is going to subsidize their farmers.

Ambassador BROCK. They have reason to be concerned. They are experiencing very serious slowdown; it is called stagflation, they are putting $16 billion in the Community alone to support programs for their agricultural problems. I don't know if the gross future would include subsidies by individual countries—I was told by someone it was as much as $40 billion.

I am not sure of that. But that is eight times the level of support we have in the United States. They are going up and we are going down. I don't know how they can afford it but I do know that if while we—I think it would be somewhat presumptuous if we try to suggest what their domestic policy should be. When the domestic policy results in the creation of subsidized exports that displace our markets in inequitable competition, then we have a legitimate right to complain, and very loudly.

Seeing that problem coming very fast, as I said in my statement, I hope that the GATT is capable of coping with this kind of difficulty.

Representative RICHMOND. GATT works so slowly, Mr. Ambassador, and time is running out. We have our own national debt and our own ability to have equal trading prices throughout the world.

Ambassador BROCK. GATT works slowly, but I understand the GATT in the history of the mercantilists' world is a very new instrument and it is going to take our constant effort and support to make it work better. That is going to take some time. It is important we use that instrument to the extent that we can in order to develop it as a positive contribution to open markets.

Representative RICHMOND. I note throughout your statement you talk about our agricultural exports. I think if Americans would understand when we export wheat, corn and soybeans, we are not doing much for the American economy at all, and nobody buys it unless they desperately need it. Our other trading countries buy them for survival. I am not happy to send corn which Senator Jepsen tells me was selling in Iowa for $2.30 a bushel. From an acre of top rich farmland worth $4,000 an acre is $230, a hundred bushels of corn. In addition we lose 16 to 17 tons of the top soil on that acre. So we ship them a hundred bushels of corn and get the princely sum of $230. That is wrong. We have to see if we can ship processed foods, at least we get some labor out of it.

Are we making any advances on selling beef instead of corn? Why ship 7 tons of corn, why not ship 1 ton of boxed beef? Why not ship——

Ambassador BROCK. That doesn't change the top soil component.

Representative RICHMOND. At least it gives American workers a little bit of an opportunity to get themselves employed.

Ambassador BROCK. I accept the statement we ought to be selling more beef——

Representative RICHMOND. More processed foods in general, more chickens, more pork, more dairy products.

Ambassador BROCK. We are very consciously endeavoring in our program to try to expand our processed food sales as well. Beef is a pretty good example. We have a quota of 10,000 tons of beef in Europe. That is not enough to take care of a few McDonalds. We have a quota not much more in Japan. We have had some fairly good conversations with the Japanese about opening up that road on beef and citrus, and you know, granted we are under an agreement now, we are bound by the agreement that expires in 1983, we start our conversations next year for renewal.

What we would like to see is removal of the quota, we would like to see the market work. Beef in Japan costs four or five times what it costs in the United States. It is passing strange—it makes no economic sense to penalize the consumers of Japan when they could buy a better quality of beef at a far, far less price and everybody wins. They have a better diet.

Representative RICHMOND. Now we have to talk about causes and cures—the liberal democratic party over in Japan did that.

Ambassador BROCK. We are making some progress. I had some conversations in Japan just about 10 days ago when I was over for some other conference and there are a number of the Japanese members of GATT who share this feeling and are willing to take up the cause and go back for it.

They feel their consumers ought to have a place in the process and they would win. I think it is something that is worth an awful lot of effort on our part to pursue.

Representative RICHMOND. 600,000 farmers in Japan are causing the Government to run at an enormous deficit, causing the consumer to spend two or three times more for their food, they spend 20 to 30 percent of their income on food and they don't eat as well.

We could bring their food costs down tremendously and we can't get that message out to the Japanese consumer.

Ambassador BROCK. One of the other problems that other countries have is that they are making the same mistake that we have made. If you recall, back in the 1960's, we had a similar price-support program. We are trying to get away from that. We have been consciously moving away from it for a decade now.

But because they maintain a false price, they simply do not—they have to then protect the markets from imports because the imports would come and undercut the price so they have the worst of both worlds, a very high price and very low imports and a subsidized sector that is not given the opportunity to be competitive, if in fact it could become so.

I can understand that with a basic commodity like rice and maybe there are certain exceptions that you would make for national security reasons, I am not sure that they are logical but I can at least understand that the attempt to——

Representative RICHMOND. Even rice, when we can supply them rice at $400 a ton and every Japanese person who owns a little patch of land the size of a postage stamp instead of buying vegetables is growing rice because it is subsidized by the Government. It is insane.

Ambassador BROCK. The government is paying the difference, the consumer and the taxpayer. If they have to subsidize people to stay on the farm, then they should do it by direct payment to the farmer and let the price of the commodity find its market level and then competition could still work. If they feel a social objective is mandated to maintain people on the farm, again that is a social policy that we have no right to condemn, as long as it does not intervene with the working of the marketplace.

That may be the ultimate answer if they would consider it.

Representative RICHMOND. I think the answer is using your enormous influence to get our message across to the Japanese people and other people in other nations that are paying so much higher for their food than they have to. And we could supply it at a fraction of what their cost is.

Ambassador BROCK. It is fascinating when you fly into Japan from almost any other place, at the airport when you are getting ready to go, at every airport you leave there are just stacks of 5 kilo boxes of beef so that the people flying into Japan can take beef in at pretty high prices but it is still 20 percent of the price they would have to pay in Japan.

One of the nicest gifts you can bring to somebody in Japan is 5 kilos of beef.

Representative RICHMOND. That is why the Japanese take all of their vacations in Guam. Guam became an enormous resort land because they can bring their duty-free American goods back from there. Thank you.

Senator HAWKINS. The farm bill before the Senate contains provisions to combat foreign agricultural subsidy practices by directing the Secretary of Agriculture to impose a retaliatory subsidy and regain markets lost unfairly. Does the administration view this retaliatory subsidy provision as an important tool? Have you discussed it? Would you use it if we gave it to you? If we get it passed, in your experience, in those countries, would it be helpful if you had a bigger hammer and could wield it as a government and afford to use it?

Ambassador BROCK. I am not aware of what the Secretary of Agriculture's response has been to that question. So I have to speak for myself.

Senator HAWKINS. He was here yesterday, we failed to ask him that question. Would it be helpful to say, "If you don't sign up with me today, the heavy's coming tomorrow who has to impose the law as passed by the Congress"?

Ambassador BROCK. I think there are other ways to compete in subsidies and other than impose subsidies on our own products. We think of subsidies for export, our knowledge of the GATT, and I am not sure it would be logical for us to engage in an incompatible practice to deal with other noncompatible practices. We have, at the industrial sector, one of the problems we have, Madam Chairman, is that there is a distinction in the GATT between how agriculture is treated and how industrial prices are treated.

There was a lot of time in Australia and New Zealand with our desire to try to upgrade the rules with regard to agriculture and provide a little more structure to prevent that kind of protection, lack of protective action. But in the industrial sector we can offset subsidies by going and proceeding and imposing a countervailing duty, for example. But if that is really a problem, under the GATT in agriculture if there are export subsidies that are displaced in other markets we do have remedies available that do not require the imposition of additional subsidies. I am not sure on budget it would be very logical for us to put massive new subsidies on the export of the American products.

I don't know if we can afford to do that. Almost any additional tools are worth looking at to stop this problem from getting worse.

Senator HAWKINS. Are there any specific legislative remedies that Congress can provide to stimulate U.S. agricultural exports that do not involve a massive outlay of funds, that you can think of?

Ambassador BROCK. Actually, in agriculture, we are doing awfully well. Our farmers are the most productive in the world. Our trading export companies are very competitive, very productive.

If I had to pick a couple of things that would be helpful, they would go to those self-employed barriers that we put upon ourselves. We dealt with one of those and we raised the exemption for the earnings of Americans working abroad who would be out selling our product. That was a substantial step forward.

I think the formation of the legislation to allow the creation of export trading companies could be particularly helpful. I really do hope that the Congress will act—the Senate has already acted, as you know, so I am speaking to your colleague now.

But I hope that the Council would act fairly expeditiously on that bill. That would be of real consequence over the next 4 or 5 years.

There is one problem that I ran into in every single country I have been in in the last month, these 10 countries in Asia. And that relates to the burdens we have put upon ourselves under the Foreign Practices Act. Because that bill is simply unenforceable, ununderstandable, and has created circumstances which we are not marketing in certain countries because we don't know how to comply with the law, because we don't know what the law says.

I ran into—we surveyed our Embassy. They have all come back and said it has created circumstances which companies have simply withdrawn from doing business in certain markets.

In every country, I met with American business people that were there, operating, and that was the single largest criticism they levied at our own Government.

It failed to simplify that law and make it workable. Any help you could give us in that area would be of real consequence, I think, because the law simply is convoluted and complex and almost impossible.

Senator HAWKINS. I agree. Especially in Australia and New Zealand, we ran into that as the first order of business when talking to the chamber of commerce.

I tried to explain to those people there that the way the act itself is titled, you are very indelicate to come back and say that you are going against the Foreign Practices Act. Does that mean that you therefore are for corruption? It's been very heavily discussed in previous sessions of the legislature.

We made note in every country we visited that that is at the top of the list. One of the thoughts I had in talking to them was how can we do all of this shipping with our port facilities the way they are.

Ambassador BROCK. Thank you for raising that, because I should have mentioned it, and you are absolutely right. We really do need to upgrade our export capabilities in almost every sense of the word.

We need some more port facilities, we need more and better loading and handling facilities, and we have not addressed that problem, either in the Government sector or in the private sector, in the past few years.

It's becoming a matter of very serious concern. It's impinging upon our ability to sell products we have available for sale. We could sell another 100,000 tons of coal, 100 million tons, if we could ship it.

There are things like that that we ought to do something about, very quickly.

Senator HAWKINS. I find that is true, and yet in a budget-cutting mode, which we are in this particular session, I find great reluctance on the part of the great body in the Senate to even look at expending any money there.

And then the local people, of course, have been here, even in my State, asking for Federal help in making some——

Ambassador BROCK. There is an old cliche about being pennywise and pound foolish, and I think we have to keep that in mind, particularly in a time of budget-area constraint.

We have it, it is very serious. We have to deal with this deficit. But there are ways you can do that. The shippers that I have talked to are perfectly willing to pay an equitable user fee to get better facilities.

You can't use them to subsidize some other segment of the economy. They are not going to do that. But if it is fair and equitable and cost justifiable to add a few pennies to a ton to put in facilities so that when you use these huge carriers you save more than it costs us to build a port, the Government's revenue will be enormously enhanced.

We would create thousands and thousands of jobs. We would be receiving the income tax that those people earn, the companies would be making money, and we would get taxes from them.

It's one of those situations in which everybody wins. I just don't understand this attitude that says, "Let's don't do anything, because we have a deficit." That is the time I think you will be creative if you start doing more.

We will have a very serious trade deficit this year. The value of the dollar is strong; our interest rates are way too high. That is creating a situation in which our exports are very high priced in international competition. The imports are very cheap.

It will make our trade deficit worse. That is precisely the time you have to get aggressive and get out there and fight for markets. We are capable of doing that. We are still the most productive country in the world by far, far more productive than Japan.

Let's use that productivity.

Senator HAWKINS. Thank you. I am on your side, and we will call you up for help in selling this concept to—we talk about supplysiders, we also have some very shortsiders in this particular session.

Representative RICHMOND. Do you mean that if we were to build a deepwater coal port, we could pay that back in 5 years?

Ambassador BROCK. I don't know the cost and the utilization figures, but I do know that in looking at some of the other cost analyses that were made, for example, do you remember the debate we had on the reduction of taxes on Americans working overseas?

Representative RICHMOND. Yes.

Ambassador BROCK. The figures produced by our own Treasury Department, which had expressed some concern with reducing the rate of tax, said for every dollar of revenue we got by taxing these Americans, we lost $6 by not doing business. That was one little example.

I think you can make the same case for the taxation of American corporations, the way we are pushing that in terms of the export taxes we have. I think if you look at these facilities, they are not cheap.

Virginia just authorized $250 million, if I remember, or something like that, for a new facility down at Portsmouth. The State of Virginia doesn't have all of the money in the world. They made a conscious decision that that money would come back to them in a reasonable period of time, and they don't as far as I know, they don't even have a user fee.

If you put a user fee on there, it would pay out that much faster.

Again, I think from the people I have talked to in the business community, they would be prepared to share the cost, so the payoff can be reduced to a manageable number; 3 years, 5 years, or 7 years.

It is in our national interest to sell more goods and create more jobs, as long as it's not 50 years. I think you can clearly demonstrate that it is a reasonable period of time.

Representative RICHMOND. When Senator Hawkins and I were in Japan, the one thing that became apparent is that we Americans have to start organizing trading companies, very much in the Japanese mode.

Mitsubishi will do $672 million in volume. Why under the export trading law we can't have groups of American corporations that are not competitive organizing trading companies with offices in the world's capitals is beyond me.

It's something that should have happened years ago. It's easily financeable, the management is available. I can visualize General Electric and United States Steel and duPont and half a dozen other noncompetitive companies organizing a trading block. And then you have Westinghouse and Bethlehem Steel, and another group.

I can see where this Nation, if Japan can function with six trading companies, we certainly need a dozen. Where we have the expertise, the knowledgeability of each market, it wouldn't be that costly.

I think under the new law we will be able to do it, right?

Ambassador BROCK. Yes. And it will make a difference. When you look at the fact that less than 1 percent of our companies are engaged in any international business at all——

Representative RICHMOND. And know nothing about them.

Ambassador BROCK. That's right. And then you look at those that are midrange, 50 million, 100 million, not small in international competition. But you look at the fact that they really don't have the experience, the background to get into the field, but they would like to.

They have a competitive product. One of the things we constantly need to remind ourselves of is America produces a better quality product at a lower price than any other country in the world, across the board.

Granted, there are some industries where there are others more competitive. That is why we need trade for, we buy their product when they are doing better. On most products we produce a better value than any other country in the world.

Our consumers have a better buy than any other consumers in the world. We can sell them, but we have to give our companies a chance to be competitive.

Senator HAWKINS. Several years ago, Mr. Ambassador, the United States filed a complaint on the behalf of the U.S. citrus region. You have to forgive me for being parochial, coming from Florida, but it is a prime concern.

The complaint concerned the preferential tariff treatment, and Japan was giving it to other countries. It wasn't settled during the multitlateral trade negotiation. The EEC has vaguely cited a variety of political reasons, previous colonial attachments.

The United States has argued in the past that it can competitively market citrus in the East if it were not for this difference in tariffs. Are there any efforts underway under your administration to improve the U.S. ability to market citrus and EEC?

Ambassador BROCK. Yes. Our goal, frankly, is to eliminate all of these preferences and go to the zero tariff, and that way, everybody wins.

The consumers in Europe, our people can compete on an equitable basis, and we have then a hallmark of operation. The difficulty is in all honesty compounded by the accession of Spain to EEC.

That prospect has kept things unstable and made it far more difficult to reach a resolution to the problem. We continue to press on the matter.

We have had any number of meetings on this subject and I don't know, it's difficult for me to be particularly sanguine about the prospects, because it is a complicated factor.

But it is something that we are pushing very hard because it is something that should not exist.

Senator HAWKINS. My colleagues would like to have on this record the kind of cooperation that takes place between private businesses and the U.S. Government with respect to agriculture and promotion abroad, are you aware?

Ambassador BROCK. Quite a bit. The U.S. Department of Agriculture is obviously very supportive and has a number of programs of agricultural promotion. The Department of Commerce has been supportive. We do not get involved in my office in promotion per se. My job is more in the way of trying to remove trade barriers. I clearly consider myself a salesman for the Nation's product. And I intend to try to promote it and sell it wherever I go.

Senator HAWKINS. Is it possible to find out what prices are charged and what profits are made by the various companies that are involved in large international transactions?

Ambassador BROCK. I would imagine that it is possible. Some of them are public. Some are not public. And it would be more difficult there.

Senator HAWKINS. Do you know how it would compare to what the farmer made out of the difference?

Ambassador BROCK. No, I don't know. But I will make an asumption, that the companies do pretty well generally. Our farmers are having a fairly rough time right now because of the state of most farm prices. I hope that circumstances will change.

Senator HAWKINS. Our concern as we face the farm bill, of course, this particular week and really read the stories daily about subsidy to the farmer who I think has gotten a bad rap since he is such a great producer and since it is your greatest tool in these trade negotiations is to get a broader understanding if not with the man on the street, certainly with our colleagues here as to the role of agriculture products in the international economy.

I think one thing I felt on the trip was that we were not tailing you in any way, we were not the truth squad coming behind you. We appreciated the good press you created everywhere you went. One of the things I felt that we concentrated too much on in America was the size of the company instead of the size of the market. And as you travel and expand, you see so much cooperation between business and Government. In some countries I saw no difference at all, when it was business and vice versa.

Ambassador BROCK. I don't think that I would really want to see our country become a corporate state as some other countries are. But I do think that there is no excuse for Government not being more supportive of American business people, American workers and the sale of American products. I think you have to be far more aggressive. One of the nice things that has happened in this administration was a cable the Secretary of State Al Haig sent to all of the embassies directing them to be responsive and particularly helpful to American business interests around the world, in helping to identify markets and to search out ways in which we could go sell more American goods and create more American goods.

I do think that things are getting better but I think we have a long way to go. The Foreign Commercial Service created by the Congress when it was taken out of State and put into the Commerce Department, is a new instrument. It is going to take some time for them to get the kind of people that they want, to establish those kinds of programs. But that is a positive step. It says that the Government is more aggressively seeking to be more supportive and the embassies I have visited are making an honest-to-goodness effort to be supportive, not only the ambassadors but the economic ministers and the rest.

It does take a two-way street, again. I think American business people have not called on the Government often enough and they don't provide us with enough information. They just assume that the Government is not available for help when in fact we are and we would like very much to have the opportunity to be supportive.

So we would welcome more requests from the business community.

Senator HAWKINS. I would like to enter into the record that I have heard from several ambassadors stating that they made contact with certain business interests in the community. That they knew that I was interested in this and that they had been able to soften it, maybe the climate there, for you prior to coming and also for the commodity that we are interested in. I think it was in direct response to the communication they received, giving them some direction in this effort. The Office of the Special Treasurer is due to hold hearings on the possible extension of the generalized system of preferences for numerous agricultural commodities produced in certain Caribbean countries. This possible expansion of the preferred trade status included Mexico, as an effort to increase trade with the Caribbean and foster better relations with those countries.

It has become known as the Caribbean basin plan. U.S. officials maintain this will not injure fruit and vegetable producers particularly in Florida; there are some concerns about the producers differing with USDA. Do you have any views on that?

Ambassador BROCK. Yes. We in our office have to look at the applications for GSP consideration. We have done so. We are holding public hearings this week as a matter of fact on those applications. The final decision will not be made, obviously, until the end of March next year when we submit the new lists of GSP applicants to the President for his consideration.

But I think I share basically the view of the USDA. We have added a number of items for consideration and we will very carefully consider those items. We have asked the NTC to undertake some studies for us to see, to be sure that there will not be injury of domestic industry in the granting of that kind of preference.

But it is true that unless we buy the product from other countries, they can't buy ours. It is something that is mutually beneficial. And when you take those countries that are pretty good countries down in the Caribbean, they want to do business, they want to grow economically, they want to be in the market for our product, and I think we ought to try to be particularly forthcoming with them and be as helpful as we can.

I find it very difficult to believe that anyone of those countries as small as they are can export enough products to create serious problems for us. We will be very sensitive, we will be very careful in the recommendations we make to the President. We do not need a new problem. But we also need to try to consciously be as forthcoming as we can to countries such as those, countries such as those I visited in Asia, because basically they are countries reaching for freedom, reaching for market economies; they believe in the same values that we share and I think we ought to be helping them.

If I may make a political pitch, Senator Hawkins, one of the things I think we fail to do in this country is to talk about how much we are already doing for the developing nations of the world. Do you know we take 50 percent of all that they manufacture for export from all of the Third World put together in this one country; the dollars they earn and that is a good word, earn, by selling us their product are twice the dollars that they receive in sum total in foreign aid from all of the countries in the world put together?

Who is doing the most for the developing countries of the world? There is no question about it. I get a little bit weary of these people who constantly put us down about the percentage of our GNP that we devote to foreign aid when we open up our markets, and the other people say we will give you $1 million and we close our door. That is hypocrisy. I would like to say, if you want to help the developing countries, open up your markets like we are doing.

Senator HAWKINS. We appreciate that statement.

Representative RICHMOND. All of these things are so underpublicized.

Senator HAWKINS. I heard Senator Brock state it a lot at Republican National Committee meetings and places you were not attending. [Laughter.]

But we are going to make sure that in this format that statements like that are circulated widely. I understand that the proceedings of this august body are printed up and mailed out to people, that may or may not want to read about it. That is why it is so important to me and I think to America that the role of agriculture be explained precisely. I found no nation that we visited that didn't want to talk about food whether it—we always find plenty—is a tool of peace and prosperity, two of the things we do the best. And as I viewed the nations' turmoil, internationally today, a lot of it revolves around hungry people. Yet here we have a commodity that we produce so well, so efficiently in America, that we feel that you are our Ambassador and you can use that as a tool for prosperity for our farmers and prosperity for this country as well as a tool for peace.

I am sure we have the right man in the right job, with you sitting where you are today. I feel very comfortable with you there and very proud that you have accepted this great responsibility and are doing so well in your role. Congressman Richmond, do you have anything?

Representative RICHMOND. I agree with Senator Hawkins, I am proud, too. Mr. Ambassador, as you know, in the trade relationship that Japan has with Australia, Australia will only accept 50 cents for manufactured goods for every dollar they ship out in commodities. How do the Japanese feel about that? Wouldn't it occur to the Japanese that maybe they should work closely with their equal trading partners like the United States rather than Canada and Australia who are so protectionist?

Ambassador BROCK. That is what I suggested to them. I think they are beginning to get the message. I think the prospect that we can work more closely together—what you said earlier is the bottom line, it is a two-way street. And only by mutually beneficial reciprocal relationships are we going to make progress. We have to keep beating on the door until we get it cracked open.

Representative RICHMOND. Thank you very much.

Senator HAWKINS. Thank you for coming and sharing this with us. We appreciate it more than we can tell you and we will see that our colleagues get copies of this report.

Ambassador BROCK. Thank you very much.

[A brief recess was taken.]

Senator HAWKINS. Mr. Hormats, we would like to thank you for being here today and agricultural trade is on my list of priorities of the Senate, they are vital to improve agricultural income. The United States maintains 47 percent of the world wheat market as well as 75 percent of the world corn market.

Those are two examples of American agricultural stature in the international scene. If the administration is going to be able to carry out its free market agricultural policies we must be able to coordinate our decisionmaking in a more efficient manner.

Our domestic market must be consistent with our export policies in realities of trade in world markets. I am personally looking forward to our discussion today and I am sure it will be enlightening to everyone.

STATEMENT OF HON. ROBERT D. HORMATS, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Mr. HORMATS. First of all it is a personal pleasure for me to be here again with you, Senator Hawkins and Congressman Richmond. A couple of weeks ago we spent a few days together in Japan looking at productivity and how productive the Japanese are. It strikes me that it is appropriate to mention productivity because the agricultural sector has done remarkable things in improving productivity over the last decade or two. If one looks at all major sectors of the American economy, which has realized the most improvements in productivity? I am looking at the statistics that give the answer. Overall productivity is up about 6 percent, but farming productivity has gone up substantially more than that. And output per man-hour has gone up quite dramatically, much more than in the nonfarm business sector. It is a sector that has demonstrated extraordinary abilities to improve productivity, which is why it is such a strength in the economy today.

I will try to go to some of the high points of my prepared statement without reading the whole thing.

Let me say at the outset, I strongly believe that U.S. agricultural exports represent a powerful contribution to U.S. international relations and a major source of strength to the U.S. economy. When you said they were a tool of peace and prosperity, you put it very well, because that is the case.

I believe it is also important for that reason that the U.S. Government continue to make a major effort to improve export opportunities for U.S. agricultural products and stimulate international cooperation in the food area. These should be major priorities and, indeed, are major priorities of this administration. Let me discuss briefly international trade policy and I will mention a few points.

A major goal in this administration is a trading system which provides enhanced export opportunities for U.S. agriculture. This encompasses multilateral efforts designed to preserve and improve a liberal world trading system, bilateral efforts to protect our current market access and to open up new markets and an active trade promotion program under the primary responsibility of the Department of Agriculture in coordination with U.S. producers and processors of agricultural commodities.

Multilaterally the MTN made some progress on agricultural trade issues, winning concessions affecting about $4 billion in U.S. agricultural exports. Our future multilateral efforts will focus on the GATT, where we are prepared to pursue vigorously challenges to actions of others which impair our export opportunities. The new subsidies code can be a help in preserving both our traditional markets and our ability to create new markets for our agriculture.

Bilaterally, we will press for improved access for our products and defend our world market shares. A primary concern will be the evolution of the EC's practice of subsidizing grain and flour exports, which enables the EC to undersell U.S. suppliers in third country markets. We are concerned about recent reports that the EC is considering an aggressive export policy involving a sustained effort to push subsidized agricultural products on world markets. Such a policy would meet with strong opposition from the United States and other nations as well; it would constitute unfair competition and we would seek prompt redress.

In addition we are also committed to defending our access to the EC, a major market for U.S. agricultural exports including feed grains, feed grain substitutes and soybeans. Any restrictions on our access or impairment of our negotiated rights would be viewed with extreme seriousness in this country.

In the MTN, we obtained concessions on about 100 agricultural products from Japan which improved our access for beef products and citrus. Japan is an excellent market for many U.S. agricultural products, but some still face restrictions. We expect Japan to be as open to our products as we are to Japanese products. This is not now the case. Both our exporters and Japan's consumers would benefit substantially by a prompt change of the Japanese Government toward a more open agricultural market. We had an opportunity to look at various fruit and vegetable stands and if I were a Japanese consumer I would be aghast to know what the world prices of these items were, knowing what I had to pay as a consumer buying on the street, because the gap in oranges, grapefruits, melons, meat, you name it, is enormous. The Japanese consumer may not realize what the rest of the world is paying for these products when he or she goes to the store.

Our efforts with Japan on the Medfly situation have been much in the news and illustrate the larger problem of attempting to insure that other countries' sanitary inspection measures are based on justified necessities.

Specific promotion programs are also an important part of efforts to increase agricultural exports. It is the policy of the Department of State to provide full support for the promotion of U.S. agricultural exports. This is a major objective of our embassies overseas as well as of Department officials in Washington. Secretary Haig personally instructed our ambassadors in the early weeks of the administration to emphasize the promotion of U.S. agricultural exports.

Commodity Credit Corporation credit guarantees, which have replaced direct credit for the purchase of agricultural products, have received broad acceptance and will become even more useful and sought after as interest rates decline. In 1980 our agricultural sales to Poland, Korea, Brazil, Peru, Morocco, and a dozen other countries were assisted by CCC credit guarantees.

Food aid extended through Public Law 480 has proven to be a long-term marketing tool as well as means of meeting needs of developing countries. Korea graduated from the Public Law 480 program but has become a large commercial customer for products formerly provided on credit. It is a prime example of the way Public Law 480 can work in the interest of both the United States and the importing country.

One of the most successful agricultural export promotion efforts is the market development cooperator program, which joins over 50 nonprofit agricultural commodity associations with USDA's Foreign Agricultural Service in market development activities around the world. The cooperator program is partially funded by USDA and partially by the members of the cooperator organizations. Nearly all U.S. farmers contribute either directly or indirectly to the program.

Our export promotion programs depend upon the assistance of our Embassies overseas, which also contribute information on agricultural export opportunities and explain the benefits of U.S. agricultural products to host government officials.

Let me now turn briefly to the role of the United States, in cooperation with other nations, in improving world food security. The United States has a strong economic, political, and humanitarian interest in world food security—the assurance of regular and adequate food supplies for the world's population. Not only is the presence of hunger an abomination to us as Americans, but food supplies are a sensitive and critical factor in economic and political stability.

Three elements of the effort of the United States to improve food security are: Food aid, grain reserves, and assistance to increase developing country food production.

The United States is the largest donor of food aid in the world, providing about 6 million tons of food aid per year under Public Law 480. Over the 27 years of its existence Public Law 480 has contributed to a stable food supply in many countries and has been an invaluable mechanism for meeting food emergencies. Most of our food aid is extended through bilateral loans and grants.

The United States is also the largest contributor to the U.N. World Food Program and the International Emergency Food Reserve. Under the Food Aid Convention of 1980 the United States is pledged to provide minimum food aid of 4.47 million tons annually to developing countries. Eighteen other industrialized countries, and Argentina, have also pledged minimum food aid levels exceeding 3 million tons in total.

The second element of the world food security is adequate national and global stocks to meet inherent year-to-year fluctuations in grain production. The United States is the only nation with a conscious policy of holding carryover grain reserves in order to meet international and domestic needs.

For many years the international community has pursued the search for an international grain reserve system as a possible solution to the problem of food production fluctuations. The present International Wheat Agreement, which consists of the Wheat Trade Convention and the Food Aid Convention, does not contain any wheat price or stocking provisions, and is largely a consultative mechanism. Formal negotiations on a new Wheat Trade Convention along the lines of a classic commodity agreement were held under UNCTAD auspices in 1978–79 but failed because its provisions for centrally managed reserves were too rigid for the realities of the wheat market. The more recent proposal of the International Wheat Council for a system of internationally coordinated, nationally held reserves did not appear to us preferable to a system of national reserves which, like our own, respond to market signals. We would like to see the search for an acceptable alternative approach to grain reserves continue in the International Wheat Council.

We have urged other nations to build grain reserves without waiting for a formal arrangement under a new wheat trade convention. Unfortunately, with a few exceptions like India, which holds large national grain reserves, other governments have responded that they are willing to undertake the cost and burden of holding reserves only as members of an international system. Thus, at the moment the international community is at an impasse. The need for adequate world grain reserves and the desirability of bringing other nations to share the burden of reserve holding remain as important as ever, but the means for achieving these ends continue to elude us. I believe we should remain open to alternative approaches which address the problems of adequate grain reserves and appropriate burden sharing, while avoiding the failures of past attempts.

The third and most important element of food security is increased food production in developing countries. We encourage this by participating in agricultural development assistance and recommending the adoption of appropriate policies by developing country governments themselves.

I will say that many developing countries simply do not give adequate attention to food production. Many attempt to suppress the price that is paid to the farmers for food production in the interest of subsidizing urban dwellers at the expense of rural producers. This has in many cases led to large food deficits. A few of the developing countries are now beginning to correct this by providing proper incentives to agricultural producers but it will take a long time for this transition to work.

Last, you asked that I comment briefly on the Caribbean Basin issue. I would like to make the point that a lot of consultations have taken place, and the major one was just begun by Secretary Haig and the ministers of Venezuela and Mexico who share concern about the economic instability of the Caribbean nations. Ambassador Brock is dealing with many of the issues in cooperation with the Department of State. Many of the details are yet to be worked out. Our genuine hope is that this area of the world which is so important to us economically and perhaps even more important, politically, can benefit from close collaboration between the U.S. Government and the U.S. private sector. A number of very senior officials in the business community and agricultural community are working in Jamaica and in the region more broadly and our hope is that over some period of time we will come up with a solution, not a Marshall plan for the Caribbean, but a plan based on consensus of the parties in the region, including Mexico and Venezuela, who also along with Canada and the United States should make contributions to the well-being of the nations. Thank you.

[The prepared statement of Mr. Hormats follows:]

Prepared Statement of Hon. Robert D. Hormats

MADAME CHAIRMAN: IT IS A PLEASURE FOR ME TO APPEAR BEFORE THIS COMMITTEE TODAY TO DISCUSS THE ROLE OF AGRICULTURE IN U.S. FOREIGN ECONOMIC POLICY. LET ME STATE AT THE OUTSET THAT I STRONGLY BELIEVE THAT US AGRICULTURAL EXPORTS REPRESENT A POWERFUL POSITIVE CONTRIBUTION TO US INTERNATIONAL RELATIONS AND A MAJOR SOURCE OF STRENGTH TO THE US ECONOMY. IMPROVING EXPORT OPPORTUNITIES FOR US AGRICULTURAL PRODUCTS AND STIMULATING INTERNATIONAL COOPERATION IN THE FOOD AREA ARE MAJOR PRIORITIES IN OUR FOREIGN ECONOMIC POLICY.

IT HARDLY NEEDS EMPHASIZING THAT THE AGRICULTURAL SECTOR IS OF VITAL IMPORTANCE TO THE US ECONOMY. FARM PRODUCTS DIRECTLY AND INDIRECTLY ACCOUNT FOR ABOUT 20% OF OUR GNP, AND ABOUT 23 MILLION JOBS. AGRICULTURAL EXPORTS ACCOUNT FOR 20 PERCENT OF ALL AMERICAN EXPORTS, AND ARE EXPECTED TO BRING IN $45 BILLION THIS YEAR. ONE OF EVERY THREE ACRES OF HARVESTED US CROPLAND NOW PRODUCES FOR THE EXPORT MARKET. THESE AGRICULTURAL EXPORTS NOT ONLY IMPROVE OUR BALANCE OF PAYMENTS, THEY ALSO BOOST THE DOMESTIC ECONOMY. FOR EVERY $1 BILLION IN AGRICULTURAL EXPORTS ABOUT 35,000 DOMESTIC JOBS ARE CREATED.

THE US IS THE WORLD'S NUMBER ONE FOOD POWER. WE ACCOUNT FOR ABOUT 55% OF WORLD GRAIN AND SOYBEAN EXPORTS, AND ARE AN IMPORTANT FACTOR IN THE WORLD MARKET IN MEAT, POULTRY, AND FRUITS AND VEGETABLES. THE US COMMODITY MARKETS SET THE WORLD PRICES OF MANY AGRICULTURAL PRODUCTS IN INTERNATIONAL TRADE.

THE US IS ALSO A SIZEABLE IMPORTER OF FOOD PRODUCTS FROM AROUND THE WORLD--TOTALLING AN ESTIMATED 17 BILLION IN 1981. ABOUT ONE-THIRD OF OUR IMPORTS REPRESENT COMMODITIES WHICH ARE NOT PRODUCED AT ALL IN THE US, SUCH AS THE COFFEE, TEA, BANANAS, AND COCOA IMPORTED FROM DEVELOPING COUNTRIES. OUR ENORMOUS ROLE IN WORLD AGRICULTURAL TRADE, BOTH AS AN EXPORTER AND AN IMPORTER, BRINGS AGRICULTURAL QUESTIONS TO THE CENTER OF OUR RELATIONS WITH MANY OTHER COUNTRIES.

IN KEEPING WITH OUR POSITION AS THE WORLD'S LEADING AGRICULTURAL NATION, THE US TAKES AN ACTIVE ROLE IN THE EFFORTS OF THE INTERNATIONAL COMMUNITY TO ADDRESS GLOBAL FOOD ISSUES. WE PARTICIPATE IN MANY INTERNATIONAL ORGANIZATIONS DEALING WITH THESE ISSUES, INCLUDING THE UN'S FOOD AND AGRICULTURE ORGANIZATION, THE WORLD FOOD PROGRAM, THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT, AND THE INTERNATIONAL WHEAT COUNCIL. THE US CAN BE PROUD OF ITS RECORD OF LEADERSHIP ON INTERNATIONAL FOOD SECURITY, AND PARTICULARLY OF THE MAJOR CONTRIBUTIONS OF FOOD AND ASSISTANCE WE HAVE MADE TO ALLEVIATE WORLD HUNGER AND ENCOURAGE AGRICULTURAL PRODUCTION IN FOOD-DEFICIT COUNTRIES.

AGRICULTURAL TRADE POLICY

A MAJOR GOAL OF THIS ADMINISTRATION IS A TRADING SYSTEM WHICH PROVIDES ENHANCED EXPORT OPPORTUNITIES FOR U.S. AGRICULTURE. THIS ENCOMPASSES MULTILATERAL EFFORTS DESIGNED TO PRESERVE AND IMPROVE A LIBERAL WORLD TRADING SYSTEM; BILATERAL EFFORTS TO PROTECT OUR CURRENT MARKET ACCESS AND TO OPEN UP NEW MARKETS; AND AN ACTIVE TRADE PROMOTION PROGRAM, UNDER THE PRIMARY RESPONSIBILITY OF THE DEPARTMENT OF AGRICULTURE, IN COORDINATION WITH U.S. PRODUCERS AND PROCESSORS OF AGRICULTURAL COMMODITIES.

MULTILATERALLY, THE MTN (MULTILATERAL TRADE NEGOTIATIONS) MADE SOME PROGRESS ON AGRICULTURAL TRADE ISSUES, WINNING CONCESSIONS AFFECTING ABOUT $4 BILLION IN US AGRICULTURAL EXPORTS. OUR FUTURE MULTILATERAL EFFORTS WILL FOCUS PRIMARILY ON THE GATT, WHERE WE WILL BE PREPARED TO PURSUE VIGOROUSLY CHALLENGES TO ACTIONS OF OTHERS WHICH IMPAIR OUR EXPORT OPPORTUNITIES. THE NEW SUBSIDIES CODE CAN BE A HELP IN PRESERVING BOTH OUR TRADITIONAL MARKETS AND OUR ABILITY TO CREATE NEW MARKETS FOR OUR AGRICULTURE.

BILATERALLY, WE WILL PRESS FOR IMPROVED ACCESS FOR OUR PRODUCTS AND DEFEND OUR WORLD MARKET SHARES. A PRIMARY CONCERN WILL BE THE EVOLUTION OF THE EC'S PRACTICE OF SUBSIDIZING GRAIN AND FLOUR EXPORTS, WHICH ENABLES THE EC TO UNDERSELL US SUPPLIERS IN THIRD COUNTRY MARKETS. WE ARE CONCERNED ABOUT RECENT REPORTS THAT THE EC IS CONSIDERING AN AGGRESSIVE EXPORT POLICY, INVOLVING A SUSTAINED EFFORT TO PUSH SUBSIDIZED AGRICULTURAL PRODUCTS ON WORLD MARKETS. SUCH A POLICY WOULD MEET WITH A STRONG OPPOSITION FROM THE US AND OTHER NATIONS.

IT WOULD CONSTITUTE UNFAIR COMPETITION AND WE WOULD USE APPROPRIATE INTERNATIONAL FORA TO SEEK PROMPT REDRESS. IN ADDITION, WE ARE ALSO COMMITTED TO DEFENDING OUR ACCESS TO THE EC, A MAJOR MARKET FOR U.S. AGRICULTURAL EXPORTS, INCLUDING FEEDGRAINS, FEEDGRAIN SUBSTITUTES AND SOYBEANS. ANY RESTRICTIONS ON OUR ACCESS OR IMPAIRMENT OF OUR NEGOTIATED RIGHTS WOULD BE VIEWED WITH EXTREME SERIOUSNESS IN THIS COUNTRY.

IN THE MTN, WE OBTAINED CONCESSIONS ON ABOUT 100 AGRICULTURAL ITEMS FROM JAPAN, WHICH IMPROVED OUR ACCESS FOR PRODUCTS SUCH AS BEEF AND CITRUS. JAPAN IS AN EXCELLENT MARKET FOR MANY US AGRICULTURAL PRODUCTS. BUT SOME STILL FACE RESTRICTIONS. WE EXPECT JAPAN TO BE AS OPEN TO OUR PRODUCTS AS WE ARE WITH JAPANESE PRODUCTS. THIS IS NOT NOW THE CASE. BOTH OUR EXPORTERS AND JAPAN'S CONSUMERS WOULD BENEFIT FROM A PROMPT CHANGE TOWARD A MORE OPEN AGRICULTURAL MARKET.

OUR EFFORTS WITH JAPAN ON THE MEDFLY SITUATION HAVE BEEN MUCH IN THE NEWS AND ILLUSTRATE THE LARGER PROBLEM OF ATTEMPTING TO ENSURE THAT OTHER COUNTRIES' SANITARY AND INSPECTION MEASURES ARE BASED ON JUSTIFIED NECESSITIES.

SPECIFIC PROMOTION PROGRAMS ARE ALSO AN IMPORTANT PART OF EFFORTS TO INCREASE AGRICULTURAL EXPORTS. LET ME BEGIN BY EMPHASIZING THAT IT IS THE POLICY OF THE DEPARTMENT OF STATE TO PROVIDE FULL SUPPORT FOR THE PROMOTION U.S. AGRICULTURAL EXPORTS. THIS IS A MAJOR OBJECTIVE OF OUR EMBASSIES OVERSEAS AS WELL AS OF DEPARTMENT OFFICIALS HERE IN WASHINGTON. SECRETARY HAIG PERSONALLY INSTRUCTED OUR

AMBASSADORS, IN THE EARLY WEEKS OF THE ADMINISTRATION, TO EMPHASIZE THE PROMOTION OF US AGRICULTURAL EXPORTS.

COMMODITY CREDIT CORPORATION CREDIT GUARANTEES, WHICH HAVE REPLACED DIRECT CREDITS FOR THE PURCHASE OF AGRICULTURAL PRODUCTS, HAVE RECEIVED BROAD ACCEPTANCE AND WILL BECOME EVER MORE USEFUL AND SOUGHT-AFTER AS INTEREST RATES DECLINE. IN 1980, OUR AGRICULTURAL SALES TO POLAND, KOREA, BRAZIL, PERU, MOROCCO AND A DOZEN OTHER COUNTRIES WERE ASSISTED BY CCC CREDIT GUARANTEES.

FOOD AID EXTENDED THROUGH PL 480 HAS PROVEN TO BE A LONG-TERM MARKET DEVELOPMENT TOOL AS WELL AS A MEANS OF MEETING IMMEDIATE NEEDS OF DEVELOPING COUNTRIES. KOREA "GRADUATED" FROM THE PL 480 PROGRAM, BUT HAS BECOME A LARGE COMMERCIAL CUSTOMER FOR PRODUCTS FORMERLY PROVIDED ON CREDIT. IT IS A PRIME EXAMPLE OF THE WAY PL 480 CAN WORK IN THE INTEREST OF THE US AND THE IMPORTING COUNTRY.

ONE OF THE MOST SUCCESSFUL AGRICULTURAL EXPORT PROMOTION EFFORTS IS THE MARKET DEVELOPMENT COOPERATOR PROGRAM, WHICH JOINS OVER 50 NON-PROFIT AGRICULTURAL COMMODITY ASSOCIATIONS WITH USDA'S FOREIGN AGRICULTURAL SERVICE IN MARKET DEVELOPMENT ACTIVITIES AROUND THE WORLD. THE COOPERATOR PROGRAM IS PARTIALLY FUNDED BY USDA AND PARTIALLY BY THE MEMBERS OF THE COOPERATOR ORGANIZATIONS. NEARLY ALL US FARMERS CONTRIBUTE EITHER DIRECTLY OR INDIRECTLY TO THE PROGRAM.

A BIG ADVANTAGE OF THE COOPERATOR PROGRAM IS THAT IT PERMITS OUR GOVERNMENT AND PRIVATE INDUSTRY TO POOL THEIR RESOURCES SO THAT EACH GETS MORE MILEAGE OUT OF MARKET

DEVELOPMENT EFFORTS. THE COOPERATOR PROGRAM BENEFITS THE IMPORTING COUNTRY TOO. EXAMPLES INCLUDE THE U.S. WHEAT ASSOCIATES' DEMONSTRATION BAKERY IN CHINA, AND THE US FEED GRAINS COUNCIL'S LAMB FEEDING PROJECTS IN POLAND AND SYRIA, WHICH DEMONSTRATE THE EFFICIENCY OF GRAIN FEEDING OVER FORAGE. THE PROGRAM'S SUCCESS SHOWS WHAT PUBLIC/PRIVATE SECTOR INVOLVEMENT IN EXPORT PROMOTION CAN ACCOMPLISH.

OUR EXPORT PROMOTION PROGRAMS DEPEND UPON THE ASSISTANCE OF OUR EMBASSIES OVERSEAS, WHICH ALSO CONTRIBUTE INFORMATION ON AGRICULTURAL EXPORT OPPORTUNITIES AND EXPLAIN THE BENEFITS OF US AGRICULTURAL PRODUCTS TO HOST GOVERNMENT OFFICIALS.

FOOD SECURITY ISSUES

LET ME NOW TURN MY ATTENTION TO THE ROLE OF THE UNITED STATES, IN COOPERATION WITH OTHER NATIONS, IN IMPROVING WORLD FOOD SECURITY. THE UNITED STATES HAS A STRONG ECONOMIC, POLITICAL AND HUMANITARIAN INTEREST IN WORLD FOOD SECURITY--THE ASSURANCE OF REGULAR AND ADEQUATE FOOD SUPPLIES FOR THE WORLD'S POPULATION. NOT ONLY IS THE PRESENCE OF HUNGER AN ABOMINATION TO US AS AMERICANS, BUT FOOD SUPPLIES ARE A SENSITIVE AND CRITICAL FACTOR IN ECONOMIC AND POLITICAL STABILITY.

THE THREE ELEMENTS OF THE EFFORT OF THE UNITED STATES TO IMPROVE FOOD SECURITY ARE: FOOD AID, GRAIN RESERVES AND ASSISTANCE TO INCREASE LDC FOOD PRODUCTION.

THE UNITED STATES IS THE LARGEST DONOR OF FOOD AID IN THE WORLD, PROVIDING ABOUT 6 MILLION TONS OF FOOD PER YEAR UNDER PL-480. OVER THE 27 YEARS OF ITS EXISTENCE PL-480 HAS CONTRIBUTED TO A STABLE FOOD SUPPLY IN MANY

COUNTRIES AND HAS BEEN AN INVALUABLE MECHANISM FOR MEETING FOOD EMERGENCIES. MOST OF OUR FOOD AID IS EXTENDED THROUGH BILATERAL LOANS AND GRANTS. THE U.S. IS ALSO THE LARGEST CONTRIBUTOR TO THE UN WORLD FOOD PROGRAM AND THE INTERNATIONAL EMERGENCY FOOD RESERVE. UNDER THE FOOD AID CONVENTION OF 1980 THE US IS PLEDGED TO PROVIDE MINIMUM FOOD AID OF 4.47 MILLION TONS ANNUALLY TO DEVELOPING COUNTRIES. EIGHTEEN OTHER INDUSTRIALIZED COUNTRIES, AND ARGENTINA, HAVE ALSO PLEDGED MINIMUM FOOD AID LEVELS EXCEEDING 3 MILLION TONS IN TOTAL.

THE UNITED STATES HAS BEEN THE LEADER AMONG NATIONS IN MEETING THE NEEDS OF THE MALNOURISHED AND THE HUNGRY, AND RESPONDING TO FOOD EMERGENCIES. BUT WE LOOK TO NEW DONORS, SUCH AS OPEC COUNTRIES, TO TAKE UP PART OF THE BURDEN OF FINANCING FOOD AID. THE SUPPORT OF THESE NEW DONORS WILL BE REQUIRED TO ACHIEVE THE INTERNATIONAL COMMUNITY'S 500,000-TON TARGET FOR THE INTERNATIONAL EMERGENCY FOOD RELIEF PROGRAM AND TEN MILLION-TON TARGET FOR THE FOOD AID CONVENTION.

THE SECOND ELEMENT OF WORLD FOOD SECURITY IS ADEQUATE NATIONAL AND GLOBAL STOCKS TO MEET INHERENT YEAR-TO-YEAR FLUCTUATIONS IN GRAIN PRODUCTION. THE U.S. IS THE ONLY NATION WITH A CONSCIOUS POLICY OF HOLDING CARRYOVER GRAIN RESERVES IN ORDER TO MEET INTERNATIONAL AND DOMESTIC NEEDS.

FOR MANY YEARS THE INTERNATIONAL COMMUNITY HAS PURSUED THE SEARCH FOR AN INTERNATIONAL GRAIN RESERVE SYSTEM AS

A POSSIBLE SOLUTION TO THE PROBLEM OF FOOD PRODUCTION FLUCTUATIONS. THE PRESENT INTERNATIONAL WHEAT AGREEMENT, WHICH CONSISTS OF THE WHEAT TRADE CONVENTION AND THE FOOD AID CONVENTION, DOES NOT CONTAIN ANY WHEAT PRICE OR STOCKING PROVISIONS, AND IS LARGELY A CONSULTATIVE MECHANISM. FORMAL NEGOTIATIONS ON A NEW WHEAT TRADE CONVENTION ALONG THE LINES OF A CLASSIC COMMODITY AGREEMENT WERE HELD UNDER UNCTAD AUSPICES IN 1978/79 BUT FAILED BECAUSE ITS PROVISIONS FOR CENTRALLY MANAGED RESERVES WERE TOO RIGID FOR THE REALITIES OF THE WHEAT MARKET. THE MORE RECENT PROPOSAL OF THE INTERNATIONAL WHEAT COUNCIL FOR A SYSTEM OF INTERNATIONALLY-COORDINATED, NATIONALLY-HELD GRAIN RESERVES DID NOT APPEAR TO US PREFERABLE TO A SYSTEM OF NATIONAL RESERVES WHICH, LIKE OUR OWN, RESPOND TO MARKET SIGNALS. WE WOULD LIKE TO SEE THE SEARCH FOR AN ACCEPTABLE ALTERNATIVE APPROACH TO GRAIN RESERVES CONTINUE IN THE INTERNATIONAL WHEAT COUNCIL.

WE HAVE URGED OTHER NATIONS TO BUILD GRAIN RESERVES WITHOUT WAITING FOR A FORMAL ARRANGEMENT UNDER A NEW WHEAT TRADE CONVENTION. UNFORTUNATELY, WITH A FEW EXCEPTIONS LIKE INDIA, WHICH HOLDS LARGE NATIONAL GRAIN RESERVES, OTHER GOVERNMENTS HAVE RESPONDED THAT THEY ARE WILLING TO UNDERTAKE THE COST AND BURDEN OF HOLDING RESERVES ONLY AS MEMBERS OF AN INTERNATIONAL SYSTEM. THUS, AT THE MOMENT THE INTERNATIONAL COMMUNITY IS AT AN IMPASSE. THE NEED FOR ADEQUATE WORLD GRAIN RESERVES AND THE DESIRABILITY OF BRINGING OTHER

NATIONS TO SHARE THE BURDEN OF RESERVE-HOLDING REMAIN AS IMPORTANT AS EVER, BUT THE MEANS FOR ACHIEVING THESE ENDS CONTINUE TO ELUDE US. I BELIEVE WE SHOULD REMAIN OPEN TO ALTERNATIVE APPROACHES WHICH ADDRESS THE PROBLEMS OF ADEQUATE GRAIN RESERVES AND APPROPRIATE BURDEN-SHARING, WHILE AVOIDING THE FAILURES OF PAST ATTEMPTS.

THE THIRD AND MOST IMPORTANT ELEMENT OF FOOD SECURITY IS INCREASED FOOD PRODUCTION IN DEVELOPING COUNTRIES. WE ENCOURAGE THIS BY (1) PARTICIPATING IN AGRICULTURAL DEVELOPMENT ASSISTANCE AND (2) RECOMMENDING THE ADOPTION OF APPROPRIATE POLICIES BY LDC GOVERNMENTS THEMSELVES.

MORE THAN HALF OF OUR BILATERAL DEVELOPMENT ASSISTANCE HAS BEEN DIRECTED TOWARD INCREASING AGRICULTURAL PRODUCTION, FOR EXAMPLE, THROUGH PROJECTS TO SET UP EXTENSION SERVICES, IMPROVE FERTILIZER AND PESTICIDE USAGE, TRAIN AGRICULTURAL SEPCIALISTS AND STRENGTHEN INSTITUTIONS SUCH AS UNIVERSITIES AND RESEARCH CENTERS. OUR ASSISTANCE HAS EMPHASIZED PRODUCTION THROUGH SMALL FARMER, LABOR-INTENSIVE AGRICULTURE.

THE BULK OF U.S. MULTILATERAL ASSISTANCE HAS BEEN EXTENDED THROUGH THE MULTILATERAL DEVELOPMENT BANKS (MDB'S), SUCH AS THE WORLD BANK AND INDIVIDUAL REGIONAL DEVELOPMENT BANKS. AGRICULTURE IS THE LARGEST SINGLE SECTOR IN MDB LENDING PROGRAMS. IN THE WORLD BANK PROGRAM, FOR EXAMPLE, AGRICULTURAL DEVELOPMENT LENDING ACCOUNTS FOR 31% OF TOTAL LENDING. IN THE BANK'S PLANS FOR THE COMING FIVE-YEAR

PERIOD, FUNDING FOR AGRICULTURAL DEVELOPMENT WILL INCREASE BY 10% ANNUALLY.

BUT NO AMOUNT OF EXTERNAL ASSISTANCE TO A DEVELOPING COUNTRY IN THE FORM OF EITHER FOOD AID OR AGRICULTURAL DEVELOPMENT ASSISTANCE CAN SUPPLANT THE IMPORTANCE OF APPROPRIATE AGRICULTRUAL POLICIES WITHIN THAT COUNTRY. IN PARTICULAR, WE ENCOURAGE DEVELOPING NATIONS TO:

1) INCREASE INVESTMENT IN THE AGRICULTURAL SECTOR;
2) PROVIDE PRICE INCENTIVES TO FARMERS;
3) INCREASE ACCESS TO RESOURCES FOR FARMERS;
4) SUPPORT THE ROLE OF THE PRIVATE SECTOR IN FOOD PRODUCTION, DISTRIBUTION AND PROCESSING;
5) COORDINATE ALL NATIONAL POLICIES AND PROGRAMS THAT AFFECT THE FOOD AND AGRICULTURAL SECTOR AND FORMULATE A NATIONAL FOOD STRATEGY;
6) INCREASE FINANCIAL ASSISTANCE TO NATIONAL AGRICULTURAL RESEARCH AND EXTENSION SYSTEMS; AND
7) PAY GREATER ATTENTION TO SOIL AND WATER MANAGEMENT.

WHILE THESE INITIATIVES MUST COME FROM THE DEVELOPING COUNTRIES THEMSELVES, THE UNITED STATES RECOGNIZES THAT LDCS WILL NEED ADDITIONAL HELP IN RATIONALIZING THEIR AGRICULTURAL SECTORS. FOR THIS REASON, THE UNITED STATES WILL GIVE GREATER EMPHASIS TO THE RESOURCES OF THE UNIVERSITY COMMUNITY IN TECHNICAL AID; AND TO THE INVOLVEMENT OF THE AMERICAN PRIVATE SECTOR IN LDC AGRICULTURAL AND INFRASTRUCTURE INVESTMENT.

I HAVE PERSONALLY ENJOYED THE OPPORTUNITY TO WORK WITH THE JOINT AGRICULTURE CONSULTATIVE COMMITTEE, A GROUP OF US AND NIGERIAN COMPANIES WHICH COOPERATE IN SEEKING OPPORTUNITIES FOR INVESTMENT IN AGRIBUSINESS VENTURES IN NIGERIA WHICH WILL CONTRIBUTE TO ECONOMIC DEVELOPMENT. UNDER THE LEADERSHIP OF ORVILLE FREEMAN, THIS GROUP HAS EARNED A REPUTATION AS A MODEL OF PRIVATE SECTOR INVOLVEMENT IN THE DEVELOPMENT PROCESS. ANOTHER PRIVATE SECTOR GROUP IS THE BUSINESS COMMITTEE ON JAMAICA, CHAIRED BY DAVID ROCKEFELLER. IT HAS AN ACTIVE AGRICULTURE SUBCOMMITTEE. THE COMMITTEE PROMOTES PRIVATE INVESTMENT IN JAMAICAN AGRICULTURE AND INDUSTRY.

OFFICIAL DEVELOPMENT ASSISTANCE IS NOT EXCLUDED FROM THE ADMINISTRATION'S EFFORTS TO REDUCE FEDERAL EXPENDITURES AND BALANCE THE BUDGET. WE WILL FACE HARD CHOICES ABOUT THE LEVELS AND FORMS OF AID, AS WELL AS THE PRIORITIES. HOWEVER THESE QUESTIONS ARE RESOLVED, I AM CONVINCED THAT THE WORLD'S FOOD AND AGRICULTURAL PROBLEMS MUST REMAIN HIGH ON OUR LIST OF DEVELOPMENT PRIORITIES.

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YOU HAVE ASKED, MADAME CHAIRMAN, THAT I DISCUSS AGRICULTURAL TRADE IN THE CONTEXT OUR CARIBBEAN BASIN INITIATIVE. AS YOU KNOW, THIS ADMINISTRATION IS ACCORDING ESPECIALLY HIGH PRIORITY TO ONE GROUP OF DEVELOPING COUNTRIES WHICH ARE CLOSE NEIGHBORS OF THE U.S. - THE CARIBBEAN BASIN

COUNTRIES. WE ARE CONSULTING WITH THE GOVERNMENTS IN THIS REGION. SECRETARY HAIG HAS MET WITH THE LEADERS OF CANADA, MEXICO AND VENEZUELA, WHO SHARE OUR CLOSE INTEREST IN ENCOURAGING STABILITY AND ECONOMIC EDEVELOPMENT IN THE CARIBBEAN BASIN. WORKING WITH SECRETARIES BLOCK AND BALDRIDGE AND USTR BROCK, WE ARE HOPING TO DEVELOP AN INTEGRATED PROGRAM OF SUPPORT FOR THESE COUNTRIES WHICH WILL BRING MORE CAPITAL, PRIVATE AND PUBLIC, INTO THE REGION, STIMULATE THEIR TRADE, AND PROVIDE INCREASED STABILITY TO THEIR ALREADY BROAD ACCESS TO THE U.S. MARKET. A NUMBER OF INITIATIVES IN THIS RESPECT ARE UNDER CONSIDERATION. BECAUSE NO FINAL DECISIONS HAVE BEEN MADE, IT WOULD BE PREMATURE TO SPECULATE ON THE IMPLICATIONS FOR OUR AGRICULTURAL TRADE POLICY. THE VIEWS OF THIS COMMITTEE IN THIS RESPECT WOULD BE WELCOME, AND CERTAINLY TAKEN INTO CONSIDERATION.

THANK YOU.

Senator HAWKINS. Thank you, Mr. Hormats. It would take a lot of investment to have countries—can you assure that people and the country will benefit from the plan, and not the international banking and investment firms, who will fund these projects?

Mr. HORMATS. That's certainly our objective, and that is the objective of the overall effort. The area itself suffers from a number of difficult problems.

One, the countries are very small, internally they simply don't have markets adequate to develop substantial production facilities.

Second, many of them—some of them, at least—have very great dependence on one or two industries. In many cases, it is tourism. In Jamaica it is bauxite. But they have a very narrow economic base.

Our hope is that by perhaps improving their access to our market or providing assistance for them to broaden their own trade relations, we can enhance their markets. And the key objective in that area is to get the benefits of development broadly shared among the people of the region, not to concentrate them in one firm, one industry, one banking community.

I can assure you that we are aiming directly at the concern you raised.

Senator HAWKINS. The reason is, the way in which agriculture has been used in foreign relations has been to deny trade to countries whose behavior is not condoned. Why is agriculture used as a punitive measure and not manufactured goods?

Mr. HORMATS. I think I share the view that I hear in your question, that agriculture should not be singled out to bear a special burden. You are right, it has been the case in many instances that agriculture has been used, perhaps not as the only point of leverage, but the most visible, because in a large measure, it is the main component in the U.S. trade with the Soviet Union.

And for that reason, it appears to be the most handy tool when leaders look for ways of taking action to demonstrate their displeasure. Agriculture, it seems, is singled out. It's unfortunate because it has borne a large share of the burden, particularly in the response to the Soviet invasion of Afghanistan.

I would say that I think we have learned some lessons from this. And there are two lessons that we have learned. One is that it is untenable politically to single out one sector for especially bad treatment or use as the major vehicle of leverage.

Two, that when you do these things, you have to do them all alike, and unilateral actions simply are inadequate because they are circumvented by the actions of other countries.

It is just plain unfair to one sector for it to be singled out, and it is even more unfair if that sector is not only singled out, but suffers because other countries who do not do as we do go and sell and take advantage of the situation.

So I share your concern about that, and it is my hope, and it would be my expectation, that such a policy will not be repeated. I believe Secretary Haig has made similar statements on occasion very recently, and certainly the President has stressed very strongly his feeling.

Senator HAWKINS. Congressman Richmond.

Representative RICHMOND. Thank you, Senator Hawkins.

Mr. Hormats, I am glad to see you here. I think you are one of the most competent people in this field. I am very anxious to hear a lot of your comments. In your prepared statement, you indicate that the Secretary of State has directed all of our embassies to become more aware of American needs and the fact that the American economy will get a lot better if we have a healthier export-import situation.

Yet, take our Tokyo Embassy and the attitude there is so pro-Japanese trade and so anti-American trade, you would think you were sitting in a Japanese Government agency. We have an embassy where they take great pleasure in the fact that Anaconda ships copper ore to Japan and imports copper ingots back from Japan.

The same Embassy is doing everything it possibly can to get us to ship our Alaskan oil to Japan. They say we will save $5 a barrel by doing that. Nothing of the defense needs, or the needs of the maritime industry, or shipping industry, or the fact that by shipping billions of dollars of Alaskan oil to Japan, we still wouldn't have any labor factor.

We still would be shipping resources. How do you account for our Embassy's attitude in Tokyo?

Mr. Hormats. I must say that in dealing with them, I have always found them to be very strongly supportive of the interests of the business community, and to work very closely, for instance, with our chamber and the American-Japanese Chamber of Commerce.

On the question of the broader trade problems, I think that there is a feeling, there is a tendency when you get into Japan and you sit there, to become somewhat frustrated with the process.

In a way you see the Japanese economy as being inward-looking, to put it very nicely. There are cultural barriers to trade. There are barriers which exist including customs practices.

I think maybe they may suffer from some degree of frustration in trying to crack these. I do know that on the occasions, when I have had the opportunity of working, for instance, on the manufacture of tobacco, one of the recent issues, and lumber, and a number of other issues, they have been very firm and very effective in trying to commit the Japanese to lower their barriers.

Representative Richmond. How do you feel about this whole concept of shipping our Alaskan oil to Japan, saving the $5 a barrel, and buying the oil elsewhere?

Mr. Hormats. I have to, quite frankly, look into it at greater depth than I have had the opportunity to do so far.

There are economic merits to it, but there are also a number of underlying problems which I think will come out when the debate becomes further engaged.

It will benefit American taxpayers to a degree, because it will enable the wellhead price to be higher in Alaska. And it will therefore benefit our trade balance with Japan. On the other hand, I know there are concerns among the maritime unions about whether we use American ships because a lot of this trade comes under the Jones Act.

Representative Richmond. Certainly, they erode our shipping industry, which is in desperate straits, they erode our maritime industry, they erode our defense capability; $5 a barrel is a lot less important, it seems to me, than some of the other factors.

We have a small maritime fleet as it is. If we start shipping that oil to Japan, all of those tankers built for intercoastal trade will be surplussed.

Mr. HORMATS. I am aware of that reservation. That is why I say I have not really had enough time to analyze it and balance it. There are pros and cons. I simply am not on top of it enough to know whether the cons balance off the pros.

Representative RICHMOND. My need is somewhat less esoteric. I don't want to change the deficit in trade to Japan this way, I want to start shipping manufactured goods to them.

Mr. HORMATS. On that objective, we are totally in agreement. If one looks at the Japanese economy, it is very similar in many respects to the German economy. It is a highly developed economy.

Yet the Japanese import a smaller percentage per annum of manufactured goods in their total imports than does the Federal Republic of Germany, which also is resource-short. The Japanese argument is that it can't import a lot of manufactured goods because it is resource-short. Germany has exactly the same problem, and yet, their overall import mix is much more balanced between raw materials and manufactured goods.

Now, admittedly, Germany is part of a more intricate network of trade in the European Community and Europe more broadly. But the German case demonstrates that resource-poor countries can have a substantial component of manufactured goods in their import mix.

Representative RICHMOND. But you know we have a $15 million positive balance with EC and just the reverse with Japan. We must be doing something right over at EC, and wrong with the Japanese.

Mr. HORMATS. What strikes me about the remarkably impressive productivity improvements the Japanese have made is this: Being as competitive as it is, and Lord knows it is very competitive, and getting more so in many, many sectors, Japan should not be so defensive about allowing other goods to compete in its market.

That is the great irony. Look at the access into the American market. I can't think of one product Japan produces today which does not have very substantially free access to the American market.

Representative RICHMOND. Which we ourselves don't manufacture?

Mr. HORMATS. That's right. Yet you look at citrus, lumber, beef, you name it, I mean the whole manufacture of tobacco——

Representative RICHMOND. Leather, lumber.

Mr. HORMATS. There are quite a few of these things——

Representative RICHMOND. They will take our hides, but they won't take our leather. They will take our logs, but they won't take our wood.

Mr. HORMATS. The tragedy is that Japan tends to wait to open up until it is put under enormous pressure.

Representative RICHMOND. They won't take our orange juice or grapefruit juice at all yet.

I think the per capita consumption of American orange and grapefruit juice in Japan is something like a glass this size per annum, if you divide the small amount of juice that they import from us by the 120 million people.

Mr. HORMATS. I think that is right.

Representative RICHMOND. That is the cheapest source of vitamin C that there is, and we have an abundance here, as you know, and they wouldn't take it.

Mr. HORMATS. Japan should certainly be more open in its own interest, in the interest of its own consumers. I will say this, we, ourselves, are going to have to recognize that while pressing Japan to open their markets, we are going to have to do a lot better to make our own products more competitive, locally. And I think that it is going to be important that as we examine our own economy, we take—I know you are at the forefront of the productivity crusade, so I will say it in friendly company, we are going to have to take a hard look at our——

Representative RICHMOND. It is not only productivity, it is design, engineering, R. & D. Our workers are mighty fine factory workers. We must go out and cultivate these markets. That is why this Export Trading Act is so important.

Mr. HORMATS. It brings a lot of smaller companies into the exporting business for the first time.

Representative RICHMOND. You know what the average Japanese company gets on exporting—Mitsui, Mitsubishi tells them what to make and they make them. I think we need precisely the same type of device to get our medium-sized companies which couldn't possibly have their own office in Tokyo and Frankfurt, Germany, what have you.

Mr. HORMATS. Mr. Ikeda, the chairman of Mitsui, has been here and he says they have offices in I can't remember the number of countries, but 60 or 80. They have something like 10,000 to 20,000 communications a day between those offices and Tokyo. You know they are figuring out what the market looks like and taking quick advantage of it, not to sell their products, but getting them from all of these little so-called satellite suppliers. They bring the little business person into the export game in a way that we simply are unable to do.

I think you are right. This bill would really facilitate the access of small companies.

Representative RICHMOND. He told me with great pride that Mitsui's volume is 25 percent of the Japanese Government, and Mitsubishi is more than double than Mitsui—I think they are 140 billion and Mitsui is 67 billion. Can you imagine those numbers? If we had numbers like that in the United States?

Mr. HORMATS. Even one-tenth.

Representative RICHMOND. Our products are excellent and well priced. We just haven't developed these markets.

Mr. HORMATS. I think that is right. With changes in management techniques and work or management relations and a number of things that can be done, we can compete in virtually all areas with the Japanese.

Representative RICHMOND. We need cooperatively owned trading companies that can set up a major bid. When people in Tokyo wanted something they finally agreed to allow us to bid. They give us 30 days to make the bid and the bid must be back in 30 days in Japanese. Our American companies can't do that. They know that, which is why they are doing it. If we had our own trading company in Tokyo, possibly we could meet those requirements. And like on the telephone requirements, they are going to buy $20 billion worth of telephone business next year. I don't know if we will get any business at all.

Mr. HORMATS. We have put an awful lot of emphasis on that. If we don't get business, I think it will be a major problem for the relationship between our two countries. That was the major element of the government procurement agreement between the United States and Japan. If that doesn't work out, I am afraid that whole question is going to be reopened in the public mind.

Representative RICHMOND. I am told by my friends that yes, they are allowing us to bid but they only give you 30 days to send your bid in and it's physically impossible for our companies to do that.

Mr. HORMATS. I will look into it.

[The following information was subsequently supplied for the record:]

Under the terms of the Government Procurement Code, to which both the United States and Japan are signatories, a *minimum* of 30 days is allowed for bidders to respond to a procurement notice. Our experience so far is that many foreign procurements provide for more than 30 days. Furthermore, although 30 days is a short period of time, American firms who are represented in Japan will see the published government procurement notices at exactly the same time as Japanese firms. The Japanese government further assists foreign firms by publishing an English language summary of procurement opportunities to obviate the need to translate entire publications looking for items of business interest. We also do our best at our embassies abroad, in cooperation with the Commerce Department, to see that notices reach American firms here through Commerce publications as rapidly as possible.

The language problem confronts any firm attempting to do business outside of its own country. We cannot expect Japanese procuring agencies to accept bids in English any more than we could require U.S. government agencies to accept procurement bids in Japanese, Finnish, Korean or any other language of Government Procurement Code signatories. Realistically, American firms will need language capabilities, or contract for them, if they wish to successfully compete for foreign government procurements.

Representative RICHMOND. It must be in Japanese, too. But I think this trading company concept is one we can borrow from the Japanese. They have borrowed enough from us, Lord knows. What other countries in the world do you feel bear close scrutiny like Japan where we have such a terrible unfair imbalance of trade? Certainly not the EC?

Mr. HORMATS. I don't think there is any other country where the trade patterns of the economies are so dramatically different, at least any country where the volume is as large as it is with the United States and Japan. We have trade problems all over. We have investment-related trade problems with Canada. The Mexicans, as indicated a little while ago, have license requirements on a lot of American imports in Mexico—license requirements which in my judgment are not compatible with the more open trading relationship that both heads of state want—which leads me to wonder why the Mexicans did it. There are obviously a number of concerns about the policies of the European Community. By and large the European Community is an open market for most things except agriculture. I am not saying it is totally open. We have problems with it. Agriculture there is clearly a difficulty. The agricultural policy dramatically distorts trade. We can get into the community. Our people have been able to invest in the community or export to the community.

We have a rather large surplus—not that you base the fairness of the relationship on surplus—but by and large, we are able to get into that market. We are worried now, quite frankly, that the deteriorating economic situation in some of the European countries could induce greater pressures for protecting their markets. That, of course, we have to respond to very decisively and swiftly. But we are able to get in there. There are some developing countries which have relatively high barriers. Some of them have protection, in some cases to eliminate stress and other cases to simply keep industries going if they are uncompetitive.

We are not perfect either, for that matter. But by and large we have been able——

Representative RICHMOND. We are a lot more perfect than most nations are on free trade.

Mr. HORMATS. I think by and large. You can point to sectors where we have restrictive policies but by and large we are a pretty open market. We are open largely because we have concluded that for our own interests, the interests of our consumers, and the interests we have in international competition, we want an open market. It is good for us. I think the test is going to come when we find other countries who were not opening up as rapidly as they should or who are toying with the idea of restricting their markets. I believe basically the American people want open trade. But the pressures to begin to close them out are going to intensify. We have already seen that.

Representative RICHMOND. How do you find the situation in Latin America? Are we increasing our share of trade in Latin America?

Mr. HORMATS. I honestly don't know the figures. I could find them and get them to you. Despite the difficulties we have in certain segments of the Mexican market, we are doing pretty well. Mexico was one country I was referring to which had not given adequate attention to its rural sector. By and large we have a pretty flourishing trade relationship with Mexico. I don't know what the figures are for the rest of Latin America.

Representative RICHMOND. Is our trade increasing with them, though?

Mr. HORMATS. I assume it is. I just don't know at this point. Some of them have gone through rather difficult economic times. Brazil is tight. They have very large trade deficits. As you know, they were hit very hard by the oil price increase. They have restricted their economy substantially to reduce their trade deficit. By and large we have a pretty good trade relationship with Latin America, but I would have to get the numbers.

[The information referred to follows:]

Although our trade with Latin America has increased in recent years, our share of the market has remained at about 30 percent of total trade.

	Millions
1979:	
United States (30 percent)	$ 52,439
World	172,569
1980:	
United States (30 percent)	67,275
World	219,170

Representative RICHMOND. I suppose the big prospect of trade the area of agriculture will be China and the Soviet Union?

Mr. HORMATS. They buy a lot of cotton, in particular China. They have foreign exchange. They would like to have more. But they pay on a cash basis or with suppliers credits. The Soviet Union, of course, has a very poor harvest and is likely to buy a substantial amount of grain.

Representative RICHMOND. So there are hopes for our grain product market? Will China be buying grain, too?

Mr. HORMATS. Probably so. I am not sure what the figures are. My guess is they will be buying a substantial amount.

Representative RICHMOND. That is the hope for our agricultural sector?

Mr. HORMATS. Mexico, Nigeria—the Middle East. There are a few of these countries which do buy American agricultural products in substantial amounts. Japan, for many products, is a very thriving agricultural market for us—soybeans, as you know. They eat a lot of soybeans.

I think while we tend to focus on Japan in some of the areas where we have problems and rightly so, because those sectors should be open, there are also a lot of areas where Japan is buying a lot from us, such as grain.

Representative RICHMOND. I am against just selling grain, because we don't make much of a margin of profit.

Mr. HORMATS. I raised the price, the value point, with the Japanese, and I must say the reaction I got was at best noncommittal. I think, though, that we should be pushing very hard to sell value-added agricultural products. It makes a lot of sense. It produces jobs and it produces a higher foreign exchange return per unit of production, which is also important.

Representative RICHMOND. It would be much more efficient for the Japanese economy, if we could ever sell it to the Japanese.

Mr. HORMATS. One of the interesting things is that I suspect we will begin to build up a market for processed foods in some of the developing countries which are now becoming more urbanized and whose tastes are escalating.

Representative RICHMOND. Could that be speeded up by our export trading after we have trading companies——

Mr. HORMATS. Yes. If you look at the export trading companies, there are apparel manufacturers who would like them. Apparel manufacturers, who are not really major exporters, are interested in this.

Small food processing companies could benefit quite substantially from the export trading company. They are little companies that process food and distribute food in the United States and they could team up.

One reason we import so much is what I call the J.C. Penny or Montgomery Ward theory of imports. These firms really go out and seek the cheapest sources of supply or rather the least expensive, not the cheapest. Then they market it in massive volumes in the United States. If the Japanese firms were to do the same thing, they would make money and we would benefit.

Representative RICHMOND. Let me interject here that I have been complaining bitterly to the Department of Commerce that J.C. Penny and Sears have been indeed importing enormous amounts of softwares, and they forget to put the country of origin. But your point was broader, your "theory of imports."

Mr. HORMATS. If Japanese firms were to take that approach, the consumer would benefit and we would benefit. They could also help increase imports from other developing countries that way.

If more of the imports would come from developing countries, that would give them more foreign exchange to buy from Japan and from us. It's a perfectly good economic approach that Penny and Sears are using, but our hope is that others get the same degree of reason.

Representative RICHMOND. Thank you. You are a pleasure to listen to.

Senator HAWKINS. Your prepared statement mentioned the Commodity Credit Corporation and that has come up for some attention during the discussion for the farm bill. Is that credit guarantee that you are talking about, the one that extends to 15 countries; does it have much potential liability?

Mr. HORMATS. Yes; you may be thinking of Poland; yes, there is a high liability. And if a country can't pay it back, then it is a liability or potential liability to the American budget, that's right.

Senator HAWKINS. Do you know what the default record has been where credit has been used before?

Mr. HORMATS. I don't know. But I could certainly get that for you.

[The information referred to follows:]

Currently, the Commodity Credit Corporation (CCC) operates an Export Credit Guarantee program (GSM-102) designed to increase commercial exports of U.S. farm commodities by reducing the risk of non-payment to the financing institution. The CCC underwrites both the commercial and non-commercial risks associated with export sales transactions for an assurance fee. The guarantees are extended only after a credit evaluation by CCC analysts. They do not involve budget outlays. US banks provide the financing; the CCC would be liable only in the case of default. CCC has had to make payments, under the GSM-102 and its predecessor GSM-101 programs, only in the case of credits to Poland. These credits have been rescheduled at the present cost of money; assuming timely repayment, the net budgetary effect will be negligible.

Senator HAWKINS. We argued Japan should take more of our agricultural production, and they remind us during the soybean shortage we just cut them off.

How do you counter their claim during these——

Mr. HORMATS. I think that was one of the worst mistakes in trade policy we made over the last 20 years. We have to be seen to be a reliable supplier if we are going to build strong markets over the longer term.

If we start interfering in markets, we will simply strengthen the arguments that countries like Japan and others use. What happened, of course, during that period is that we cut Japan off, and Brazil immediately decided, well, we will go in and produce more soybeans. They have done that. It has built up a rather permanent soybean industry in Brazil.

In negotiations, my judgment is that we simply have to be very frank and say, "Hey, we made a mistake and our policy, the policy of this administration, I believe the policy of every administration since we learned the lesson of the soybean embargo, has been to demonstrate our reliability as a supplier."

Now, obviously, there are occasions when there is an overriding reason for doing something, but I think we ought to limit those occasions to the minimum possible and demonstrate that we are reliable.

We certainly are the most efficient supplier in the world, bar none. I think that we have to demonstrate by our actions, year after year after year, that we are going to be reliable. I believe we are.

Senator HAWKINS. Is Japan a reliable customer?

Mr. HORMATS. For those products that it buys, it is. I think for the bulk products that it buys, soybeans or grains, it is reliable.

Senator HAWKINS. I was interested in reading that they canceled some sugar contracts with Australia, I believe, because they said they were going in the sugar business themselves.

That may or may not be reliable. I read it in the newspaper. However, I was talking to the Australian senators visiting here last week and they said they not only canceled them, they refused to unload the ships of the sugar at their ports upon arrival.

The ships had already left. And I just wondered, do we have safeguards built into our contracts that——

Mr. HORMATS. I don't know whether we do. To my knowledge, it has not fortunately, happened to us in my memory, that they have done something like that. But I am not aware of that case.

They said they did it because they wanted to go into the sugar industry themselves?

Senator HAWKINS. Yes.

Mr. HORMATS. I can only imagine the amount of subsidy required for them to do that.

Senator HAWKINS. They were going to plant the sugar beets. I thought they were going to be in the pots you hang from the balconies in apartments. I saw no place for acreage in our brief stay there, like in the ones that have the land, as does Australia.

That is an article I read and upon inquiry, asked Lisbon and found this was the story before it. I thought forewarned is forearmed. We should look at that. We are voting right now on the farm bill. I think it is rather ironic.

Where does our greatest future export potential lie? In grains?

Mr. HORMATS. I think grains, plus we mentioned earlier the possibility of boosting our exports in processed goods. I tend to think that many of the middle income developing countries are going to be increasingly important markets for our products, and they are going to want a fairly high quality processed product.

I believe the American agricultural community and business community can provide that.

I think some of the middle income countries, the Middle East, Brazil, Mexico, East Asia, where the population is urbanizing very rapidly, represent very good opportunities for processed products, as well as traditional wheat, feed grains, and soy products.

I think the potential for U.S. agriculture in the next couple of decades is enormous. If you look at the studies that have been done, the sort of futuristic studies, the problem of world food shortage is going to intensify. And that will put a special responsibility on the most efficient supplier, which is the United States, and give us special opportunities, in my judgment

So I think we are going to see an expanding world food market, because one, we are efficient; and two, many other countries simply either do not have the capability or in some cases, the will to provide the incentives to get their own production up.

I think in some cases I mention in my testimony, in the very poor countries, we will be doing our best to help them increase food production, for humanitarian reasons and also because they simply don't have the money to buy very much on the world market. So that is a special problem, a special need.

But if you look at the world market more broadly, there are a lot of countries that are rapidly industrializing, and they are going to be big markets. Through our own export promotion efforts, we ought to try to take as large a share as we can of that future.

Senator HAWKINS. We mentioned earlier, and I know we are infringing upon your time, because we just asked you for 1 hour, we now have a strong dollar.

Will this hurt us?

Mr. HORMATS. It will hurt somewhat. I think only marginally, though. It will hurt simply because as the dollar goes up, vis-a-vis a lot of other currencies, it becomes more expensive to buy goods denominated in dollars.

Buyers may choose other goods. But the agricultural goods are valued in the world market in dollars, whether they come from the United States or any other country. So the changing exchange rate shouldn't affect that very much.

Also, of course, you get many situations in which you simply need the food, and even if it costs more, you are going to have to buy it. So I don't look for much of an adverse impact. There will be some.

Other sectors, I suspect, will be hurt much more dramatically by the exchange rate. My own guess is that by the last quarter of 1982, we could, on an annual basis, have something in the area of a 50-plus trade deficit. Not for the whole year, but if you took the last quarter of next year, it would be something over $50 million. But I don't think that will come from agriculture.

Senator HAWKINS. It has been a fascinating hearing. We are going to make sure that our colleagues read this testimony. It has been long neglected as a tool for us in the international markets.

Especially, we look forward to working with you in many more endeavors on this subcommittee.

Thank you for your time.

Mr. HORMATS. Thank you for holding the hearings.

Senator HAWKINS. Thank you. The subcommittee stands adjourned.

[Whereupon, at 4 p.m., the subcommittee adjourned, subject to the call of the Chair.]

[The following information was subsequently supplied for the record:]

RESPONSE OF HON. ROBERT D. HORMATS TO WRITTEN QUESTIONS POSED BY SENATOR ABDNOR

DEPARTMENT OF STATE,
Washington, D.C.

HON. JAMES ABDNOR,
U.S. Senate.

DEAR SENATOR ABDNOR: I regret that we did not have the opportunity to discuss agricultural trade as an element in foreign policy during my testimony before the Joint Economic Committee on September 15. At that meeting I stressed my personal commitment to increasing US agricultural exports and to continued close working relations with the U.S. agricultural community. I have received your written questions.

In response to your first question, I think we have learned that trade sanctions should only be used in extraordinary situations and then in conjunction with other exporting countries. The U.S. agricultural community should not be singled out to bear a disproportionate share of the burden for an embargo, nor should the U.S. economy.

The U.S. currently enforces a total ban on trade with Cuba, North Korea, Kampuchea and Vietnam for foreign policy reasons. Exceptions to this ban are granted only for humanitarian donations of food and medical supplies. In the case of the post-Afghanistan sanctions against the U.S.S.R., export controls were applied to a few sectors, including agriculture, and tightened on many others, but I do not believe that this Administration would follow the example of a selective embargo. I have not seen any likely agreed analysis of the financial impact of the Soviet grain embargo on our agricultural sector, although the impact was clearly negative. I believe that the widespread interest in this issue will lead to in-depth studies by agricultural economists.

On the question of compensation, I understand that the previous Administration decided to offset the price effects of the grain embargo primarily by removing the embargoed grain ton-for-ton from the market, rather than by making direct payments to farmers. In addition, crop loan rates and the terms of entry into the grain reserves were enhanced. The GAO has done a study of these offsetting measures entitled "Lessons to be Learned from Offsetting the Impact of the Soviet Grain Sales Suspension." The GAO Report makes suggestions for improving the effectiveness of offsetting measures in any future suspension. The State Department would not have responsibility for the implementation of offsetting measures, but would certaintly not oppose on foreign policy grounds actions to offset negative farm price and income effects of Administration export controls which are inspired by foreign policy or national security considerations.

In the case of the Soviet Union, grain imports are important to the goal of increased meat consumption and improved diets, but are not directly required to prevent hunger. Even in poor harvest years the USSR produces enough wheat for domestic consumption. I do not believe that other nations regard our responses to Soviet aggression as affecting our reliability as a supplier to countries not engaged in aggression and subversion.

In today's world the inherent importance of agricultural products, the size of US agricultural trade, and the large US share of the world market for major commodities make agricultural trade a key element of our domestic economy relations with many countries. These same factors make agricultural trade policy a basic component in, and inseparable from our oversall trade policy and our foreign policy. As the President's chief foreign policy advisor, the Secretary of State must take into account all relevant policy factors, including international agricultural issues when appropriate.

I am deeply aware of the importance of agricultural trade, both to our domestic economy and to our position in the world. The State Department is closely involved in ongoing efforts to improve access to overseas markets for our agricultural products, and resolve specific disputes with our trading partners and competitors. We are committed to increasing US agricultural exports, and will continue to give priority attention to international agricultural issues.

Sincerely,

ROBERT D. HORMATS,
Assistant Secretary for
Economic and Business Affairs.

APPENDIX

BEFORE THE OFFICE OF THE
UNITED STATES TRADE REPRESENTATIVE

PETITION SEEKING RELIEF UNDER SECTION 301
OF THE TRADE ACT OF 1974, AS AMENDED

FILED ON BEHALF OF THE
FOLLOWING PETITIONERS

National Broiler Council
Poultry and Egg Institute of America
Alabama Poultry and Egg Association
Arkansas Poultry Federation
Delmarva Poultry Industry, Inc.
Florida Poultry Federation
Georgia Poultry Federation
Mississippi Poultry Association
North Carolina Poultry Federation
Texas Poultry Federation and Affiliates
Virginia Poultry Federation

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Counsel for Petitioners

BEFORE THE OFFICE OF THE
UNITED STATES TRADE REPRESENTATIVE

National Broiler Council Poultry And Egg Institute of America Alabama Poultry And Egg Association Arkansas Poultry Federation Delmarva Poultry Industry Inc. Florida Poultry Federation Georgia Poultry Federation Mississippi Poultry Association North Carolina Poultry Federation Texas Poultry Federation And Affiliates Virginia Poultry Federation Petitioners	Petition seeking relief under Section 301 of the Trade Act of 1974, as amended

This petition is filed pursuant to 15 C.F.R. § 2006.0(b) (1980) and Section 301, _et seq._ of the Trade Act of 1974, as amended, 19 U.S.C. § 2411 _et seq._ (Supp. III 1979). Petitioners have been preempted from participation in significant world markets for poultry products and are threatened with future preemption from participation in additional world markets on account of the bestowal of unjustified and unfair export subsidies by the European Economic Community (hereinafter the "E.C.") and on account of other unjustified and unfair export subsidies bestowed upon exporters of poultry meat by the Government of France. As a direct result of these subsidies, producers within the E.C. have gained more than an equitable share of world export trade in whole chickens. In addition, these subsidies have been granted in a manner which results in prices for whole chickens which are materially below prices charged by U.S. producers in various world markets. Moreover, the continued use of these subsidies threatens to seriously prejudice the interests of U.S. producers. The use of these export subsidies violates the rights of the United States under the provisions of the General Agreement on Tariffs and Trade (hereinafter the "General Agreement") and the Agreement on Interpretation and Application of Articles IV, XVI, and XXIII of the General Agreement on Tariffs and Trade (hereinafter the "Subsidies Code"). Moreover, the use of these subsidies is unjustifiable, unreasonable and discriminatory, and the use of such subsidies burdens and restricts U.S. commerce.

THE PETITIONERS

Petitioners are the National Broiler Council, Poultry and Egg Institute of America, Alabama Poultry and Egg Association, Arkansas Poultry Federation, Delmarva Poultry Industry Inc., Florida Poultry Federation, Georgia Poultry Federation, Inc., Mississippi Poultry Association, North Carolina Poultry Federation, Texas Poultry Federation and Affiliates and the Virginia Poultry Federation, Inc. The members of these organizations include all major producers of U.S. poultry exports.

The National Broiler Council is a not-for-profit national trade association headquartered in Washington, D.C. and incorporated as a non-profit association in the Commonwealth of Virginia. Its members produce and process more than 75 percent of this country's young meat chicken (broilers). The Poultry and Egg Institute of America is a national non-profit association headquartered in Arlington, Virginia. The Institute represents those who breed, hatch, process or distribute poultry, eggs, and poultry and egg products, (including chicken and turkey meat). The Alabama Poultry and Egg Association is a non-profit trade organization headquartered in Cullman, Alabama. Association members represent all phases of the poultry industry — broiler integration, commerical egg integration, food manufacturing, turkey producers, independent hatcheries, contract broiler growers and egg producers and allied industry firms. The Arkansas Poultry Federation, headquartered in Little Rock, is a trade association whose members are engaged in all phases of the Arkansas poultry industry. The Delmarva

Poultry Industry Inc. is an organization of broiler and breeder pullet growers, hatching egg producers, hatcherymen, feed manufacturers, poultry processors and allied businesses. It is located in Georgetown, Delaware and represents the tri-state poultry industry of Delaware and the Eastern Shore counties of Maryland and Virginia. The Florida Poultry Federation is a non-profit corporation formed under the laws of Florida and headquartered in Tampa. Its members are Florida poultry producers, processors, hatchery operators, feed dealers, and egg dealers. The Georgia Poultry Federation is a trade association, headquartered in Gainesville, Georgia, representing all segments of the Georgia poultry industry. Federation members account for virtually all of the poultry production in Georgia, which on a daily average basis amounts to over six million pounds of chicken, over fifteen million eggs, and about 75 tons of turkey. The Mississippi Poultry Association is a non-profit corporation headquartered in Jackson, Mississippi. The Association represents all phases of the poultry industry in Mississippi, primarily the broiler and egg industries. The North Carolina Poultry Federation, headquartered in Raleigh, represents the three-quarters of a billion dollar poultry industry of North Carolina. Its activities include consumer education, research, government and legislative affairs. The Texas Poultry Federation and Affiliates, headquartered in Austin, represents about 99 percent of the state's turkey industry, 95 percent of the broiler industry, and 75 percent of the egg industry. The Virginia Poultry Federation, Inc., headquartered in Harrisonburg, represents individuals and firms engaged in all facets of the poultry and egg industries.

STATUTORY BASIS FOR THIS PETITION

This petition arises under section 301(a)(1), (2)(A) and (2)(B) of the Trade Act of 1974, as amended, 19 U.S.C. § 2411 (Supp. III 1979), Articles VI, XVI and XXIII of the General Agreement and Articles 8 and 10 of the Subsidies Code. Exporters of poultry and poultry meat in the E.C. have achieved, as a direct result of the bestowal of substantial export subsidies by the E.C. and the Government of France, more than an equitable share of world export trade in whole chickens and threaten to attain more than an equitable share of world export trade in chicken parts, whole turkeys and turkey parts. In addition, such export subsidies have resulted and will continue to result in prices for whole chickens which are materially below those of U.S. producers in specific world markets.

FOREIGN LAWS AND REGULATIONS WHICH ARE THE SUBJECT OF THIS PETITION

Export subsidies for poultry meat are provided for in Council Regulation No. 2777/75,[1/] which establishes a common organization of the market for poultry meat. General rules for granting export refunds on poultry meat and criteria for fixing in advance the amount of the refund are provided in Council Regulation 2779/75.[2/] Regulations announcing the levels of these subsidies appear quarterly in the Official Journal.

Additionally, the French Government provides generous subsidies to its poultry producers, including both chicken and turkey producers and processors. The subsidies take the form of capital grants, capital loans, training grants, livestock housing, reconversion fund loans and land loan facilities. Although not provided for in any specific laws or regulations, these programs are a part of a French program to finance the French food processing industry, particularly its exports. To spearhead this effort, a new body — the Institut de Development des Industries Agro-Alimentaires — has been

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1/ O.J. EUR. COMM. (No. L/282) 77 (1975).

2/ O.J. EUR. COMM. (No. L/282) 90 (1975).

formed, with an initial budget of $40 million. Recently the turkey industry has become a substantial beneficiary of this program. These subsidies to the turkey industry are also addressed in this petition.

FOREIGN COUNTRIES OR INSTRUMENTALITIES WITH WHOM THE UNITED STATES HAS AN AGREEMENT

The E.C. has signed the Subsidies Code on behalf of all member states. Producers in the following member nations of the E.C. are the principal beneficiaries of the E.C.'s export refunds for poultry meat: the Netherlands, France, Denmark, Belgium-Luxembourg, the United Kingdom and the Federal Republic of Germany. Each of these countries is an individual signatory to the General Agreement.

PRODUCTS WHICH ARE THE SUBJECT OF THIS PETITION

The products for which the rights of the United States under the General Agreement and the Subsidies Code are being denied include whole chickens (including broilers, fryers, capons, roasters and fowl), chicken parts, turkey and turkey parts. These products comprise S.I.T.C. category 011.4.

REQUESTS FOR OTHER RELIEF

Petitioners have not filed and do not presently contemplate filing for relief under the Trade Act of 1974 or any other provision of law.

LEGAL JUSTIFICATION FOR THIS PETITION

I. INTRODUCTION

American poultry meat producers and processors are the world's most efficient. Because of the subsidies made available to less efficient overseas competitors, only four percent of U.S. poultry meat production is exported. On the other hand, producers in the E.C. export over 17 percent of their production (Table 1). If free market conditions were allowed to prevail, U.S. producers could compete effectively against European producers in international markets on the basis of price. Unfortunately, the E.C. has, through its Common Agricultural Policy, erected impenetrable barriers to outside competition, encouraged production of enormous surpluses and created a system of generous export subsidies. Export refunds under the E.C.'s Common Agricultural Policy were originally intended to permit the disposal of occasional surpluses in export markets. In fact, however, these subsidies have led to the creation of a substantial export industry with facilities dedicated to the production of poultry meat intended solely for export. As a result of these subsidies, U.S. producers have been preempted from markets traditionally important to them. U.S. producers have already lost substantial sales and sales opportunities for whole chickens in several significant world markets. Members of the petitioner organizations are threatened with further losses if such subsidies continue.

The practice which is the principal subject of this petition is the E.C.'s export subsidy on whole chickens, chicken parts, turkeys, and turkey parts shipped to all destinations outside of the E.C., except the United States. Additionally, the petition addresses the subsidization of the production of poultry meat for export made available to French producers by the Government of France. As a direct result of these practices, exports of whole chickens from the E.C. have been made and continue to be made at prices materially below prices of U.S. producers, and E.C. producers have gained more than an equitable share of world export trade in whole chickens to the great detriment of U.S. producers. The bestowal of these subsidies is therefore inconsistent with the obligations of the E.C. and the Government of France under Article 10 of the Subsidies Code. In addition, U.S. producers currently face a threat of serious prejudice in their exportation of whole chickens to certain locations as well as chicken parts, turkeys and turkey parts. This threat of serious prejudice results from three factors. First, the scope of the products eligible for subsidy by the E.C. has been expanded to include chicken parts and turkeys and turkey parts. Second, the geographic areas for which exports may be entitled to a subsidy has been expanded to include the entire non-E.C. world, except the United States. Third, there is virtually no control under E.C. regulations to discourage production of surplus poultry products nor is there any apparent limit on the amount of funds availble from the E.C. for awarding subsidies. These factors coupled with the generous subsidies available from the Government of France have resulted in the creation of poultry processing facilities completely dedicated to the export market. The threat of serious prejudice posed by these subsidies is inconsistent with the undertakings of both the E.C. and the Government of France under Article 8 of the Subsidies Code. 3/

II. THE COMMON AGRICULTURAL POLICY OF THE EUROPEAN ECONOMIC COMMUNITY

On January 1, 1958, the Treaty of Rome 4/ established an agreement among the six original members of the E.C. to form a customs union. In Article 38 of the Treaty, the E.C.'s founders announced their intention to develop common policies for agriculture. The Treaty left the content of this common agricultural policy to be settled by the Commission (the administrative body of the Community), with the approval of the Council (the policy-making body).

In 1962 the E.C. began to implement its Common Agricultural Policy (hereinafter the "CAP") by establishing common arrangements for marketing in specified

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3/ Serious prejudice includes threat of serious prejudice as defined in the Subsidies Code, Article 8, footnote 3.

4/ Treaty of Rome, signed March 25, 1957, 298 U.N.T.S. 5.

commodity groups. The first series of regulations, numbered 19–24, was promulgated in 1962 and created a common market organization for grains, pork, egg, poultry, fruit and vegetables, and wine. 5/ A second series of regulations promulgated late in 1963 covered dairy products, beef, and rice. 6/ The common management regulations differed somewhat according to each commodity's production and marketing characteristics, but each price support system provided for a minimum import price. 7/ A variable levy was applied to imports from non-member countries offered at prices below the minimum price to raise them to that level. A system of export refunds (subsidies) was established to ensure that surplus production could be disposed of at prevailing world market prices in export markets. A description of how the CAP was established and implemented for poultry products follows. 8/

A. Basic and Variable Levies on Poultry Meat

The E.C. price support regime covers fresh, chilled, or frozen chickens, ducks, geese, turkeys, and guinea fowl. Council Regulation No. 22 of April 4, 1962, provided for gradual establishment of a common market for poultry. 9/ The E.C.

5/ 7 J.O. COMM. EUR. 933 (1962).

6/ 7 J.O. COMM. EUR. 549 (1964).

7/ The minimum import price is called the Threshold Price for cereals, sugar, and milk products; the Sluice-gate Price for eggs, pork, and poultry; and the Reference Price for fruits and vegetables.

8/ Although this petition will focus entirely on the subsidy of poultry meat, certain of the petitioners are disturbed by the E.C.'s export refund program with respect to eggs and egg products, see O.J. EUR. COMM. (No. L/282) 68 (1975). The level of subsidy in these related products is substantial (over $300 per metric ton in 1979) and may be the subject of a subsequent petition.

9/ 7 J. O. COMM. EUR. 933 (1962).

replaced this regulation on June 13, 1967, with Council Regulation No. 123/67.[10/] In November 1975, Regulation 2777/75 [11/] superseded Regulation No. 123/67.

The device chosen by the E.C. to shield its producers from competition from more efficient American producers may be one of the most effective methods of protection ever devised. Import levies are set in advance by the Commission on a quarterly basis. The basic levy for slaughtered poultry consists of two components. The first component is equal to the difference between the E.C. and world market prices of the quantity of feed grain needed to produce one kilogram of each type of poultry meat. The second component is equal to seven percent of the average sluice-gate prices for the four quarters preceding May 1 of each year.

An additional amount, called the supplementary or variable levy, may be added if the f.i.f. (free-to-frontier) price drops below the sluice-gate price, unless the exporting country guarantees that the price of products coming from its territory will not be lower than the sluice-gate price and that there will be no deflection of trade.

Sluice-gate prices are set by the Commission in advance on a quarterly basis. The sluice-gate price for poultry is determined by adding to the world market price of the quantity of feed grain needed in third countries to produce one kilogram of slaughtered poultry an amount representing additional production and marketing costs. The E.C. considers this the fair average cost of poultry produced in third countries.

The effectiveness of the variable levy in discouraging the importation of poultry meat by potential buyers within the E.C. may be measured by the fact that imports of broilers in excess of de minimus levels have been virtually nonexistent since the variable levy was first introduced. Petitioners have experienced substantial

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10/ O. J. EUR. COMM. (No. 117) (1967).

11/ O. J. EUR. COMM. (No. L/282) (1975).

prejudice on account of their virtual exclusion from the E.C. market because of the imposition of the variable levy. The compatibility of the variable levy with the General Agreement has, to our knowledge, never been determined in a formal GATT proceeding. 12/ Nevertheless, Petitioners do not elect to challenge the imposition of the variable levy in this proceeding. The purpose of this petition is to seek redress for the serious prejudice which they are experiencing in non-E.C. export markets.

B. Export Refunds for Poultry Meat

Export subsidies for poultry meat are provided for in Council Regulation No. 2777/75. 13/ Council Regulation No. 2779/75 14/ lays down general rules for granting export refunds on poultry and criteria for fixing in advance the amount of the refund.

In theory, the purpose of the export refund is to eliminate the cost disadvantage experienced by E.C. poultry producers on account of the higher feed grain prices which prevail within the E.C. on account of its price support system for feed grains. The guidelines for fixing export refunds provide substantial flexibility to those who administer this program. 15/

It is interesting to note that the stated purpose of this regulation is to permit establishment of export refunds which not only reflect differences in the world

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12/ See, however, "Petition Filed on Behalf of National Canners Association for Section 301. Relief from the E.C. Variable Levy on Calculated Added Sugars in Canned Fruit." 42 Fed. Reg. 15385 (April 12, 1976); terminated 45 Fed. Reg. 41254 (June 18, 1980).

13/ O. J. EUR. COMM. (No. L/282) 77 (1975).

14/ O. J. EUR. COMM. (No. L/282) 90 (1975).

15/ According to the relevant regulation, the size of the refund depends upon some or all of the following factors: (1) the difference between prices for poultry in the E.C. and on the world market; (2) the supply of poultry meat products on the E.C. markets; (3) the need to avoid disturbances which might lead to a prolonged imbalance between supply and demand on the Community market; (4) the economic aspect of the proposed exports; (5) the difference between the prices within the E.C. and on the world market for the quantity of feed grain needed to produce one kilogram of poultry meat within the E.C. Reg. No. 2779/75 Art. 2, O.J. EUR. COMM. (No. L/282) 91 (1975).

and E.C. prices for poultry meat and the feed grain needed to produce poultry meat, but which also reflect the market conditions in the country of destination because "special conditions apply to imports in certain countries of destination." 16/ Experience in the marketplace amply demonstrates that the amount of subsidy is established at whatever level is needed in order to undercut a competitor's price and make a sale. As we shall demonstrate below, export refunds have been made at levels which ensure the absolute dominance of E.C. exports in specific world markets.

C. Implementation of the Export Refund System on Poultry Meat

1. The Scope of the Subsidies on Poultry Meat

Subsidies (export refunds) on exports of whole poultry and poultry parts were introduced by the E.C. in 1967 for exports to all destinations. They remained in effect until July 1, 1974. Between August 15 and September 20, 1974, the subsidy applied only to whole chickens exported to non-E.C. Europe, the Middle East and some countries bordering the Mediterranean. 17/ In September 1974, the E.C. began subsidizing exports to Cuba and the Canary Islands, 18/ and in November 1975, exports to Africa joined the list. 19/ The subsidy was extended to chicken parts on June 1, 1979, 20/ and to turkeys

16/ O.J. EUR. COMM. (No. L/282) 90 (1975).

17/ O.J. EUR. COMM. (No. L/218) 35 (1974).

18/ O.J. EUR. COMM. (No. L/236) 16 (1974).

19/ O.J. EUR. COMM. (No. L/287) 7 (1975).

20/ O.J. EUR. COMM. (No. L/122) 14 (1979).

and turkey parts on January 21, 1980.[21/] On January 21, 1980, the E.C. expanded its subsidy program to all non-E.C. destinations except the United States. [22/]

Table 2 sets forth the dollar amount of subsidies made available by the E.C. for poultry meat between 1967 and 1980. The increase in these expenditures in recent years has been spectacular. In 1967 the E.C. spent $3.55 million on poultry subsidies. By 1980, the E.C. budgeted more than $100 million for poultry export. The growth of the E.C.'s expenditures on poultry export refunds is pictured graphically in Chart 1, attached.

Table 3 establishes that the amount of export subsidy per pound of poultry meat is, to say the least, commercially significant. Table 3 traces the development since 1967 of the export refund for "70 percent" whole chickens (plucked and drawn without heads and feet, but with hearts, livers and gizzards). The category comprises the bulk of E.C. whole chicken exports to the non-E.C. world.[23/] The subsidy level has always been significant and, in recent years, it has been consistently in excess of six cents a pound or 20 percent of the average transaction price by E.C. producers in 1980. Thus, for example, applying a 1980 dollar - European Unit of Account (ECU) exchange rate ($1.39/ECU) to the January 1980 subsidy level, a European poultry exporter could have obtained an export refund of approximately $300 per metric ton of whole chicken exports.

21/ O.J. EUR. COMM. (No. L/14) 18 (1980).

22/ O.J. EUR. COMM. (No. L/14) 18 (1980).

23/ It should also be noted that the E.C. exports "83%" (plucked and gutted with heads and feet) and "65%" (plucked and gutted without heads and feet and without hearts, livers and gizzards) whole chickens in limited quantities and that these categories have likewise been eligible for the subsidy. Subsequent to 1974, the subsidy levels have been uniform for all three categories.

2. Segmentation of the Markets for Poultry Meat

In order to evaluate the impact of the E.C.'s export refund on world markets, it is necessary to differentiate between at least four separate and distinct sub-markets for poultry meat — whole chickens, chicken parts, turkeys and turkey parts. The principal focus of our analysis will be on the market for whole chickens. 24/ There are several reasons for this focus. In the first place, until recently the market for whole chickens has been the principal target of the E.C. export refund. During the first years of the Common Agricultural Policy in poultry meat, the export refund was available for all varieties of poultry products (i.e., whole chickens, chicken parts, turkeys and turkey parts). Between 1974 and 1979, however, the subsidy was available only to exports of whole chickens to the major non-E.C. importing nations, including the USSR, Switzerland, Austria, and the countries of the Middle East. Recently, the subsidy has been extended once again to other poultry products including chicken parts, turkeys and turkey parts.

A second reason for viewing the market for whole chickens separately is its substantial size. During the period 1974-79, the non-E.C. market for whole chickens grew 185 percent. This was twice the growth rate for the market for other poultry products which grew 95 percent. Moreover, total exports of whole chickens to non-E.C. destinations during this period comprised about 65 percent of all poultry meat exports.

24/ The category of whole chickens includes broilers, fryers, roasters, and capons, as well as older whole fowl. For purposes of this petition, the U.S. category "whole chickens" includes both young whole chickens, (broiler, fryers, capons, and roasters), as well as older chickens. These products appear in Schedule E as Commodities 0114010 and 0114020. The E.C. category "whole chickens" includes 83% chickens (plucked and gutted with heads and feet), 70% chickens (plucked and drawn without heads and feet, but with hearts, livers and gizzards), and 65% chickens (plucked and drawn, without heads and feet and without hearts, livers, and gizzards). These comprise Eurostat-Nimexe commodities 0202.1, 0202.03, and 0202.05 respectively. The U.S. Department of Agriculture has advised us that the aggregate U.S. and E.C. whole chicken categories are comparable.

Finally, there are unique attributes of the markets for individual poultry products which require that such products as whole chickens or chicken parts be considered separately. These attributes are reflected in highly distinctive market demands which can be measured empirically by calculating the cross-elasticities of price/quantity among the different poultry categories. Such an analysis would show that the various products respond to different supply/demand conditions. In such an environment, product prices can and do move independently of each other.

Some of the factors contributing to the supply/demand differences are consumer incomes, price, taste preferences, traditional uses, product availability, cooking methods, distribution conditions and facilities, government policies and regulations. For example, less-developed countries with limited incomes may seek such poultry parts as necks, backs, and tails that provide much needed meat protein, but at the lowest possible costs. In other countries, such as Japan, dark chicken meat (legs) have proven to be a very good alternative or substitute for the increasingly more costly fish, an ingredient in many Japanese rice dishes. Since dark chicken meat prices in the United States are less than one-half white chicken meat prices, the Japanese receive substantial cost savings.

3. <u>The Impact of Export Refunds on World Markets</u>

An examination of the trade flows for whole chickens demonstrates that the E.C.'s export subsidy has made a substantial contribution to the E.C. producers' success in displacing U.S. exports in world markets.[25/] At the time the E.C. first began subsidizing exports of whole chickens in 1967, the United States was supplying over 40 percent of the non-E.C. market for whole chickens (Table 4). The period 1967-1974 witnessed both an absolute and percentage decline in U.S. exports to the non-E.C. world. By 1974, the United States was able to capture only an 8.6 percent share of the non-E.C. market for whole chickens. The United States was able to recover some of its share of the market during the 1974-79 period when the world export market experienced its greatest absolute growth. It never regained, however, the position it occupied prior to 1967 when the E.C. subsidy on poultry meat first went into effect. Moreover, a significant portion of U.S. growth during the 1974-79 period could be attributed to a few individual sales which were consummated after the E.C. had exhausted its production and therefore could not meet foreign demand.

The impact of the subsidy is particularly pronounced if one considers the 1974-79 period in terms of aggregate subsidized and non-subsidized markets. During this

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25/ All export market share data in this petition and the accompanying tables is presented in terms of U.S. and E.C. shares of combined U.S. and E.C. exports. Of the major exporting nations, only the U.S. and the E.C. countries disaggregate their data into subcategories of poultry meat (e.g. whole chickens, chicken parts, turkeys and turkey parts). Even U.N. trade data is not disaggregated any further than the generic category "poultry meat." Therefore, it is impossible—given current data limitations—to ascertain U.S. or E.C. shares of world exports of particular products.

Aggregate poultry meat data compiled by the U.N., however, does reveal that between 1969 and 1979 the combined U.S. -E.C. share of world export trade in poultry meat among all reporting nations always exceeded 85 percent, and for most of the decade was in excess of 90 percent (U.N., Yearbook of International Trade Statistics (1979)). The only major exporting nations which are not reported in the U.N. data are the communist countries of East Europe, particularly Hungary and Poland. It should be noted, however, that most of these Eastern bloc exports either went to the U.S.S.R. or West Germany. These markets do not play a significant role in our analysis of market share displacement. In view of these facts, we can assume for purposes of our analysis that the inclusion of data from other exporting countries, if such data were available, would not significantly alter the relationship of U.S. and E.C. market shares to each other. Therefore, comparing U.S. and E.C. shares of combined U.S. and E.C. exports to the non-E.C. world provides an adequate basis for determining whether U.S. exports are being displaced and whether E.C. producers have achieved more than an equitable share of export trade as a result of the E.C. export refund.

period, the export refund was available only to exports to the Middle East, non-E.C. Europe, the Mediterranean, Cuba, and Africa. In those markets where the subsidy was in effect, the E.C. captured anywhere from 81 percent to 99 percent of combined U.S.-E.C. whole chicken exports (Table 5). In those markets where the subsidy was not in effect, the E.C. export share steadily declined from 66 percent in 1975 to 13.4 percent in 1979. With the reimposition of the subsidy worldwide in 1980, the E.C. increased its share of U.S.-E.C. whole chicken exports from 13.4 percent to 31 percent in those countries to which the subsidy was not available between 1974 and 1979. The share of U.S. producers in both subsidized and non-subsidized markets is shown graphically in Chart 2, attached.

The data is equally revealing with respect to the impact of the subsidy on individual regional markets. Although insignificant until 1971-72, the Middle East market for whole chickens has grown rapidly (Table 6). Between 1975 and 1980, the market grew 300 percent. Today it comprises over half of the world market for whole chicken exports. Through this entire period, the E.C. subsidy has been continuously available, a fact reflected in the limited U.S. export performance. From 1971 to 1980, the U.S. share of the E.C.-U.S. exports of whole chickens exceeded 3 percent on only three occasions, and all three occasions were largely the result of certain individual transactions with Iraq. Over the entire period between 1971 and 1980, the United States captured only 11 percent of the entire market for whole chickens. The inability of U.S. producers to maintain an equitable share of the Middle East market is reflected graphically in Chart 3, attached.

The situation is mirrored in the non-E.C. countries of Europe (Table 7). Again the E.C. subsidy on whole chicken exports has been in effect continuously since 1967. The trade figures reveal continuous E.C. dominance throughout the 1970's. In fact after 1972, the U.S. share of combined U.S.-E.C. exports to this region never exceeded 8.5 percent. Although this dominance could be explained in part by the E.C.'s superior regional access, it is noteworthy that in the late 60's and early 70's when the United States imposed a subsidy of its own on exports to Switzerland and Austria in retaliation to E.C. exports subsidies, the United States was able to gain a relatively strong foothold into this market. Moreover, during the three year period immediately prior to the subsidization, the United States captured over 28 percent of this market. It follows that the E.C.'s market advantage is largely a product of continuous subsidization.

The situation in the Middle East and the non-E.C. Europe is substantially reversed in the Far East and Caribbean where U.S. producers have not always competed against the export refund. Between 1971 and 1974 when the Caribbean market first began to grow and the subsidy was in effect, the E.C. captured between 55 and 62 percent of the whole chicken market, despite the superior regional access of the United States (Table 8). Between 1974 and 1979, the E.C. eliminated the export refund for whole chicken exports. Following the removal of the subsidy in 1974, the E.C. share steadily declined from 53 percent in 1975 to a low of 27 percent in 1979.

The situation is even more pronounced in the Far East (Table 9). The whole chicken market only began to develop significantly in 1974, when the E.C. subsidy was in effect. In that year the E.C. gained substantially in all whole chicken sales. With the elimination of the subsidy, however, the United States began to achieve gradual dominance until its share of the market in 1979 exceeded 90 percent. With the reimposition of the E.C. subsidy in 1980, the trend has begun to reverse itself. Between 1979 and 1980, the E.C. share of combined U.S.-E.C. exports jumped from 7.8 percent to 14.5 percent, while the absolute volume of U.S. sales dropped 39 percent. Chart 4, attached, graphically illustrates the dramatic reversal of the U.S. producers' export performance when the E.C. subsidy was removed.

We shall now examine whether the E.C.'s bestowal of export refunds on poultry meat is consistent with the obligations imposed upon signatories to the General Agreement and the Subsidies Code.

III. THE E.C.'s EXPORT REFUND ON POULTRY MEAT IS INCONSISTENT WITH THE OBLIGATIONS UNDERTAKEN BY SIGNATORIES TO THE GENERAL AGREEMENT AND THE SUBSIDIES CODE

A. General Considerations

The Subsidies Code specifically addresses the problem of export subsidies and establishes general standards of conduct with respect to the granting of export subsidies. It also establishes a series of formal mechanisms for resolving disputes in this area.

Article 8 of the Subsidies Code contains an agreement by the signatories that they will avoid causing, through the use of any subsidy, "serious prejudice to the interests of another signatory." Serious prejudice includes the threat of serious prejudice. 26/ Serious prejudice may be demonstrated by showing "the effects of the subsidized exports in displacing the exports of like products of another signatory from a third country market." 27/

The subsidization of primary agricultural products is governed by Article 10 of the Code. That provision reads:

> Signatories agree not to grant directly or indirectly an export subsidy on certain primary products in a manner which results in the signatory granting such subsidy having more than an equitable share of world export trade, account being taken of the shares of the signatories in trade in the product concerned during a previous representative period and any special factors which may have affected or may be affecting trade in such products. (Emphasis added).

In attempting to clarify this provision, Article 10 of the Code repeats the admonition of Article 8 respecting displacement by providing that "more than an equitable share of world export trade" shall include any case in which the effect of an

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26/ See footnote 3, *supra*.

27/ Subsidies Code, Art. 8, ¶ 4(c).

export subsidy granted by a signatory is to displace the exports of another signatory, bearing in mind developments on world markets. Article 10 provides that the previous representative period shall normally be the three most recent calendar years "in which normal market conditions existed." 28/

The Subsidies Code further provides that signatories agree not to grant export subsidies on exports of certain primary products to a particular market in a manner which results in prices materially below those of other suppliers to the same market. 29/

It is the contention of petitioners that the E.C. subsidy on poultry meat violates Article XVI of the General Agreement as well as the Subsidies Code in that this subsidy:

1) has resulted in E.C. exporters having more than an equitable share of the world export trade in whole chickens within the meaning of Article XVI:3 of the General Agreement, as interpreted by Article 10 of the Subsidies Code;

2) has resulted in prices for whole chickens which are materially below those of U.S. producers in specific world markets within the meaning of Article 10(3) of the Subsidies Code;

3) threatens serious prejudice to U.S. poultry interests with respect to world export trade in whole chickens as well as chicken parts and turkeys and turkey parts within the meaning of Article 8 of the Subsidies Code.

We shall examine each of these contentions individually.

B. E.C. Exporters of Poultry Meat Have More Than an Equitable Share of the World Export Trade in Whole Chickens

In evaluating whether or not E.C. exporters have achieved more than an equitable share of world export trade in whole chickens, two issues must be examined.

28/ Subsidies Code, Art. 10, ¶ 2(c).

29/ Subsidies Code, Art. 10, ¶ 3.

Is it proper to determine equitable shares of the "world export trade" on the basis of market shares in individual regional markets?

What is an appropriate "previous representative period" upon which to determine equitable shares?

1. Relevant Market

The first issue which must be examined is whether the impact of the E.C. export subsidy on poultry meat is to be measured in terms of relative shares of all world export trade in a specific product or whether that impact may be measured by the evaluation of shares of export trade in individual regional markets. An examination of the language of the General Agreement and the Subsidies Code, as well as an examination of the decisions of various GATT panels interpreting that language, supports the use of an analysis of shares of export trade in various regional markets.

As originally drafted, Article XVI of the General Agreement consisted of a single paragraph requiring any contracting party that maintains a subsidy merely to notify contracting parties of the extent, nature, and estimated effect and circumstances of the subsidy and to be prepared to consult as to possible injurious effects to other signatories. 30/ At the Ninth Session of the Contracting Parties in 1955, Article XVI was expanded to prohibit export subsidies on "other than primary products." 31/ With respect to "primary products," signatories were not to apply subsidies which resulted in their "achieving more than an equitable share of world export trade, account being taken of the shares of the contracting parties in such trade in the product during a previous representative period, and any special factors which may have affected or may be

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30/ General Agreement, Art. XVI, ¶ 1.

31/ General Agreement, *supra*, ¶ 4.

affecting such trade in that product." 32/ The Article resulted in substantial criticism and uncertainty. From the outset critics asserted (with some justification) that the criteria used in determining "equitable share of world export trade" were ambiguous. The recently completed Subsidies Code has helped to resolve at least some of the ambiguity.

Article 8 of the Subsidies Code, in discussing the adverse effects to the interests of other signatories, establishes that serious prejudice may arise through:

> . . . the effects of the subsidized exports in displacing the exports of like products of another signatory from a third country market. 33/ (Emphasis added).

Thus, serious prejudice may be measured by market displacement "in a third country market."

Furthermore, in interpreting Article XVI, paragraph 3 of the General Agreement, Article 10, paragraph 2 of the Code provides that "more than an equitable share of world export trade" shall include:

> any case in which the effect of an export subsidy granted by a signatory is to displace the exports of another signatory bearing in mind the developments on world markets. 34/ (Emphasis added).

Once again, the Subsidies Code envisions an examination of developments on individual world markets in order to determine whether a signatory has achieved "more than an equitable share of world export trade."

Finally, Article 10, paragraph 2(b) amplifies how the concept of equitable share of world export trade may be evaluated in connection with new markets:

32/ General Agreement, supra, ¶ 3.

33/ Subsidies Code, Art. 8, ¶ 4(c).

34/ Subsidies Code, Art. 10, ¶ 2(2).

> . . . with regard to new markets, traditional patterns of supply of the product concerned to the world market, region or country, in which the new market is situated shall be taken into account in determining equitable share of world export trade.

The inclusion of this provision dealing with new markets makes no sense whatsoever if the concept of "equitable share of world export trade" must be measured on the basis of worldwide market share. The language of the Subsidies Code, particularly the references to "markets" in the plural, demonstrates that the concept of world export trade can and should be measured in terms of relative market share in specific regional markets.

Prior to the drafting of the Subsidies Code, various GATT panels had failed to develop an adequate definition of what constituted an equitable share of world export trade for the purpose of showing a subsidy in violation of the General Agreement. In the earliest challenge to an export subsidy under Article XVI:3 of the General Agreement, it was asserted that there was no statistical definition of an equitable share of world export trade. 35/ Nevertheless, the panel focused its analysis on whether subsidized French wheat exports had displaced Australian exports to its traditional markets in Southeast Asia. This approach became the foundation upon which the Subsidies Code was drafted.

The recent complaint against an E.C. export refund, "European Communities, Refund on Exports of Sugar, Complaint by Brazil" 36/ exemplifies how the concept of displacement is to be applied. In that proceeding, the panel undertook a systematic analysis of data for imports of sugar into 31 countries which Brazil claimed constituted traditional outlets for Brazilian sugar, or new country markets located in those regions where Brazilian sugar had traditionally been offered for sale. The panel

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35/ GATT, "French Assistance to Export of Wheat and Wheat Flour," Basic Instruments and Selected Documents, 7th Supp., at 52 (1959).

36/ GATT, "European Communities-Refund on Exports of Sugar, Complaint by Brazil," GATT Docs. L/5011 (October 7, 1980).

then compared Brazilian, E.C. and "other countries" shares of exports to these markets during the 1971-79 period to ascertain if there was a "significant" change in the relative positions of Brazil and the E.C. for this group of markets as a whole.

Thus, there is ample support in the Subsidies Code and prior interpretations by GATT panels for examining "equitable share" on the basis of patterns of trade in specific regional markets.

2. Previous Representative Period

In expanding Article XVI, the Ninth Working Session provided that in determining the equitable share of world export trade, account should be taken of the "shares of the contracting parties in such trade in the product during a previous representative period." 37/ (Emphasis added). Prior to the adoption of the Subsidies Code, the GATT never directly addressed the issue of what constituted a representative period. The final GATT report entitled "Ninth Session Working Party on Other Barriers to Trade," does state, however, that in determining what are "equitable shares" of world trade, the contracting parties should not lose sight of:

> ... the fact that export subsidies in existence during the selected representative period may have influenced the share of the trade obtained by the various exporting countries. . . . 38/

This attempt at clarification demonstrates that the draftsmen recognized that the existence of export subsidies could distort the patterns of trade established during the "selected representative period." Certainly the trade data available in the instant case (See Tables 4-9) demonstrate conclusively that substantial export subsidies in fact have distorted normal patterns of trade. The concern expressed in the Ninth Working Session was acted upon during the Multilateral Trade Negotiations. There, the

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37/ General Agreement, Art. XVI, ¶ 3.

38/ GATT, Basic Instruments and Selected Documents, 3d Supp., at 226 (1955).

drafters of the Subsidies Code dealt with this problem when they added a definition of the term "previous representative period." It is now clear that a representative period must include a time in which "normal market conditions existed." 39/ (Emphasis added).

In attempting to establish a prior representative period in the instant case, it is essential that one recognize that the subsidies made available by the E.C. for poultry exports are both commercially significant and trade distorting. The availability of the E.C.'s trade distorting subsidies is essentially incompatible with the notion of "normal market conditions." Accordingly, in order to establish a prior representative period in the present case, one must necessarily look to a period of time where export refunds were not available in a particular regional market.

In the case of the Middle East, for which export subsidies have been available since 1967, this may require one to examine patterns of trade which prevailed a number of years ago. Such an approach is, however, consistent with the approach of the GATT panel in the French Wheat Flour case. 40/ There the GATT panel reviewed French wheat and wheat flour exports between 1954 and 1957, a period in which the absolute volume of exports, as well as the relative French market share, increased substantially. In the only reference to a prior "representative period," it was noted that the absolute quantity of exports began to rise in 1954 "to levels very substantially exceeding the quantities exported in any year since 1934 and remained considerably higher than in pre-war or early post-war years." 41/ In effect, the previous representative period was the twenty years proceeding the 1954 volume increases.

39/ Subsidies Code Art. 10, ¶ 2(c).

40/ GATT, "French Assistance to Export of Wheat and Wheat Flour," Basic Instruments and Selected Documents, 7th Supp. (1959).

41/ GATT, "French Assistance to Export of Wheat and Wheat Flour," supra, at 53.

The flexibility of GATT panels in ascertaining prior representative periods in the face of trade distorting events was amply demonstrated in a recent decision.[42] The Panel noted that the Australian Complaint referred to the post-1975 period. However, regarding the years preceding that period, the panel felt that 1975 was not sufficiently representative since world prices were abnormally high in 1974-75. The panel then continued its analysis:

> The strong rise in sugar prices in 1974 was mainly due to the fact that for the fourth successive year total world consumption exceeded world production and stocks were declining, and the supply situation was particularly bad in Europe. Mainly due to a bad crop in 1974, there was a shortage of sugar in the European Communities in 1974-1975, and some exports were delayed from 1975 to 1976. The Panel also had some doubts as to whether 1974 would qualify as a fully representative year, but nevertheless thought that the years 1972 to 1974 would still be an acceptable approach. The three most recent calendar years for which market conditions could be considered as normal were then 1971 to 1973, or with some reservations 1972 and 1974. Furthermore, 1977 could also be compared to an average of 1972, 1973 and 1976. <u>In view of the difficulties involved in selecting what could be considered to be the "previous representative period," the Panel felt it necessary to consider various alternatives and to make a set of comparisons.</u> [43] (Emphasis added).

In the present proceeding, the subsidies under investigation were in effect for different periods of time with respect to individual world markets. Since the availability of these subsidies has clearly created distortions in patterns of trade, a GATT panel attempting to establish a prior representative period against which to measure the impact of these subsidies will undoubtedly be required to use a flexible and pragmatic approach.

42/ GATT, "European Communities — Refunds on Exports of Sugar, Complaint by Australia," GATT Docs. L/4833 (October 25, 1979) [hereinafter the "Australian Sugar Case"].

43/ GATT, Australian Sugar Complaint, *supra*, at 19.

We shall now examine the serious prejudice which U.S. producers have experienced in various world markets on account of the E.C.'s export refunds for poultry meat.

3. Displacement of U.S. Exports in Specific Regional Markets

(1) Middle East

In the largest of the whole chicken export markets, the Middle East, a subsidy has been in effect for whole chicken exports every year since 1967. During this period, U.S. exports have been insignificant. To find a previous representative period during which time normal market conditions existed, it is necessary to go back to the three-year period preceding 1967 (Table 6). Between 1964-1966, a total of 4582 metric tons of poultry meat were sold by the U.S. and E.C. in the Middle East. The U.S. gained about 96% of these sales. The United States was able to continue this respectable performance through the first years of the E.C. export refund. By 1970, however, the impact of the E.C. subsidy had been felt, and the E.C. had all but displaced the United States in the region. Consequently, when the market started to experience dramatic growth in the early 1970's, the E.C. was positioned to take full advantage of this growth. Furthermore, the E.C. calibrated its refund so that between 1977 and 1979, when the market experienced its greatest growth, the E.C. poultry meat refund was at its highest levels. Chart 3, attached, graphically illustrates that U.S. producers have, by any measure, been denied an equitable share of this important market.

2. Non-E.C. Europe

The situation in the Middle East has been mirrored in the non-E.C. countries of Europe. The E.C. refund has been in effect every year since 1967. Only for a short time in the late 60's and early 70's has the U.S. share of combined U.S.-E.C. trade exceeded 10 percent. Otherwise, during the entire 1967-80 period, the United States gained only 8.3 percent of total export sales of whole chickens to the region (Table 7). If we consider the three years prior to the imposition of the subsidy (1964-1966) as representative of normal market conditions, we would find that the U.S. had gained 28 percent of the total U.S.-E.C. sales. Again, the evidence of market displacement as a direct result of the refund is overwhelming.

3. Caribbean

In the Caribbean, U.S. exports of whole chicken remained constant—about 3000 metric tons per annum—until 1975, when they began to grow substantially (Table 8). The year 1975 was the first full year following the removal of the E.C. subsidy to this region. Between 1977 and 1979, U.S. exports to this region increased at an average annual rate of 116 percent. Moreover, the U.S. share of total U.S.-E.C. exports to the region grew from 48.8 percent in 1977 to 73.3 percent in 1979. These are the three most recent years in which normal market conditions existed and form a representative period for purposes of an Article 10 analysis. In 1980, the E.C. made the refund available again and not suprisingly the rate of growth of U.S. exports declined to 11.4 percent. Although E.C. exports remained stable during 1980, early figures from 1981 indicate some displacement is already taking place.

4. Far East

The situation in the Far East is equally revealing (Table 9). As in the Caribbean, the export refund was repealed in mid-1974, at which time U.S. exports of whole chickens to the Far East were insignificant. Beginning in 1975, U.S. exports began increasing steadily. The U.S. share of total U.S.-E.C. trade to the region grew from 23.5 percent in 1975; to 60.9 percent in 1976; to 86.1 percent in 1977; to 89.2 percent in 1978; to 92.2 percent in 1979. The fact that normal competitive conditions were in effect was a critical factor in this growth.

In 1980, the E.C. reimposed the subsidy. Almost immediately, E.C. exports reversed their steady decline of the previous three years. Moreover, U.S. exports actually declined 40 percent in 1980, as volume decreased 4000 metric tons. These figures would indicate that the process of displacement is underway.

Under the legal principles outlined above, there can be no doubt that E.C. producers have gained more than an equitable share of world export trade in whole chickens. This fact is reflected by the displacement of U.S. whole chicken exports suffered by U.S. producers in specific regions as a direct result of the E.C. export refund. The extent of such displacement is evident when measured in terms of lost sales opportunities to the Middle East.

Between 1971 and 1980, the market for whole chicken exports in the Middle East grew 63 times. Over this period, the United States captured only 11 percent of combined U.S.-E.C. exports. Assuming the United States had captured even an additional one percent of this export market, U.S. producers would have sold an additional $12 million of exports. Had the United States captured half of the combined E.C.-U.S. export market for whole chickens to the Middle East during this period, it would have earned an additional half billion dollars in export sales. A fifty percent share is not an unreasonable prospect when one considers that during the presubsidization period, U.S. producers obtained a better than a ninety percent share of the combined U.S.-E.C. Middle East market (Table 6). Similar displacement in non-E.C. Europe also supports the conclusion that E.C. producers have been able to attain more than an equitable share of world export trade in whole chickens.

C. Material Price Undercutting

Under Article 10 of the Subsidies Code, the signatories agreed "not to grant export subsidies of certain primary products to a particular market in a manner which results in prices materially below those of other suppliers to the same market." 44/ The E.C. subsidies on whole chickens violate this prohibition by allowing substantial price undercutting of American exports to markets where the subsidies are in effect.

Prices and subsidies on French exports to Egypt provide one example of how the E.C. subsidy results in material undercutting. The average export unit value of French whole chickens exported to Egypt in 1979 was $1102 per metric ton, or 49.9 U.S. cents per pound. In comparison, the average value of U.S. whole chicken exports was $1142 per metric ton or 51.7 cents per pound. Taking into account the E.C. subsidy of approximately $330 per metric ton, the presumed French export price would be $1432 per metric ton or 64.9 cents per pound. Even with the higher U.S. transportation costs to Egypt, U.S. export prices would be competitive with those of E.C. exporters were it not for the subsidy. The table below illustrates this conclusion.

Constructed 1979 Export Sale to Egypt
(in dollars per metric ton)

	France	U.S.
Export Price Without Benefit of Subsidy*	1432	1142
Transportation Cost (estimate)	110	225
Delivered Cost Without Subsidy	1542	1367
E.C. Subsidy	330	0
Delivered Cost With Subsidy	1212	1367

*Export Unit Value plus the amount of subsidy

44/ Subsidies Code, Art. 10, ¶ 3.

Thus, without the subsidy, E.C. export prices would be far higher than those of U.S. producers. The subsidy alone allows E.C. prices to be materially below those of U.S. producers.

Recent information concerning bids made on "Egyptian Free Dollar Tenders" demonstrates that price undercutting continues as a result of the subsidy.

Bid Opening Date: May 26, 1981	Free Dollar Tender 5000 MT Shipment June/July 1981
1) FRENCH EMBASSY/CAIRO: 5000 MT - Shipment June/July 1981	1422 C&F Port Said
2) DENMARK CHICKEN BOARD 1000 MT	1453 C&F Alex
3) MISSBO (FRANCE): 1415 C&F Alex 10000 MT - Brazil Origin	
4) SPRING VALLEY (U.S.): 5000 MT - 2500 MT 2500 MT	 1439 C&F 1459 C&F
5) GOLD KIST INC. (U.S.): 5000 MT 1504 C&F	

It is obvious that without the 1981 subsidy level of $140 per metric ton the U.S. firms would have been the two lowest bidders.

These examples of sales of whole chickens to Egypt are but two examples of the material price undercutting encouraged by the E.C. subsidy. Although U.S. producers on occasion do win sales despite the presence of E.C. subsidized competition, the E.C. subsidy is designed to and usually permits E.C. producers to underbid materially their U.S. competition. Aggregate figures for export sales of whole chickens to the non-E.C. world show that, even if one assumes U.S. transportation costs at extremely high levels, the E.C. subsidy allows E.C. sales at prices much below those of U.S. producers.

Constructed 1979 Export Sale of Whole Chicken to Non-E.C. World
(in dollars per metric ton)

	France	U.S.
Export Price Without Benefit of Subsidy*	1470	1080
Transportation Cost (estimate)	150	300-450
Delivered Cost Without Subsidy	1620	1380-1530
E.C. Subsidy	330	0
Delivered Cost With Subsidy	1290	1380-1530

*Export Unit Value plus the amount of subsidy

The E.C.'s attainment of more than an equitable share of the world market in whole chickens is due solely to its ability to price its product materially below the U.S. competition. That price undercutting ability, in turn, is made possible by the E.C. export subsidy. The causal nexus between subsidy and market share is clear and unmistakable. The E.C. bestowal of export refunds is in clear violation of Article 10, paragraph 3 of the Subsidies Code.

D. The E.C. Export Refund on Poultry Meat Threatens to Prejudice the Interest of American Producers

"Prejudice to the interests of another signatory" as used in Article 8 of the Subsidies Code also includes the threat of serious prejudice. Such threat manifests itself not only with respect to further displacement of U.S. whole chicken export sales, 45/ but also with respect to future exports of chicken parts, turkeys, and turkey parts. This threat of serious prejudice results from three factors. First, the scope of the products eligible for subsidy by the E.C. has been expanded to include chicken parts and turkeys and turkey parts. Second, the geographic areas for which exports may be entitled to a subsidy have been expanded to include the entire non-E.C. world except the United States. Third, there is virtually no control under E.C. regulations to discourage production of surplus poultry products, nor is there any apparent limit on the amount of funds available from the E.C. for awarding subsidies. These factors, coupled with the generous subsidies available from the Government of France, have encouraged the creation of French poultry processing facilities completely dedicated to the export market. The threat of serious prejudice posed by these subsidies is inconsistent with the undertakings of both the E.C. and the Government of France under Article 8 of the Subsidies Code.

As noted above, starting in mid-1979, the E.C. expanded its subsidy program to include chicken parts, turkeys and turkey parts. By January of 1980, the subsidy program was extended to the entire non-E.C. world except the United States. 46/

Not only has the product scope and the geographic scope of the E.C. subsidy program expanded, there is apparently no limit on the amount of money available to fund the subsidy program. Chart 1 depicts in graphic form the amount of money expended upon poultry subsidies since 1967. Starting with a rather modest amount of $3.3 million

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45/ Note that U.S. producers has already experienced significant market displacement in the sale of whole chickens to specific regional markets where the E.C. has maintained subsidies consistently for a number of years. Previous displacement may be addressed under Article 10 of the Subsidies Code. The recent expansion of the subsidy program for whole chickens to other regional markets (e.g., the Caribbean, Far East) threatens serious prejudice and should be addressed under Article 8 of the Subsidies Code.

46/ See text accompanying footnotes 16-21.

in 1967, the amount of E.C. subsidies has grown astronomically to well in excess of $100 million in 1980. An examination of the actual amount expended, however, tells only part of the story. Between 1977 and 1979, the E.C. appropriated approximately $93 million for poultry meat subsidies. Final expenditures, however, totaled $146 million during this three year period. In other words, E.C. expenditures exceeded appropriations by sixty percent. From what one can judge, there are no effective administrative controls on E.C. expenditures for poultry subsidies.

In a recent complaint by Brazil against the E.C. refunds on exports of sugar, 47/ a GATT panel took note of the "non-limited amounts" available to cover export refunds of sugar. The panel found that this open-ended commitment on the part of the E.C., when combined with the amount of E.C. sugar available for export, created a permanent source of uncertainty in world sugar markets and therefore constituted a threat of serious prejudice in terms of Article XVI:1 of the General Agreement. The open-ended financial commitment to poultry meat subsidies by the E.C., coupled with the volume of exportable surpluses within the E.C., demonstrates that a threat of serious prejudice confronts U.S. producers for the same reasons that such a threat was found in the case of Brazilian sugar.

The threat to U.S. poultry producers can also be measured in terms of the prior export performance of French producers. France exported 238,000 tons of poultry meat in 1980, compared with 181,000 in 1979 and 132,000 in 1978. This represents export growth of approximately 35 percent per year. In 1980, 207,980 tons of France's poultry meat exports were broilers. 48/ Practically all of these exports originated with three companies in the province of Brittany — Doux, S.A. Tilly et Cie and Bernard. Each of

47/ "European Communities - Refund on Exports of Sugar Complaint by Brazil," GATT Docs. L/5011 (Oct. 7, 1980).

48/ Data source: Eurostat-Nimexe, 1980 Microfiche.

these companies operates plants that are dedicated to producing frozen, packaged broilers for the export market. We are informed that the production from these plants is not officially welcome on France's domestic market — indeed the French people prefer to consume fresh rather than frozen broilers. We are not dealing with a program designed to get rid of occasional production surpluses in the export market. On the contrary, the E.C. subsidy program has helped to create a formidable export industry which threatens to dominate world trade in poultry meat.

The seriousness of this threat to U.S. exporters of chicken parts, turkeys and turkey parts may be gauged by the success which E.C. producers have had using subsidies to gain more than an equitable share of export trade in whole chickens. Petitioners contend that the recent expansion of this refund to new poultry products threatens a similar result with the United States again the principal victim.

The market for chicken parts has always been the most successful of the U.S. poultry export markets (Table 10). Following the withdrawal of subsidies for chicken parts in 1974, the U.S. share of this market increased steadily. By 1980, it had gained over 90 percent of combined U.S.-E.C. exports of this poultry product to the non-E.C. world. Recent developments, however, suggest the future may not be so bright. The E.C. made the export refund available to chicken parts in June 1979. Trade figures for the past two years reveal E.C. exports of chicken parts have grown a respectable 12.5 percent. Moreover, there is evidence that French poultry processing plants, built primarily for exports, are for the first time capable of processing parts. This suggests a conscious effort on the part of the French to go after the parts market, particularly in light of the availability of the subsidy. In any event, a threat exists to the U.S. producer, and Petitioners call on the U.S. Government to act upon this threat.

A similar threat exists with respect to turkeys and turkey parts. As will be discussed below, the French Government has undertaken to expand its subsidization program in a manner which now threatens the U.S. turkey export market. Although, it is too early to show actual trade distorting effects resulting from this program, the most recent trade data from the E.C. indicates an unusual increase in French turkey exports to markets previously served by the U.S. Moreover, the E.C. reimposed its refund on turkeys and turkey parts in 1980. The impact of this subsidy could be reflected as early as 1981. For the last five years, the U.S. has gained over 90 percent of total U.S.-E.C. turkey sales to the non-E.C. world. The combined impact of the export refund and French subsidization program clearly threatens that position.

There is also the threat to U.S. whole chicken exports in those markets which the United States developed between 1974 and 1979, when the E.C. had repealed its refund to certain regions. There are already indications that the E.C. countries are intensifying their marketing efforts in some of these areas. As noted previously, there is evidence of limited displacement of U.S. sales in the Far East and Caribbean. But the threat, once the E.C. countries develop these markets, is even greater. A loss of even a five percent market share of whole chicken exports in the Far East and Caribbean markets would result in an annual loss of $2.5 million in export sales by U.S. producers. Such a loss is not inconceivable as our experience in the Middle East has already shown.

The recent expansion of the E.C.'s export subsidy program to include worldwide subsidization of whole chickens, chicken parts, whole turkeys and turkey parts coupled with the seemingly unlimited amount of funds available for poultry subsidies creates a substantial threat of serious prejudice for U.S. producers. The market displacement which has already taken place in whole chickens provides a graphic illustration of what will take place if the expanded subsidy program is not eliminated.

IV. EXPORT SUBSIDIES BY THE GOVERNMENT OF FRANCE ARE INCONSISTENT WITH THE OBLIGATIONS UNDERTAKEN BY SIGNATORIES TO THE GENERAL AGREEMENT UNDER THE SUBSIDIES CODE

The French Government has recently undertaken a massive subsidization of its food processing industry. As part of the program, the government has set an initial budget of $40 million to form the capital for a new body —Institut de Development des Industries Agro-Alimentaires — which will distribute subsidies to the French food processing industry. In the words of one former French official, the aim of the program is to create companies large enough to compete on a European or world scale. Recently, the French turkey industry has been a beneficiary of this program, in the form of a major processing plant in Brittany. Among the government's contributions to the construction of this plant are: (1) capital grants totalling 35 percent of initial investment; (2) discounts of 25 percent or more on the cost of the land for new turkey factories; (3) capital loans of 3-5 percent below the normal minimum rate; (4) reconversion fund loans at 3-5 percent which do not have to be paid back unless the processor makes a profit; (4) training grants in which the government pays 100 percent of wages during the training period and 30 percent of the wages from the end of the training period until the new employee has worked for six months; (5) subsidization of livestock housing; (6) land loan facilities costing 6 percent for first 10 years, then 10.8 percent on 80 percent of the purchase cost.

It is Petitioners' understanding that these subsidies are designed solely for the development of export industries. Public statements of French officials suggests that the availability of these subsidies is contingent upon their being used to develop an export facility. Furthermore, the fact that the turkeys and broilers produced in the Brittany facility are processed in a way that would preclude their being sold in the French market (the French prefer fresh rather than frozen poultry) again suggests that the new facility was established specifically to prepare products for export.

Articles 8 and 10 of the Subsidies Code apply to both direct and indirect export subsidies. Since subsidized poultry meat production facilities in France are substantially dedicated to the export market, the type of subsidy described above represents a very potent indirect export subsidy. Coupled with the E.C.'s export refund, these subsidies pose a significant threat to U.S. producers.

It is too early to evaluate the trade distorting impact of these subsidies on U.S. exports of turkey since these facilities have only recently become operational. It should be noted, however, that E.C. exports of turkeys and turkey parts to the non-E.C. world doubled between 1979 and 1980 (Table 11). A substantial portion of this increase came from France. Moreover, between 1979 and 1980, U.S. exports of turkeys and turkey parts to the E.C. declined by 25 percent and 13.7 percent respectively. Although total U.S. sales of turkey meat increased from 10,127 metric tons in 1979 to 23,410 metric tons in 1980, almost the entire increase can be attributed to the sale of 10,570 metric tons of turkey parts to Egypt. In 1979, Egypt purchased 151 metric tons. Therefore, early indications of displacement are already present in the export market for turkeys. When the largest of these subsidized export facilities in France reaches its ultimate capacity goal of 20 million turkeys a year, the U.S. share of the world turkey market could decline substantially.

Information out of the United Kingdom indicates that British turkey prices are beginning to fall, thereby threatening the existence of the British turkey industry. Moreover, the British allege that the decline in prices is a result of the fact that French turkeys, processed in the Brittany facility, are actually undercutting British turkeys in the British market. In any event, there looms a threat to U.S. producers that similar price developments may transpire in export markets traditionally the province of the United States and that the United States will not be able to compete with France on the basis of price.

V. RELIEF REQUESTED

Based on the foregoing, Petitioners respectfully request that the President, pursuant to section 301 of the Trade Act of 1974, as amended, 19 U.S.C. § 2411 (Supp. III 1979), take all appropriate and feasible steps within his power to obtain the elimination of the European Economic Community's export refund on poultry meat and all indirect subsidies by the Government of France for facilities dedicated to the exportation of poultry meat. Such efforts should include making use of the consultation, conciliation and dispute settlement mechanisms as provided by Articles 12 and 13 of the Subsidies Code. In the event such steps fail to bring about a resolution of the issue, the President should undertake such countermeasures as are authorized under section 301 of the Trade Act of 1974, as amended, and as are permitted under the General Agreement.

Any questions regarding this petition should be directed to Paul D. Cullen at the address noted below.

Respectfully submitted,

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Dated: September 17, 1981

TABLE 1

Production and Export of Poultry Meat
(1000 Metric Tons)

	Production	U.S. Exports	% Exports	Production	E.C. Exports	% Exports
1964	3494	98	2.8	1881	175	9.3
1965	3713	83	2.2	2009	208	10.3
1966	4048	73	1.8	2181	215	9.9
1967	4218	65	1.5	2216	243	10.9
1968	4120	66	1.6	2300	259	11.3
1969	4340	59	1.3	2453	277	11.2
1970	4651	62	1.3	2652	342	12.8
1971	4691	59	1.2	2766	369	13.3
1972	4923	65	1.3	3020	397	13.1
1973	4875	72	1.4	3192	409	12.8
1974	4941	78	1.6	3148	423	13.4
1975	4845	95	1.9	3134	421	13.4
1976	5385	183	3.3	3348	463	13.8
1977	5535	189	3.4	3464	526	15.2
1978	5880	194	3.3	3594	530	14.7
1979	6507	228	3.5	3678	602	16.4
1980	6647	286	4.3	3831	643	16.8
1981 (est.)	7016	307	4.4	3927	679	17.3

Source: U.S. Department of Agriculture
Foreign Agricultural Service

TABLE 2

E.C. Expenditures on Poultry Meat Subsidies
(1967-1980)

	European Units of Account	Dollars
1967	3,355,000	$ 3,355,000 1/
1968	4,685,662	4,685,662
1969	4,981,054	4,891,054
1970	8,211,000	8,211,000
1971	10,820,000 2/	11,341,719
1972	10,477,261	11,758,991
1973	17,764,037	21,903,868
1974	12,334,860	14,719,403
1975	4,108,198	5,103,352
1976	7,752,746	8,671,975
1977	17,441,469	19,910,352
1978	30,546,498	38,962,369
1979	63,483,063	87,082,390
1980	72,000,000 2/	100,278,550 2/
1981	78,400,000 2/	79,968,000 2/

Source: General Budget of the European Communities.

1/ Dollar conversions based on average annual exchange rate provided in the General Budget of the European Communities.

2/ Appropriation Figures — Exact data on expenditures not available.

TABLE 3

E.C. Subsidy Level for Whole Chickens

	Effective Date	70% 1/	$/lb. 2/	Area
1967	7/1	16.25	.07	Worldwide
	10/1	16.25	.07	Worldwide
1968	2/1	16.25	.07	Worldwide
	5/1	16.25	.07	Worldwide
	8/1	16.25	.07	Worldwide
	11/1	16.25	.07	Worldwide
1969	8/1	16.25	.07	Worldwide
	11/1	16.25	.07	Worldwide
1970	2/1	16.25	.07	Worldwide
	5/1	16.25	.07	Worldwide
	8/1	16.25	.07	Worldwide
	11/1	16.25	.07	Worldwide
1971	2/1	16.25	.08	Worldwide
	4/1	16.25	.08	Greece, Switerland, USSR
		12.90	.06	Rest of World
	5/1	16.25	.08	Greece, Switzerland, USSR
		12.90	.06	Rest of World
	8/1	16.25	.08	Greece, Switzerland
		12.76	.06	Rest of World
	11/1	16.25	.08	Greece, Switzerland
		12.76	.06	Rest of World
1972	2/1	16.25	.07	Greece, Switzerland
		12.76	.06	Rest of World
	5/1	16.25	.07	Greece, Switzerland
		12.76	.06	Rest of World
	5/17	17.38	.09	Greece, Switzerland
		13.89	.07	Rest of World
	8/1	17.38	.09	Greece, Switzerland
		13.89	.07	Rest of World

Source: Official Journal of the European Communities (Figures in E.C. Units of Account/100 kg).

1/ Subsidy levels are for "70%" chickens, defined as "plucked and drawn without heads and feet, but with hearts, livers and gizzards." These comprise the principal portion of E.C. whole chicken exports.

2/ Conversions based on average annual exchange rates provided in the General Budget of the European Communities.

Table 3 Continued

	11/1	17.38	.09	Greece, Switzerland
		13.89	.07	Rest of World
1973	2/1	17.38	.10	Greece, Switzerland
		13.89	.08	Rest of World
	5/1	11.50	.06	Worldwide
	8/1	9.99	.06	Worldwide
	9/1	8.47	.05	Worldwide
	11/1	6.43	.04	Worldwide
1974	2/1	3.03	.02	Worldwide
	5/1	12.00	.07	Worldwide
	7/1-8/1	—	—	Worldwide
	8/15	11.00	.06	Europe, Middle East, Mediterranean
	9/1	11.00	.06	Europe, Middle East, Med.
	11/11	—	—	Worldwide
1975	2/1	—	—	Worldwide
	5/1	—	—	Worldwide
	6/1	5.00	.03	Middle East, Europe, Med. & Cuba
	8/1	5.00	.03	Middle East, Europe, Med. & Cuba
	11/1	5.00	.03	Middle East, Europe, Med., Cuba & Africa
1976	2/1	5.00	.03	Middle East, Europe, Med., Cuba & Africa
	5/1	5.00	.03	Middle East, Europe, Med., Cuba & Africa
	6/1	8.50	.04	Middle East, Europe, Med., Cuba & Africa
	11/1	8.50	.04	Middle East, Europe, Med., Cuba & Africa
1977	2/1	8.50	.04	Middle East, Europe, Med., Cuba & Africa
	4/15	12.00	.06	Middle East, Europe, Med., Cuba & Africa
	7/1	12.00	.06	Middle East, Europe, Med., Cuba & Africa
	10/1	12.00	.06	Middle East, Europe, Med., Cuba & Africa
	11/1	12.00	.06	Middle East, Europe, Med., Cuba & Africa
1978	2/1	15.00	.09	Middle East, Europe, Med., Cuba & Africa
	5/1	15.00	.09	Middle East, Europe, Med., Cuba & Africa
	5/10	22.00	.13	Middle East, Europe, Med., Cuba & Africa
	8/15	22.00	.13	Middle East, Europe, Med., Cuba & Africa
	11/1	22.00	.13	Middle East, Europe, Med., Cuba & Africa
1979	2/1	22.00	.14	Middle East, Europe, Med., Cuba & Africa
	5/1	27.00	.17	Middle East, Europe, Med., Cuba & Africa
	6/1	27.00	.17	Middle East, Europe, Med., Cuba & Africa
	8/5	25.00	.16	Middle East, Europe, Med., Cuba & Africa
	11/1	25.00	.16	Middle East, Europe, Med., Cuba & Africa
1980	1/12	22.00	.14	Worldwide, except U.S.
	4/14	19.00	.12	Worldwide, except U.S.
	10/8	18.00	.11	Worldwide, except U.S.
	12/9	15.00	.09	Worldwide, except U.S.
1981	4/9	13.50	.06	Worldwide, except U.S.

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TABLE 4

U.S.-E.C. Exports of Whole Chickens to the Non-E.C. World (1967-1980)

	U.S. Exports 1/		E.C. Exports 2/	
1967	12581 m.t. 3/	(40.8%)	18187 m.t.	(59.2%)
1968	10661 m.t.	(37.3%)	17878 m.t.	(62.7%)
1969	10757 m.t.	(36.3%)	18825 m.t.	(63.7%)
1970	11759 m.t.	(19.0%)	50048 m.t.	(81.0%)
1971	10681 m.t.	(16.0%)	56046 m.t.	(84.0%)
1972	10552 m.t.	(19.4%)	43826 m.t.	(80.6%)
1973	7822 m.t.	(9.7%)	72631 m.t.	(90.3%)
1974	9967 m.t.	(8.6%)	106259 m.t.	(91.4%)
1975	12482 m.t.	(10.7%)	104704 m.t.	(89.3%)
1976	57327 m.t.	(29.1%)	139753 m.t.	(70.9%)
1977	60768 m.t.	(23.3%)	200196 m.t.	(76.7%)
1978	57755 m.t.	(23.7%)	185816 m.t.	(76.3%)
1979	84456 m.t.	(25.4%)	247697 m.t.	(74.6%)
1980	138602 m.t.	(30.8%)	310776 m.t. 4/	(69.2%)

1/ U.S. Bureau of the Census, Dep't of Commerce, Schedule B, U.S. Exports of Domestic Merchandise (Schedule B 011.4005 + 011.4015).

2/ Eurostat-Nimexe (1970-1974: 0202.11; 1975 - : 0202.01-05).

3/ U.S. data converted from pounds to m.t. using a 454g/lb conversion factor.

4/ Preliminary estimate based on 1980 Country Handbooks for France, West Germany, Denmark, the United Kingdom and the Netherlands.

TABLE 5

U.S.-E.C. Exports of Whole Chickens to Subsidized & Non-Subsidized Areas 1/

	Areas Subsidized by E.C. 2/				Areas Not Subsidized by E.C.			
	U.S. Exports		E.C. Exports		U.S. Exports		E.C. Exports	
1967	12581	(40.8%)	18187	(59.2%)	—		—	
1968	10661	(37.3%)	17878	(62.7%)	—		—	
1969	10757	(36.3%)	18825	(63.7%)	—		—	
1970	11759	(19.0%)	50048	(81.0%)	—		—	
1971	10681	(16.0%)	56046	(84.0%)	—		—	
1972	10552	(19.4%)	43826	(80.6%)	—		—	
1973	7822	(9.7%)	72631	(90.3%)	—		—	
1974	9967	(8.6%)	106259	(91.4%)	—		—	
1975	760	(0.9%)	82249	(99.1%)	11722	(34.3%)	22455	(65.7%)
1976	29971	(19.1%)	127148	(80.9%)	27356	(68.5%)	12605	(31.5%)
1977	29788	(13.6%)	189316	(86.4%)	30980	(74.0%)	10880	(26.0%)
1978	5786	(3.2%)	172814	(96.8%)	51969	(80.0%)	13002	(20.0%)
1979	18407	(7.2%)	237506	(92.8%)	66049	(86.6%)	10191	(13.4%)
1980	138602	(30.8%)	310776	(69.2%)	—		—	

1/ Between 1967-1974 the E.C. subsidy on all chicken exports was worldwide. In July 1974, the subsidy was eliminated except for whole chickens and applied only to the Middle East; the non-E.C. European countries, and certain countries bordering on the Mediterranean. In September 1974, Cuba and the Canary Islands were added; and in November of 1975, the rest of Africa was added. In January 1980, the subsidy was reimposed worldwide.

2/ U.S. data from U.S. Department of Commerce, Schedule B Export data; E.C. data from Eurostat-Nimexe.

TABLE 6
U.S.-E.C. Exports of Whole Chickens to the Middle East (1964-1980)

	U.S. Exports 1/		E.C. Exports 2/	
1964	1594 m.t. 3/ 4/	(95.8%)	69 m.t.	(4.2%)
1965	1271 m.t.	(93.9%)	83 m.t.	(6.1%)
1966	1521 m.t.	(97.1%)	44 m.t.	(2.9%)
1967	568 m.t.	(56.7%)	434 m.t.	(43.3%)*
1968	454 m.t.	(59.3%)	312 m.t.	(40.7%)*
1969	104 m.t.	(13.4%)	673 m.t.	(86.6%)*
1970	181 m.t.	(9.5%)	1728 m.t.	(90.5%)*
1971	112 m.t.	(3.0%)	3665 m.t.	(97.0%)*
1972	67 m.t.	(1.0%)	8403 m.t.	(99.0%)*
1973	190 m.t.	(1.2%)	16157 m.t.	(98.8%)*
1974	1618 m.t.	(3.2%)	48219 m.t.	(96.8%)*
1975	583 m.t.	(1.0%)	59035 m.t.	(99.0%)*
1976	29025 m.t.	(25.1%)	86368 m.t.	(74.9%)*
1977	15375 m.t.	(12.3%)	109184 m.t.	(87.7%)*
1978	773 m.t.	(.5%)	141581 m.t.	(99.5%)*
1979	4362 m.t.	(3.1%)	135971 m.t.	(96.9%)*
1980	44023 m.t.	(18.3%)	196277 m.t. 5/	(81.7%)*

* E.C. Subsidy in effect.

1/ U.S. Bureau of the Census, Dep't of Commerce, Schedule B, U.S. Exports of Domestic Merchandise (1958-1964: 00341 + 00345; 1964-1967: 011.4010 + 011.4020; 1967 - : 011.4005 + 011.4015).

2/ Eurostat-Nimexe (1958-1966: 011.4; 1966-74: 00202.11; 1975 - : 0202.01-.05).

3/ U.S. data converted from pounds to m.t. using 454g/lb conversion factor.

4/ Data for 1964-1966 includes chicken parts and whole chickens. Both the E.C. and United States did not disaggregate poultry data prior to 1967.

5/ Preliminary estimate based on 1980 Country Handbooks for France, West Germany, Denmark, the United Kingdom, and the Netherlands.

TABLE 7
U.S.-E.C. Exports of Whole Chickens to Non-E.C. Europe 1/ (1964-1980)

	U.S. Exports 2/		E.C. Exports 3/	
1964	7568 m.t. 4/ 5/	(33.6%)	14942 m.t.	(66.4%)
1965	5632 m.t.	(30.6%)	12756 m.t.	(69.4%)
1966	3847 m.t.	(19.6%)	15684 m.t.	(80.4%)
1967	906 m.t.	(6.3%)	13445 m.t.	(93.7%)*
1968	3343 m.t.	(21.9%)	11922 m.t.	(78.1%)*
1969	5526 m.t.	(33.2%)	11109 m.t.	(66.8%)*
1970	6298 m.t.	(13.7%)	3958 m.t.	(86.3%)*
1971	4016 m.t.	(10.0%)	36172 m.t.	(90.0%)*
1972	5075 m.t.	(30.2%)	11707 m.t.	(69.8%)*
1973	1929 m.t.	(4.0%)	45816 m.t.	(96.0%)*
1974	133 m.t.	(0.6%)	22597 m.t.	(99.4%)*
1975	48 m.t.	(0.7%)	7022 m.t.	(99.3%)*
1976	148 m.t.	(0.6%)	24950 m.t.	(99.4%)*
1977	6404 m.t.	(8.5%)	68826 m.t.	(91.5%)*
1978	59 m.t.	(0.4%)	14507 m.t.	(99.6%)*
1979	132 m.t.	(0.2%)	86705 m.t.	(99.8%)*
1980	5139 m.t.	(6.5%)	73394 m.t. 6/	(93.5%)*

* E.C. Subsidy in effect.

1/ Includes communist East Europe.

2/ U.S. Bureau of the Census, Dep't of Commerce, Schedule B, U.S. Exports of Domestic Merchandise (Schedule B 011.4005 + 011.4015).

3/ Eurostat-Nimexe (1967-1974: 0202.11; 1975 - : 0202.01-.05).

4/ U.S. data converted from pounds to m.t. using a 454g/lb conversion factor.

5/ Data for 1964-1966 includes chicken parts and whole chickens. Both the E.C. and United States did not disaggregate poultry data prior to 1967.

6/ Preliminary estimate based on 1980 Country Handbooks for France, West Germany, Denmark, the United Kingdom and the Netherlands.

TABLE 8

U.S. - E.C. Exports of Whole Chickens to the Caribbean (1967-1980) 1/

	U.S. Exports 2/		E.C. Exports 3/	
1967	3281 m.t. 4/	(61.6%)	2043 m.t.	(38.4%)*
1968	3222 m.t.	(56.8%)	2446 m.t.	(43.2%)*
1969	3118 m.t.	(49.4%)	3193 m.t.	(50.6%)*
1970	3086 m.t.	(54.6%)	2569 m.t.	(45.4%)*
1971	2197 m.t.	(37.9%)	3594 m.t.	(62.1%)*
1972	3063 m.t.	(42.7%)	4100 m.t.	(57.3%)*
1973	3174 m.t.	(45.5%)	3804 m.t.	(54.5%)*
1974	3073 m.t.	(42.1%)	4229 m.t.	(57.9%)*
1975	4231 m.t.	(46.9%)	4790 m.t.	(53.1%)
1976	5046 m.t.	(46.7%)	5763 m.t.	(53.3%)
1977	5806 m.t.	(48.8%)	6100 m.t.	(51.2%)
1978	8899 m.t.	(55.7%)	7074 m.t.	(44.3%)
1979	19228 m.t.	(73.3%)	7013 m.t.	(26.7%)
1980	21422 m.t.	(77.0%)	6407 m.t. 5/	(23.0%)*

* E.C. Subsidy in effect.

1/ Includes all of Central America, except Cuba. Does not include South America.

2/ U.S. Bureau of the Census, Dep't of Commerce, Schedule B, U.S. Exports of Domestic Merchandise (Schedule B 011.4005 + 011.4015).

3/ Eurostat-Nimexe (1967-1974: 0202.11; 1975 - : 0202.01-.05).

4/ U.S. data converted from pounds to m.t. using a 454g/lb conversion factor.

5/ Preliminary estimate based on 1980 Country Handbooks for France, West Germany, Denmark, the United Kingdom and the Netherlands.

TABLE 9

U.S.-E.C. Exports of Whole Chickens to the Far East 1/
(1967-1980)

	U.S. Exports 2/		E.C. Exports 3/	
1967	4356 m.t. 4/	(97.7%)	100 m.t.	(2.3%)*
1968	585 m.t.	(64.2%)	325 m.t.	(35.8%)*
1969	256 m.t.	(40.0%)	384 m.t.	(60.0%)*
1970	725 m.t.	(46.2%)	842 m.t.	(53.8%)*
1971	1055 m.t.	(46.5%)	1213 m.t.	(53.5%)*
1972	759 m.t.	(85.5%)	129 m.t.	(14.5%)*
1973	881 m.t.	(70.6%)	367 m.t.	(29.4%)*
1974	616 m.t.	(0.7%)	8221 m.t.	(99.3%)*
1975	1662 m.t.	(23.5%)	5397 m.t.	(76.5%)
1976	4000 m.t.	(60.9%)	2568 m.t.	(39.1%)
1977	9100 m.t.	(86.1%)	1464 m.t.	(13.9%)
1978	8645 m.t.	(89.2%)	1043 m.t.	(10.8%)
1979	10375 m.t.	(92.2%)	887 m.t.	(7.8%)
1980*	6368 m.t.	(85.5%)	1083 m.t. 5/	(14.5%)*

* E.C. Subsidy in effect.

1/ Includes Hong Kong, Japan, China, Malaysia, Singapore, Korea.

2/ U.S. Bureau of the Census, Dep't of Commerce, Schedule B, U.S. Exports of Domestic Merchandise (Schedule B 011.4005 + 011.4015).

3/ Eurostat-Nimexe (1967-1974: 0202.11; 1975 - : 0202.01-.05).

4/ U.S. data converted from pounds to m.t. using a 454g/lb conversion factor.

5/ Preliminary estimate based on 1980 Country Handbooks for France, West Germany, Denmark, the United Kingdom, and the Netherlands.

TABLE 10

U.S.-E.C. Exports of Chicken Parts to the Non-E.C. World (1970-1980)

	U.S. Exports 1/		E.C. Exports 2/	
1970	30331 m.t. 3/	(91.3%)	2886 m.t.	(8.7%)*
1971	34140 m.t.	(88.0%)	4670 m.t.	(12.0%)*
1972	32945 m.t.	(85.2%)	5722 m.t.	(14.8%)*
1973	34331 m.t.	(86.4%)	5408 m.t.	(13.6%)*
1974	42965 m.t.	(70.4%)	18078 m.t.	(29.6%)*
1975	52802 m.t.	(80.8%)	12566 m.t.	(19.2%)
1976	80460 m.t.	(86.3%)	12744 m.t.	(13.7%)
1977	89762 m.t.	(88.4%)	11823 m.t.	(11.6%)
1978	102453 m.t.	(89.6%)	11933 m.t.	(10.4%)
1979	110826 m.t.	(89.2%)	13293 m.t.	(10.8%)*
1980	139063 m.t.	(91.2%)	13426 m.t. 4/	(8.8%)*

* E.C. Subsidy in effect.

1/ U.S. Bureau of the Census, Dep't of Commerce, Schedule B, U.S. Exports of Domestic Merchandise (Schedule B 011.4025).

2/ Eurostat-Nimexe (1970-1974: 0202.60 + 0202.70; 1975 - : 0202.50, 61, 68, 69, 75, 86, 89).

3/ U.S. data converted from pounds to m.t. using a 454g/lb conversion factor.

4/ Preliminary estimate based on 1980 Country Handbooks for France, West Germany, Denmark, the United Kingdom, and the Netherlands.

TABLE 11

U.S.-E.C. Exports of Turkeys & Turkey Parts to the Non-E.C. World (1970-1980) 1/

	U.S. Exports 2/		E.C. Exports 3/	
1970	2357 m.t. 4/	(78.9%)	629 m.t.	(21.1%)*
1971	1708 m.t.	(79.8%)	433 m.t.	(20.2%)*
1972	3991 m.t.	(91.6%)	364 m.t.	(8.4%)*
1973	3986 m.t.	(92.4%)	330 m.t.	(7.6%)*
1974	6626 m.t.	(79.3%)	1731 m.t.	(20.7%)*
1975	6419 m.t.	(86.7%)	987 m.t.	(13.3%)
1976	14611 m.t.	(92.9%)	1124 m.t.	(7.1%)
1977	12396 m.t.	(90.4%)	1328 m.t.	(9.6%)
1978	11596 m.t.	(92.5%)	941 m.t.	(7.5%)
1979	10127 m.t.	(90.3%)	1089 m.t.	(9.7%)
1980	23410 m.t.	(92.1%)	2014 m.t. 5/	(7.9%)*

* E.C. Subsidy in effect.

1/ 1970-1973: Whole Turkeys Only; 1974 - : Whole Turkeys & Turkey Parts.

2/ U.S. Bureau of the Census, Dep't of Commerce, Schedule B, U.S. Exports of Domestic Merchandise (1970-1973: 011.4033; 1974 - : 011.4033 + 011.4038).

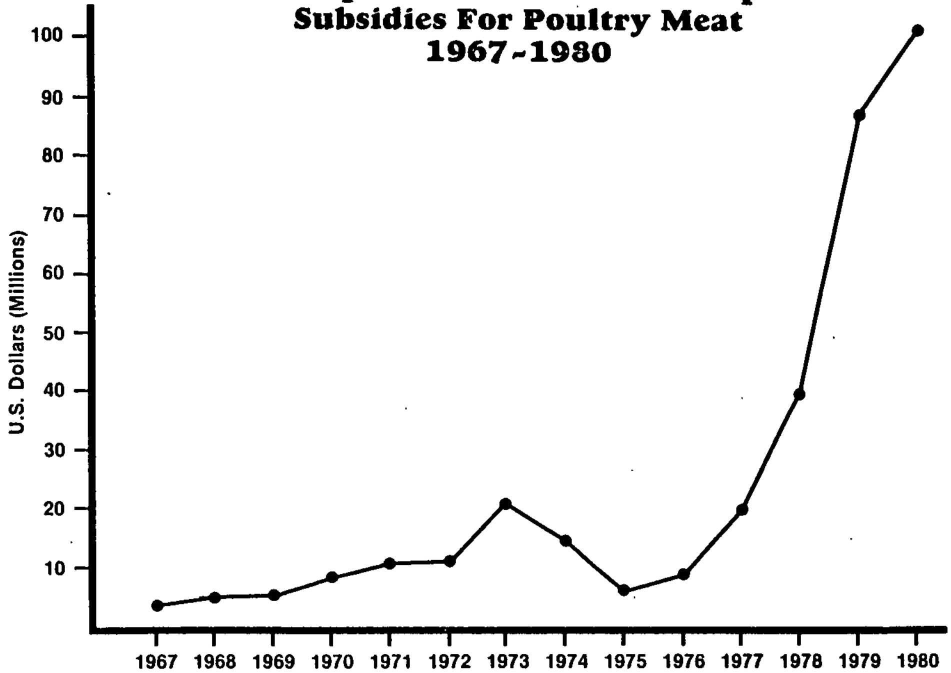
3/ Eurostat-Nimexe (1970-1973: 0202.17; 1974 - : 0202.17, .64, .73, .83, .85).

4/ U.S. data converted from pounds to m.t. using a 454g/lb conversion factor.

5/ Preliminary estimate based on 1980 Country Handbooks for France, West Germany, Denmark, the United Kingdom, and the Netherlands.

Exhibit 1

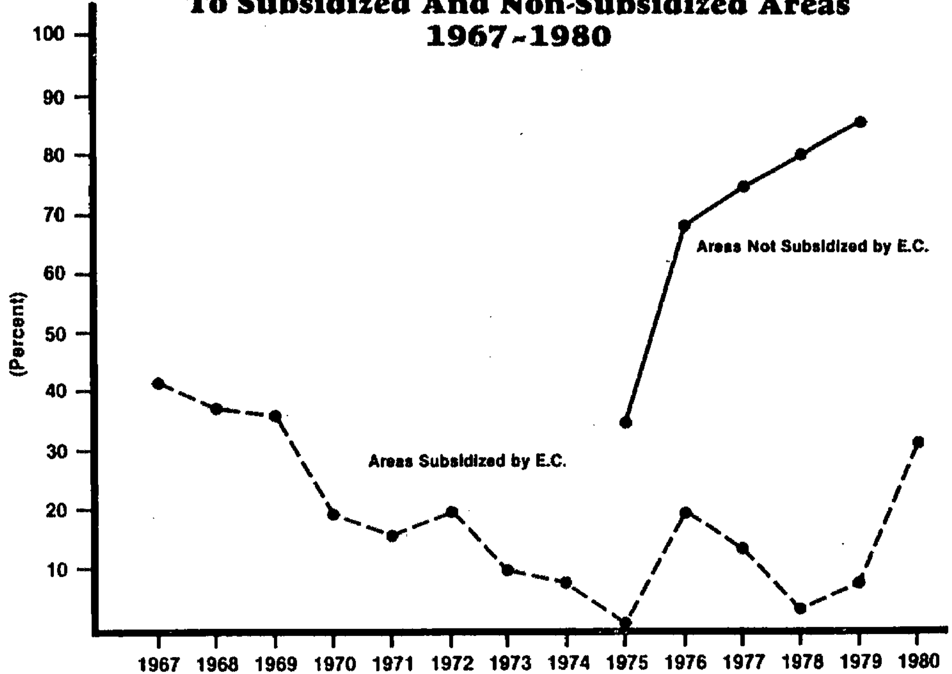
E.C. Expenditures On Direct Export Subsidies For Poultry Meat 1967-1980



Source: Petition by National Broiler Council et. al. before the Office of the U.S. Trade Representative

Exhibit 2

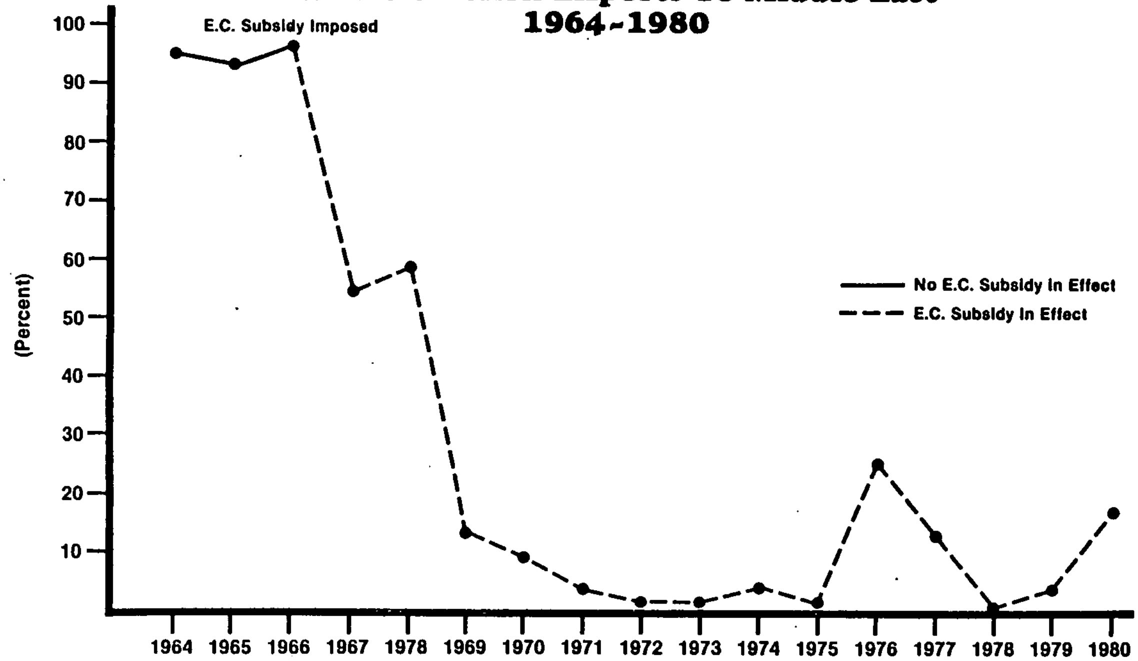
U.S. Share of U.S.-E.C. Whole Chicken Exports To Subsidized And Non-Subsidized Areas 1967-1980



Source: Petition by National Broiler Council et. al. before the Office of the U.S. Trade Representative

Exhibit 3

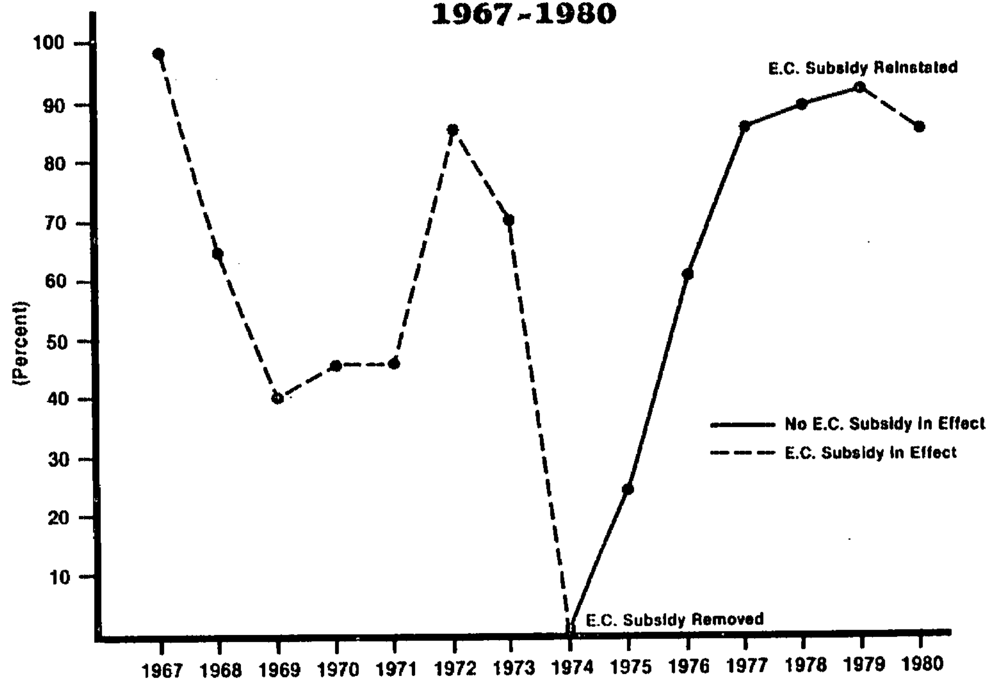
U.S. Share of U.S.-E.C.
Whole Chicken Exports To Middle East
1964-1980



Source: Petition by National Broiler Council et. al. before the Office of the U.S. Trade Representative

Exhibit 4

U.S. Share of U.S.-E.C. Whole Chicken Exports to Far East 1967-1980



Source: Petition by National Broiler Council et. al. before the Office of the U.S. Trade Representative

POSITION PAPER OF THE UNITED STATES POULTRY INDUSTRY ON UNFAIR EUROPEAN COMMUNITY POULTRY EXPORT SUBSIDIES

Introduction

American poultry meat producers and processors are the world's most efficient. Illegal European Community ("E.C.") export subsidies, however, hamper U.S. poultry export efforts and threaten further damage to U.S. interests. Representatives of the U.S. poultry industry have petitioned the Office of the United States Trade Representative ("USTR") to secure United States rights under international trade agreements and obtain relief from unfair E.C. practices. The poultry industry's action is explained more fully below.

E.C. Export Refund Violates International Agreements

The General Agreement on Tariffs and Trade (the "General Agreement") and its interpretive "Subsidies Code" prohibit government export subsidies on primary agricultural products if the subsidy results in a country obtaining more than an equitable share of world export trade. The E.C. grants substantial export subsidies for poultry meat (including whole chickens, chicken parts, whole turkeys and turkey parts). These direct export subsidies are set at whatever level is needed to obtain export sales. The amount of these subsidies has grown enormously over the years (Exhibit 1). Last year, the E.C. spent over $100 million for direct export subsidies on poultry meat. In addition, France offers a variety of indirect subsidies, such as capital grants, to promote exports of poultry meat. These direct and indirect subsidies have resulted in the E.C. obtaining more than an equitable share of world export trade in violation of the General Agreement.

<u>Effects of E.C. Export Subsidies on U.S. Producers</u>

Despite the efficiency of U.S. poultry producers, only four percent of U.S. poultry meat production is exported. On the other hand, relatively less efficient E.C. producers export approximately seventeen percent of their production. The primary reason for this anomaly is the large, virtually unlimited E.C. export subsidies.

The E.C. export subsidies have effectively preempted U.S. producers from markets traditionally important to them. U.S. producers already have lost substantial sales and sales opportunities for whole chickens in several significant world markets. Moreover, the E.C. has recently enlarged the scope of the products eligible for export subsidies to include chicken parts, turkeys and turkey parts. The E.C. has also expanded the geographic scope of the markets for which subsidies will be granted to include the entire non-E.C. world except the United States. The U.S. poultry industry is thus threatened with further losses if subsidies continue.

At the time the E.C. first began subsidizing exports of whole chickens in 1967, the United States was supplying over

40 percent of the non-E.C. market for whole chickens. The period 1967-1974 witnessed both an absolute and percentage decline in U.S. exports to the non-E.C. world. By 1974, the United States was able to capture only an 8.6 percent share of the non-E.C. market for whole chickens. The United States was able to recover some of its share of the market during the 1974-79 period, when the world export market experienced its greatest absolute growth and the E.C. subsidy was removed from certain areas. However, a significant portion of U.S. growth during the 1974-79 period can be attributed to a few individual sales which were consummated after the E.C. had exhausted its production and therefore could not meet foreign demand. Unfortunately, the U.S. has never regained the position it occupied prior to 1967 when the E.C. subsidy on poultry meat first went into effect.

The impact of the subsidy is particularly pronounced if one considers the 1974-79 period in terms of aggregate subsidized and non-subsidized markets. During this period, the E.C.'s export refund was available only to exports to the Middle East, non-E.C. Europe, the Mediterranean, Cuba, and Africa. In those markets where the subsidy was in effect, the E.C. captured anywhere from 81 percent to 99 percent of combined U.S.-E.C. whole chicken exports (Exhibit 2). In those markets where the subsidy was not in effect, the E.C. export share steadily declined from 66 percent in 1975 to 13.4 percent in 1979. With the reimposition of the subsidy worldwide in 1980, the E.C. increased its share of U.S.-E.C. whole chicken exports from 13.4 percent to 31 percent in those countries to which the subsidy was not available between 1974 and 1979.

The data is equally revealing with respect to the impact of the subsidy on individual regional markets. Although insignificant until 1971-72, the Middle East market for whole chickens has grown rapidly. Between 1975 and 1980, the market grew 300 percent. Today it comprises over half of the world market for whole chicken exports. Through this entire period, the E.C. subsidy has been continuously available, a fact reflected in the limited U.S. export performance. From 1971 to 1980, the U.S. shares of the E.C.-U.S. exports of whole chicken exceeded 3 percent on only three occasions, and all three occasions were largely the result of certain individual transactions with Iraq (Exhibit 3). Over the entire period between 1971 and 1980, the United States captured only 11 percent of the entire market for whole chickens.

The situation is mirrored in the non-E.C. countries of Europe. Again the E.C. subsidy on whole chicken exports has been in effect continuously since 1967. The trade figures reveal continuous E.C. dominance throughout the 1970's. In fact, after 1972, the U.S. share of combined U.S.-E.C. exports to this region never exceeded 8.5 percent. Although this dominance can be explained in part by the E.C.'s superior regional access, it is noteworthy that in the late 60's and early 70's when the United States imposed a subsidy of its own on exports to Switzerland and Austria in retaliation for the E.C.'s export subsidies, the United States was able to gain a relatively strong foothold into this market. Moreover, during the three year period immediately prior to the subsidization, the United States captured over 28 percent of this market. It follows that the E.C.'s market advantage is largely a product of continuous subsidization.

The situation in the Middle East and the non-E.C. Europe is substantially reversed in the Far East and Caribbean where U.S. producers have not always competed against the export refund. Between 1971 and 1974, when the Caribbean market first began to grow and the subsidy was in effect, the E.C. captured between 55 and 62 percent of the whole chicken market, despite the superior regional access of the United States. Between 1974 and 1979, the E.C. eliminated the export refund for whole chicken exports. Following the removal of the subsidy in 1974, the E.C. share steadily declined from 53 percent in 1975 to a low of 27 percent in 1979.

The situation is even more pronounced in the Far East (Exhibit 4). The whole chicken market only began to develop significantly in 1974, when the E.C. subsidy was in effect. In that year the E.C. gained substantially in whole chicken sales. With the elimination of the subsidy, however, the United States began to achieve gradual dominance until its share of the market in 1979 exceeded 90 percent. With the reimposition of the E.C. subsidy in 1980, the trend has begun to reverse itself. Between 1979 and 1980, the E.C. share of combined U.S.-E.C. exports jumped from 7.8 percent to 14.5 percent, while the absolute volume of U.S. sales dropped 39 percent.

The economic effect of the E.C. subsidy on the U.S. poultry industry as well as the entire U.S. economy has been enormous. If, for example, U.S. producers had been able to maintain even a fifty percent share of the Middle East market during 1971-80, we would have gained an additional half billion dollars in export sales. Considering the U.S. producers' share of that market was more than ninety percent prior to E.C. subsidization, a fifty percent share is not unreasonable. An additional one-half billion dollars in export sales means more jobs and an improved balance of payments.

U.S. Poultry Industry Action

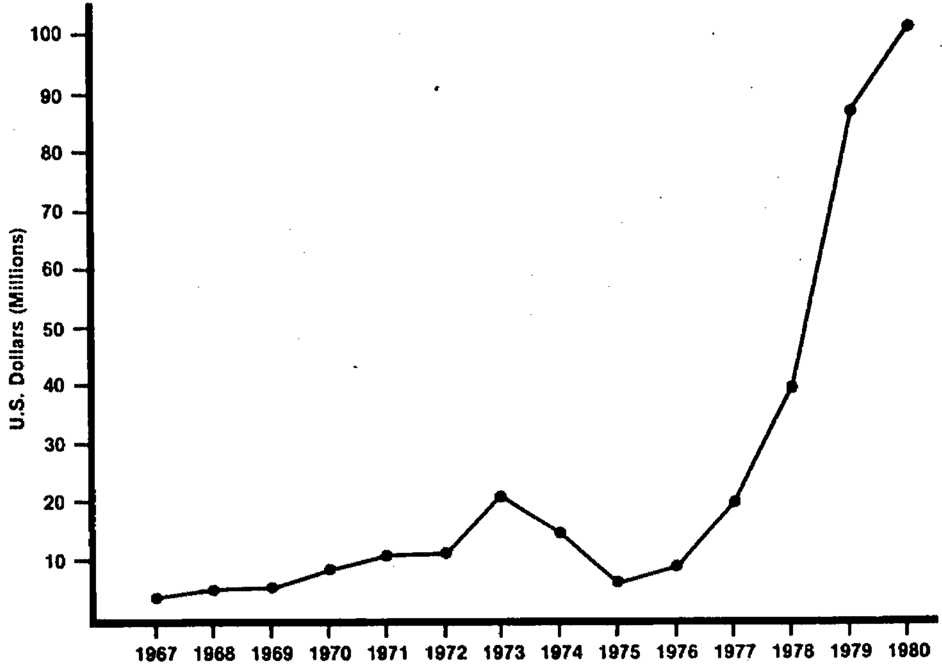
Representatives of the U.S. poultry industry (Exhibit 5) have petitioned the Office of the United States Trade Representative under Section 301 of the Trade Act of 1974 (19 U.S.C. § 2411 *et seq.* (Supp. III 1979)) to take all appropriate steps to obtain elimination of the E.C.'s export refund on poultry meat and all indirect subsidies by the Government of France. Under Section 301, USTR has 45 days to decide whether to accept the petition and initiate an investigation. If USTR accepts the petition, it may make use of the consultation, conciliation and dispute settling mechanisms of the Subsidies Code. If those steps fail to resolve the issue, the President may take additional measures prescribed by law.

Importance of Effective U.S. Government Action

The U.S. poultry industry's petition will present one of the first major tests of the Reagan Administration's export promotion policy and the Administration's resolve to combat unfair export subsidies bestowed by other governments. Apart from its importance to general trade policy, USTR's action in the petition will have a direct and substantial impact on the U.S. poultry industry and the entire U.S. economy. The USTR should accept the poultry industry's petition and vigorously press for the elimination of E.C. export subsidies.

EXHIBIT 1

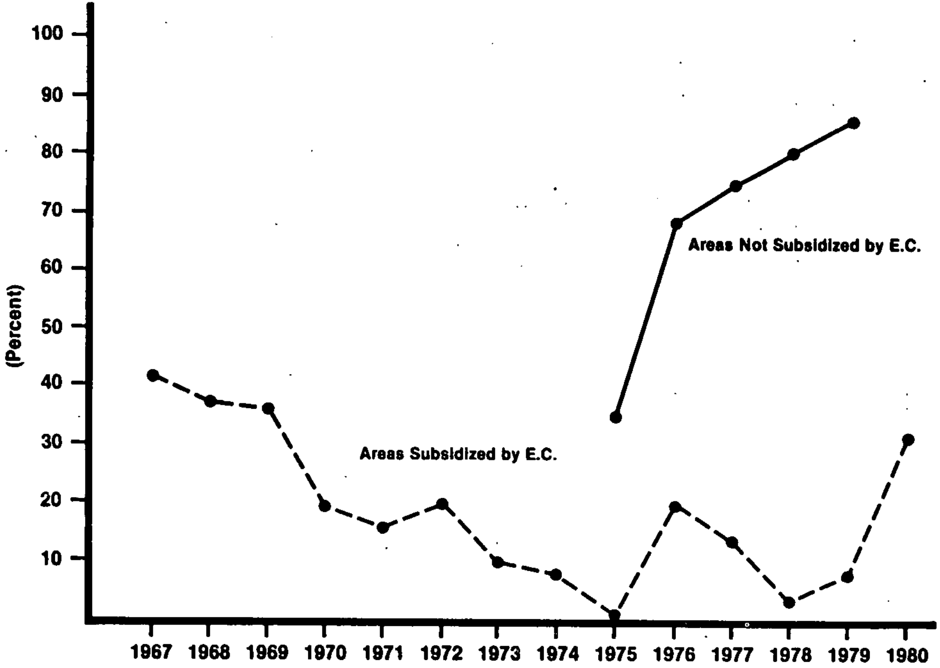
E.C. Expenditures On Direct Export Subsidies For Poultry Meat 1967-1980



Source: Petition by National Broiler Council et. al. before the Office of the U.S. Trade Representative

EXHIBIT 2

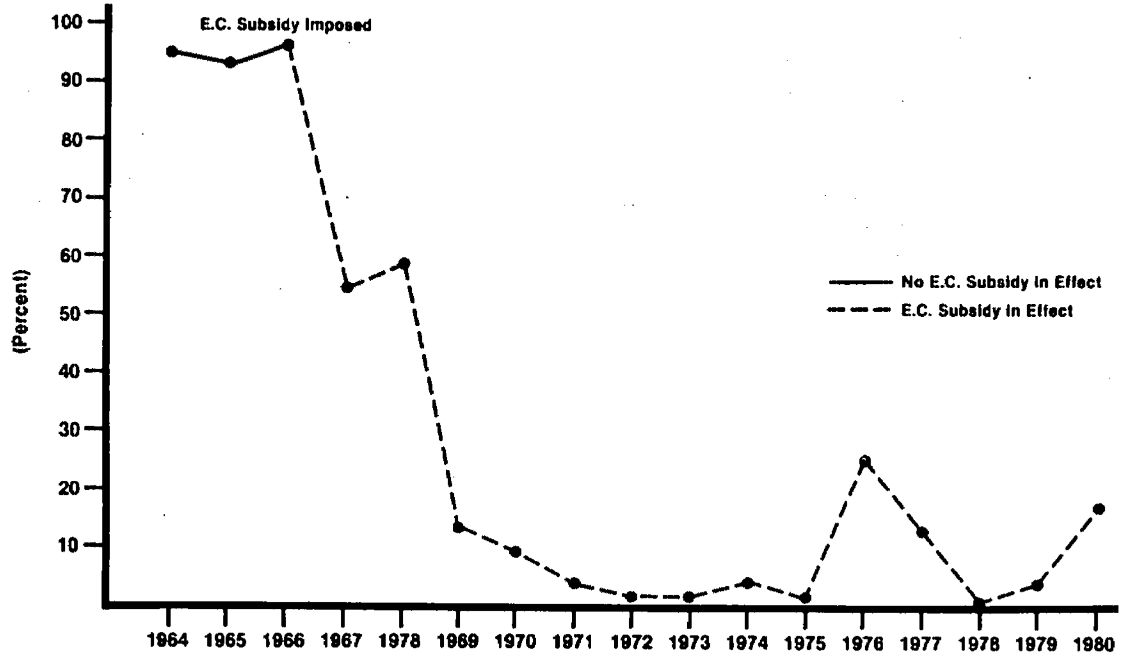
U.S. Share of U.S.-E.C. Whole Chicken Exports To Subsidized And Non-Subsidized Areas 1967-1980



Source: Petition by National Broiler Council et. al. before the Office of the U.S. Trade Representative

EXHIBIT 3

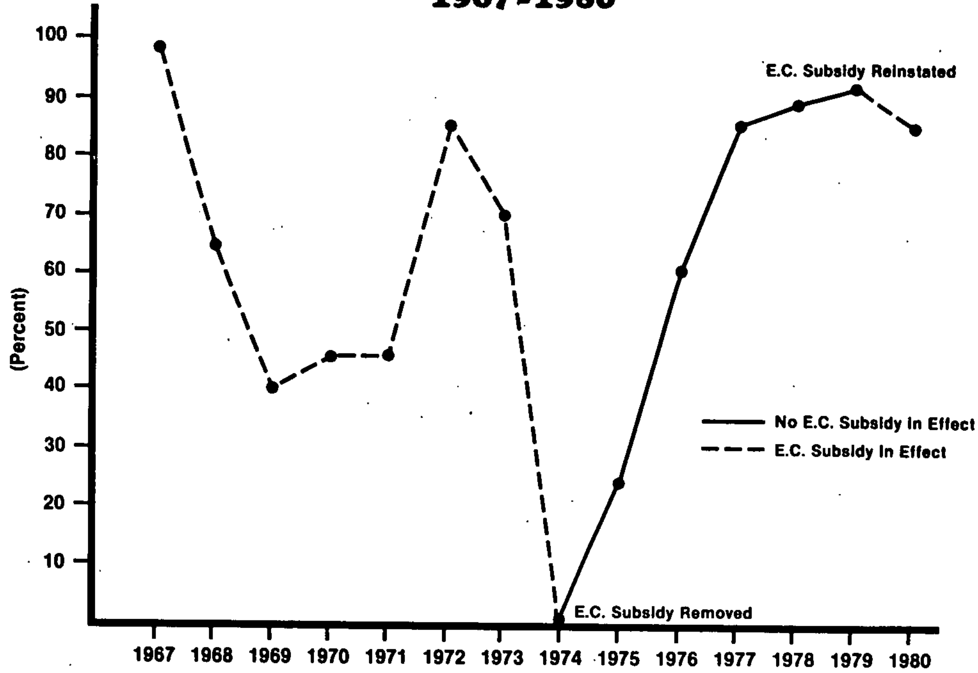
U.S. Share of U.S.-E.C. Whole Chicken Exports To Middle East 1964-1980



Source: Petition by National Broiler Council et. al. before the Office of the U.S. Trade Representative

EXHIBIT 4

U.S. Share of U.S.-E.C. Whole Chicken Exports to Far East 1967-1980



Source: Petition by National Broiler Council et. al. before the Office of the U.S. Trade Representative

Exhibit 5

U.S. Poultry Industry Representatives

Representatives of the U.S. poultry industry which filed a petition under Section 301 of the Trade Act of 1974 are the National Broiler Council, the Poultry and Egg Institute of America, the Alabama Poultry and Egg Association, the Arkansas Poultry Federation, the Delmarva Poultry Industry Inc., the Florida Poultry Federation, the Georgia Poultry Federation, Inc., the Mississippi Poultry Association, the North Carolina Poultry Federation, the Texas Poultry Federation and Affiliates, and the Virginia Poultry Federation, Inc.

The National Broiler Council is a not-for-profit national trade association headquartered in Washington, D.C. and incorporated as a non-profit association in the Commonwealth of Virginia. Its members produce and process more than 75 percent of this country's young meat chicken (broilers). The Poultry and Egg Institute of America is a national non-profit association headquartered in Arlington, Virginia. The Institute represents those who breed, hatch, process or distribute poultry, eggs, and poultry and egg products (including chicken and turkey meat), and affords a means of cooperation with Federal and State governments. The Alabama Poultry and Egg Association is a non-profit trade organization headquartered in Cullman, Alabama. Association members represent all phases of the poultry industry -- broiler integration, commercial egg integration, food manufacturing, turkey producers, independent hatcheries, contract broiler growers and egg producers and allied industry firms. The Arkansas Poultry Federation, headquartered in Little Rock, is a trade association whose members are engaged in all phases of the Arkansas poultry industry. The Delmarva Poultry Industry Inc. is an organization of broiler and breeder pullet growers, hatching egg producers, hatcherymen, feed manufacturers, poultry processors and allied businesses. It is located in Georgetown, Delaware and represents the tri-state poultry industry of Delaware and the Eastern Shore counties of Maryland and Virginia. The Florida Poultry Federation is a non-profit corporation formed under the laws of Florida and headquartered in Tampa. Its members are Florida poultry producers, processors, hatchery operators, feed dealers, and egg dealers. The Georgia Poultry Federation is a trade association, headquartered in Gainesville, Georgia, representing all segments of the Georgia Poultry industry. Federation members account for virtually all of the poultry production in Georgia, which on a daily average basis amounts to over six million pounds of chicken, over fifteen million eggs, and about 75 tons of turkey. The Mississippi Poultry Association is a non-profit corporation headquartered in Jackson, Mississippi. The Association represents all phases of the poultry industry in Mississippi, primarily the broiler and egg industries. The North Carolina Poultry Federation, headquartered in Raleigh, represents the three-quarters of a billion dollar poultry industry of North Carolina. Its activities include consumer education, research, government and legislative affairs. The Texas Poultry Federation and Affiliates, headquartered in Austin, represents about 99 percent of the state's turkey industry, 95 percent of the broiler industry, and 75 percent of the egg industry. The Virginia Poultry Federation, Inc., headquartered in Harrisonburg, represents individuals and firms engaged in all facets of the poultry and egg industries.

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