EXPORT CONTROLS ON AGRICULTURAL COMMODITIES

HEARINGS

BEFORE THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

ON

S. 2053

TO AMEND THE EXPORT ADMINISTRATION ACT OF 1969, TO PERMIT THE PRESIDENT TO USE EXPORT CONTROLS TO CURTAIL SERIOUS INFLATION IN DOMESTIC PRICES

JUNE 25 AND 26, 1973

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CONTENTS

Tables and Charts

EXPORT CONTROLS ON AGRICULTURAL COMMODITIES

MONDAY, JUNE 25, 1973

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:05 a.m. in room 5302, Dirksen Senate Office Building, Senator William Proxmire presiding.

Present: Senators Proxmire, Stevenson, Johnston, Hathaway, Bennett, Packwood, and Brock.

Senator PROXMIRE. The committee will come to order.

We are honored this morning to have three distinguished dignitaries from the administration, two Secretaries and the Director of the Cost of Living Council.

The matter before us is urgent and I understand Sam Cross is expected, too. If he would like to come forward, he may. I understand also Mr. Dunlop must leave at 10:45.

Gentlemen, proceed in your own way. The way we have this witness list scheduled, we have Mr. Dunlop first but Mr. Dent, if you are prepared to lead off, go right ahead.

STATEMENT OF FREDERICK B. DENT, SECRETARY OF COMMERCE; EARL L. BUTZ, SECRETARY OF AGRICULTURE; AND JOHN T. DUNLOP, DIRECTOR, COST OF LIVING COUNCIL; ACCOMPANIED BY MICHAEL F. BUTLER, GENERAL COUNSEL DEPARTMENT OF COMMERCE; JOHN A. KNEBEL, DEPARTMENT OF AGRICULTURE; WILLIAM WALKER, GENERAL COUNSEL, COST OF LIVING COUNCIL; AND SAM Y. CROSS, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL MONETARY AND INVESTMENT POLICY, DEPARTMENT OF THE TREASURY

Mr. DENT. I will present a joint statement on behalf of all three and then we will take questions.

Senator PROXMIRE. All right. Whatever part you want to abbreviate, do so, and we will print the statement in full in the record and your tables will also be printed in the record.

[Copy of the bill follows:]

93D CONGRESS
1ST SESSION

S. 2053

IN THE SENATE OF THE UNITED STATES

JUNE 22 (legislative day, JUNE 18), 1973

Mr. TOWER (for himself and Mr. SPARKMAN) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing and Urban Affairs

A BILL

To amend the Export Administration Act of 1969, to permit the President to use export controls to curtail serious inflation in domestic prices.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 3 (2) (A) of the Export Administration Act of 1969 (50 U.S.C. App. 2402 (2) (A)) is amended to read as follows: "(A) to the extent necessary to protect the domestic economy from the excessive drain of scarce materials, to curtail serious inflation in domestic prices, or to reduce the serious inflationary impact of abnormal foreign demand,".

II

(b) Section 4 (c) of such Act (50 U.S.C. App. 2403 (c)) is amended by inserting after the words "the domestic economy" the phrase "from serious price inflation or".

(c) Section 4 (e) of such Act (50 U.S.C. App. 2403 (e)) is amended to read as follows:

"(e) To effectuate the policy set forth in clause (A) of paragraph (2) of section 3 with respect to any agricultural commodity, the authority conferred by this section shall not be exercised without the approval of the Secretary of Agriculture.".

Mr. DENT. There are seven pages of the presentation.

Senator PROXMIRE. That is fine.

Go ahead. The appendix will be printed following that.

Mr. DENT. Mr. Chairman, and members of the committee, as you know, on June 13, 1973, President Nixon announced a series of actions which were being taken to stabilize the economy. He stated that he would seek new and more flexible statutory authority needed to impose export controls on commodities, in the event such action is necessary to curtail serious domestic inflation. He also announced the establishment of reporting requirements for exports of agricultural commodities. We are appreciative of the promptness with which this committee scheduled hearings to consider these matters which we know reflects the strong concern of the Senate that appropriate action must be taken promptly to reduce inflation.

A major source of inflation during 1973 has been due to rising farm product prices. Through May of this year, wholesale prices for farm products have risen more than 22 percent to a level of almost two-fifths above that of May 1972. These sharp price increases reflect reduced output of a number of commodities in both domestic and in international markets coupled with expanding demand pushed up by increases in population and income.

In view of the tight supply situation which began developing in late 1972, the Cost of Living Council made a decision in January 1973, to continue mandatory controls in the food sector. At the same time, the Council in cooperation with the U.S. Department of Agriculture took a number of major steps to implement strong policy actions designed to encourage a vigorous expansion in farm output during 1973.

During the opening months of the year, it appeared that the actions to augment farm output and the incentive of rising farm product prices would lead to increased supplies of both crop and livestock production, particularly in the second half of 1973. However, market prices for grains and soybeans have risen sharply in recent weeks and have resulted in upward pressure on livestock prices. This runup in feed costs during the late spring put a severe squeeze on livestock profits and forced many operators into loss positions.

This upsurge in prices during the late spring, coupled with evidence of runaway prices in other commodity markets led to the President's announcement on June 13 that a freeze would be imposed on prices for 60 days. This action was taken to halt inflation immediately and to allow time for the development and implementation of a set of wage and price controls that would take effect on or before August 12 in order to restore reasonable price stability.

With respect to agricultural products and other commodities influenced by international markets, it is becoming increasingly evident that unless the United States takes positive steps to protect its markets, commodities will flow to other countries where consumers with increasing incomes are eating more meat than before and paying higher prices than in the United States. Faced with the prospect of having commodities flow into international markets at the expense of American consumers, the President, on June 13 announced a series of steps designed to deal with this problem.

The reporting requirements announced by the President require all exporters to report on a weekly basis by country and month of shipment all exports and sales for exports of certain grains, oilseeds, and primary products of oilseeds. A more detailed statement of these procedures is attached to this statement as appendix A, and I would be pleased to answer any questions the committee has on them. The first report was due on June 20 and we are in the process of compiling the data. These compilations will be transmitted to the Department of Agriculture as soon as they are completed. The Agriculture Department, in turn will release these compilations to the public promptly after receipt.

At the same time that the President announced the establishment of the reporting requirements on June 13, he also stated that he would see new and more flexible statutory authority needed to impose export controls, in the event such action proved necessary. This request for special statutory authority was based on the premise that new legislative authority is needed to allow the President to control disruptive exports of commodities whenever he determines such action to be necessary to curtail serious domestic inflation.

The amendments to the Export Administration Act of 1969 introduced as S. 2053 on June 22 by Senators Sparkman and Tower, are designed to provide the President with this authority. The administration initially proposed that this authority be granted through amendment to the Economic Stabilization Act, but we now support S. 2053 which would achieve this authority by amending the Export Administration Act.

S. 2053 would make three amendments to the Export Administration Act. First, it would amend section 3(2)(A) of the Export Administration Act to authorize the imposition of export controls to curtail serious inflation in domestic prices without the necessity of finding, as the current law has been construed to require, that there is both abnormal foreign demand and that the commodity to be controlled is a scarce material. The amendment would permit controls when either of these findings is made, as well as authorize controls when necessary to control serious domestic inflation. Second, it would amend section 4(c) of the act to conform the language to the change made in the authority of section 3(2)(A).

Finally, it would amend section 4(e) of the act to eliminate a provision enacted in 1972 which prohibits the Secretary of Agriculture from approving a control on the export of an agricultural commodity during any period for which the supply is determined by him to be in excess of the requirements of the domestic economy.

We have worked long and hard to build markets and expand exports of agricultural products. Our success in this effort has not only contributed strongly to farm income and to business activity, it has also established agriculture as a strong defender of the American dollar abroad. In the past 12 months, U.S. trade in agricultural products has contributed a net positive balance of over $5 billion to our international trade account.

American farmers have been asked and encouraged to expand production this year—in response to the growth in demand both at home and abroad. The acreage in setaside has been reduced by 42 million acres, and indications are that farmers have responded by increasing plantings by some 25 million acres, despite a great deal of bad weather at planting time. Much of this expansion is in major export commodities that depend on foreign sales.

Within a few weeks, we will be getting some better indications of what the future holds relative to supplies of corn, soybeans and other major crops. About the same time we will also have a more complete report of the 1973 winter wheat crop, which we are now estimating at an all-time record of 1.3 billion bushels.

The growth in agricultural trade has been of enormous benefit to American consumers. In effect, agricultural exports of at least $12 billion in the past 12 months have paid for the import of some $7 billion in agricultural products, plus other consumer goods valued in the billions.

So, a rather fine balance is involved here and the future cannot be entirely known to us. Until we can be assured that there is not going to be some tremendous and unexpected rush on supplies of U.S. farm products, we do need standby protection. And S. 2053 would provide that protection.

Attached is an analysis designed to show the magnitude of export restraint that might be necessary to stabilize meat prices at current levels. This highlights the need for authority to impose export controls for purposes of curtailing serious domestic inflation.

In a step to stop the speculative trading in soybeans and soybean products, the U.S. Department of Agriculture restricted future trading to liquidation of contracts only until the new crop supplies become available in September. As a next step, we urge the Congress to move forward as rapidly as possible to approve S. 2053 and thus grant the President the authority he has requested to impose restraints on exports. If Congress denies this authority, it will keep alive the very real possibility of unprofitable livestock feed price relationships for producers in the months ahead. Not to grant the authority means the American consumer could face sharply rising prices and continued unacceptable rates of inflation.

[Appendices follow:]

APPENDIX A—DESCRIPTION OF MANDATORY REPORTING REQUIREMENTS

The reporting requirements established by the Department of Commerce are rigorous and detailed. They were published on June 13 in Export Control Bulletin No. 84(a), copies of which have been made available to the Committee, and were also published in the *Federal Register* on June 15.

Under these regulations, each exporter is required to report the volume in metric tons of the anticipated exports of: wheat, rice, barley, corn, rye, oats, sorghum, soybeans, cotton seeds and certain primary products of the latter two.

The first report was required to be received by the Commerce Department's Office of Export Control by June 20, 1973. It must list all anticipated exports as of the close of business June 13, 1973, by appropriate commodity classification, by country of ultimate destination, and by month of anticipated or scheduled export.

These reports must be updated every Monday for changes in anticipated exports, changes in existing orders, and shipments occurring through Friday of the previous week. Exporters reporting shipments must designate whether they were against orders placed before or after the President's announcement.

The Department of Commerce issued a warning to exporters, as part of the imposition of this reporting requirement, that exports against any commitments made after June 13 for these commodities might be subject to restraints, in the event export controls were imposed in the future even though the commitments were entered into prior to the date of imposition of controls.

Having set up a system to collect the data, Secretary Butz and Secretary Dent met on June 18 to develop procedures for processing of the incoming information. It was agreed that the Agriculture Department would make available some of its commodity specialists to assist the Office of Export Control in evaluating the reports received. It is anticipated that initially at least there may be errors in reporting which will stem from the novelty of the reporting requirements, the intricacies of the transactions subject to these requirements and the large quantity of data that must be compiled for the initial report. The Department of Commerce has already received many questions regarding the manner in which certain transactions should be reported. The Department is answering these questions as quickly as they come in, and the Department is confident that distortions in the data obtained will be kept to a minimum.

As each report is received by the Office of Export Control, unless there is reason to believe that it may be inaccurate for the reasons mentioned above and requires checking with the reporting firm, it will be fed into a computer for purposes of compiling statistical summaries for each of the commodities reported, by month and crop year of anticipated export and by country of destination. Compilations will be prepared for each weekly reporting period. Under the Export Administration Act, there are strict restrictions on the dissemination of confidential information submitted by individual companies. These are designed to facilitate the government obtaining accurate information without the risk that the reporting firms would suffer irreparable harm from disclosure of business sensitive information to their competitors. The Department of Agriculture has indicated that it does not require access to the individual company data and that the compilations prepared by the Department of Commerce will be perfectly adequate for their needs. These compilations will be transmitted to the Department of Agriculture as soon as they are ready. The Department of Agriculture will make the compilations available to the public promptly on receipt of them from the Department of Commerce.

Appendix B—Cost of Living Council Analysis Showing Magnitude of Export Restraints That May be Needed to Stabilize Meat Prices

During May the retail price for choice cuts of beef averaged $1.36 per pound. Assuming that this level is close to the representative ceiling prices for choice cuts of beef at retail implies a farm price for beef of somewhere between $45 and $46 per hundredweight. Based on USDA analyses of costs of production, farmers could afford to pay at current livestock price levels about $1.50 per bushel for corn and somewhere in the neighborhood of $155 to $165 per ton for soybean meal (around $5 per bushel in soybean equivalents) and be encouraged to expand production of beef profitably in the upcoming fiscal year. Feed price levels of this magnitude would also be consistent with expansionary production of other major livestock and poultry products.

Tables 1 and 2 provide supply and utilization information for corn and soybeans for crop years 1970-71, 1971-72, and a hypothetical projection for 1972-73. For example, the data for both corn and soybeans suggests that if large crops are attained—6.1 billion bushels of corn and 1.55 billion bushels of soybeans—prices of $1.50 and around $5 per bushel for corn and soybeans respectively would be possible, assuming hypothetical exports of 1.2 billion on corn and slightly under 800 million bushels on soybeans. Because of the more than unusual uncertainty that surrounds the agricultural situation on both the supply and the demand side, the Administration needs the flexibility to impose export restraints in the event that production falls short of the very large projected levels or that export demands exceed USDA's assumed levels. Under such situations prices would be pushed well above the levels necessary to encourage livestock producers to expand production. In this case, it would be necessary for the Administration to take steps to impose restraints on the exports of corn if it were desirable to maintain carryover stocks of 850 million bushels by the end of the year. This would produce a hypothetical season average of $1.50 per bushel on corn at the farm level. If the Congress does not see fit to provide the Administration with the flexibility to impose export restraints under such a situation, year ending stocks for 1973-74 would drop below those at the beginning of the season and prices would be pushed up to ration available domestic supplies. Under such a situation, livestock producers would be squeezed severely and production of beef, other red meats, as well as output of poultry, eggs and milk would be seriously jeopardized. A similar case can also be made for soybeans. In the event that either available supplies are smaller than projected or export demand exceeds anticipated levels, some restraint on shipments abroad will clearly be necessary in order to prevent an upsurge in prices.

It is important to note that the data shown in Table 1 are purely illustrative and are based on complete crop years. Assuming weather cooperates at harvest time, the new crop of soybeans will become available in September and the new crop year for corn begins on October 1. Thus the tabular information does not provide an indication of the kind of situation that could develop between now and the time that the new crops are harvested. Supply-use data could be constructed for the current quarter; however, quarterly crop usage is very difficult to estimate and widely subject to error.

TABLE 1.—CORN—SUPPLY, DISTRIBUTION, AND PRICES

	1971-72	1972-73 [1]	1973-74 [2]
Beginning stocks (million bushel)	677	1,126	850
Production (million bushel)	5,641	5,553	6,072
Imports (million bushel)	1	1	1
Total supply (million bushel)	6,309	6,680	6,923
Domestic use (million bushel)	4,387	4,780	4,870
Exports (million bushel)	796	1,050	1,200
Total distribution (million bushel)	5,182	5,830	6,073
Ending stocks (million bushel)	1,126	850	850
Price, farm (dollar per bushel)	1.08	1.35	1.50

[1] Estimated.
[2] Hypothetical.

TABLE 2.—SOYBEANS—SUPPLY, DISTRIBUTION, AND PRICES

	1971-72	1972-73 [1]	1973-74 [2]
Beginning stocks (million bushel)	98.8	72.0	40
Production (million bushel)	1,176.0	1,282.9	1,550
Imports (million bushel)			
Total supply (million bushel)	1,274.8	1,354.9	1,590
Domestic use (million bushel)	615.0	629	758
Exports (million bushel) [3]	587.8	686	762
Total distribution (million bushel)	1,202.8	1,315	1,520
Ending stocks (million bushel)	72.0	40	70
Price, farm (dollar per bushel)	3.03	4.25	5.00-5.50

[1] Estimated.
[2] Hypothetical.
[3] Exports of meal and oil have been converted to bean equivalents.

Mr. DENT. That concludes our statement.

Senator PROXMIRE. Thank you, very much.

I understand the other gentlemen agree that this is a joint statement in which you concur?

Senator BUTZ. Yes, sir.

Senator PROXMIRE. Mr. Cross, we are very happy to have you here with us.

Mr. CROSS. Thank you very much.

Senator PROXMIRE. I want to make sure I understand what the essence of the proposal is. I take it that when you say that the proposal would provide that either a finding of an abnormal foreign demand or that the commodity be controlled as a scarce material would be sufficient to provide for export licensing, or export restraints. Is that correct? That is No. 1.

Then No. 2, in addition even if those findings are not relevant or applicable, it would provide that controls can be authorized when necessary to control serious domestic inflation.

That phrase by itself can be applied even if the other two are not appropriate, is that correct?

Mr. DENT. That is correct; yes, sir.

Senator PROXMIRE. Why is that latter language necessary? That seems redundant. If the commodity is not in scarce supply and if the foreign demand is not considered abnormal, certainly we agree we would like to export everything we can, including what food we can, export without serious inflation. Is not that correct?

Mr. DENT. That is correct.

Of course, it is this relationship between grain and livestock that enters into the question.

Senator PROXMIRE. I see. Because of the complexity, a commodity in short supply might be affected by shortages of other commodities.

Mr. DENT. That is right. With meat prices frozen and feed grains rising, you have the inflationary impact.

Senator PROXMIRE. I see.

Now, I would like to get some factual data before us, if possible. Your statement is very helpful, Secretary Dent, but I would like to have it a little further detailed.

Perhaps Secretary Butz could help on this, too. What proportion in the increase in the cost of living has been the result of higher food costs—do you have that data available? I have heard various percentages given, but if you could give it to us this morning, it would be most helpful.

Secretary BUTZ. I am not prepared to give the specific figures here. I think, Senator, it depends on the time reference you take it in. If you take the time reference in the last 8 or 10 months, a substantial share of the increase in the consumer price index has resulted from increases in food prices at retail.

If, however, you take a longer context of, say, 5 years, or 10 years, then food prices are roughly in juxtaposition with the increases in other prices.

Senator PROXMIRE. Since the beginning of the year, we have had the enormous increase in wholesale prices since about December, so that in the past 6 months what percentage of the cost of living in the consumer price index is a result of food price increases, 75 percent, 80 percent?

Secretary BUTZ. Not as high as that. Perhaps Mr. Dunlop has those figures.

Mr. DUNLOP. I don't have them with me. I can get them to you in a matter of half an hour.

Senator PROXMIRE. We would like to have them for the record.

If Congress is going to make a wise policy decision, we ought to know what the facts are in this case. I have heard one individual estimate of 90 percent which I am sure is wrong, and it seems to me it is probably less than 50 percent, but I would like to know approximately what it is.

Mr. Dunlop. I will get it for you.

Senator Proxmire. Fine.

Secretary Butz. I think, in that connection, Senator, we ought to have the shorter run figures and the longer run figures, because in the longer run, and the short run, too, agriculture was in a very depressed condition.

Senator Proxmire. I know that. You have been a spokesman in this regard.

Secretary Butz, can you tell us what the effect on net farm income has been from the recent increases in food prices?

Secretary Butz. Net farm income is at an alltime high. Last year it was approximately $19 billion, in excess of $19 billion. A large share of this, however, was a result of increased exports which provided a market for produce of our farms. Part of it was a result of increased prices and part of it is a result of the increased products.

Senator Proxmire. The reason I asked is that I have talked with many farmers who are very distressed about the present economic situation.

Maybe they are atypical. They indicated that while their prices are very good, their costs are enormously high.

Secretary Butz. I think that is especially true of the farmers in Wisconsin, the Dairy State, where labor costs are high, feed costs are high, and maintenance costs are high, and I think right now they are in a squeeze.

Senator Proxmire. Can you tell us anything about the effect of the recent price variations on food processors? Are their profits up?

Secretary Butz. In the main, no. They are caught in a squeeze, likewise. They have this ceiling on them.

Senator Proxmire. I am not talking about the situation until then, in the last 6 months.

Secretary Butz. Before that even, food has not been completely decontrolled, even in phase 3, we controlled the passthrough margins and they were faced with rising costs and I think part of the problem our food processors face now is that their selling prices are below their costs, including acquisition costs.

Senator Proxmire. So their profits have, perhaps, deteriorated rather than improved.

Secretary Butz. They have not gone up, no, sir.

Senator Proxmire. And people selling food at retail, they are also affected by phase 3 in the same way? This is a controlled situation now, is not that right, so they can only pass through their increasing costs, or perhaps there is a restraint on that, too. Is that right, Dr. Dunlop?

Mr. Dunlop. Yes, Mr. Chairman.

May I say that the controls on food at retail and wholesale were the same in phase 3 as in phase 2, and if anything, a little tighter. So the rise in prices at retail is the result of the rise in primary prices. The margins of wholesalers and the margins of retailers have been under very strict control throughout this period.

Senator Proxmire. The reason I have asked these questions in this way is that farmers have not been enjoying an enormous increase in net income, although they have enjoyed an increase. The food processors profits are probably about the same or less, or at least not significantly higher. Retailers also do not have much higher profits.

Now, we move into a freeze. The shape of phase 4 may also be tough. I hope it is, but we do not know. What effect is the freeze likely to have on the farmers? I must say I received, as I am sure other Senators and Cong essmen have, many complaints on how the freeze is really hitting them very, very hard, and they feel it is unjust. Can you tell us something about that, Secretary Butz?

Secretary BUTZ. Well, yes. We are quite concerned about this. It places agriculture in a difficult position. One, we do not want to be a principal contributor to inflation.

Senator PROXMIRE. Even though farmers are not directly affected, the indirect effect is about the same, is that correct, as if their prices were frozen?

Secretary BUTZ. Obviously, if you can't charge more at retail and the margins are frozen, the passthrough costs are frozen, it has to reflect back on the price you pay producers. I think the net result of this in the case of many major food products would be unfortunate. The evidence is that we are now selling heavy gilts for slaughter, and in the last few weeks the proportion of heavy gilts is heavier. This would indicate a decreased supply of pork in 6, 8 or 10 months down the road. There is no evidence yet that the percentage of pregnant sows has increased. It may show up later on.

The number of feed cattle in the feedlots is substantially down. The calves are still there. They are on grass, but this means a prolongation that it takes to get that beef to market. It probably means a decreased efficiency in which we produce that beef ultimately. If it continues for long, it would result in some liquidation of breeding stock.

Senator PROXMIRE. What you are describing is some reduction possibly or at least some limitation on supply, at least in a number of areas of food production, particularly meat, is that right?

Secretary BUTZ. Yes.

Senator PROXMIRE. And we could expect that that might be aggravated, rather than improved, with a freeze and with a tough phase 4?

Secretary BUTZ. It depends on how phase 4 is.

Senator PROXMIRE. Let us stick with the freeze, then.

Secretary BUTZ. In the case of the freeze, we have frozen some price relationships that are adverse. With respect to the broilers, we had a price ceiling on broilers last year at 31½ cents, New York wholesale dressed. This was at such a level that it made the broiler industry relatively unprofitable. Not only did our broiler producers cut back in broiler production, but liquidated some of their breeder flocks.

As a result, during the first 5 months of 1973, we paid the highest prices in 20 years for broilers in this country. I think, in large part, the result of an unrealistic cost price situation imposed by controls in the latter part of 1972——

Senator PROXMIRE. In a way, what you are saying is that we are paying higher prices for everything that we have had in the last 20 years. Broilers, when you compare them over what has happened in the last 40 years, are reasonable. A chicken farmer told me they are at 42 cents a pound now, and they were at 62 cents a pound in 1952.

Secretary BUTZ. I think we are into exactly the same situation. I walked into the door down here a moment ago with Senator Jim Eastland of Mississippi. Mississippi is an important broiler State. I inquired about the condition of cotton and soybeans and broiler producers. He said they are drowning baby chicks because they cannot see any profit in them.

Senator PROXMIRE. We have a number of Senators here this morning. I want to ask, before I yield to Senator Bennett, let me ask Dr. Dunlop if he could now fill me in on the percentage that the food increases represented of the increase of cost of living this year.

Mr. DUNLOP. I have sent somebody out to call to get the exact number and I will have it for you.

Senator PROXMIRE. All right.

Senator Bennett.

Senator BENNETT. I would like to address my question to Secretary Butz. You focused on the domestic situation. Is the world situation favorable, or adverse, to the solution of the inflation—the price inflation problem—on our domestic agricultural problems?

Secretary BUTZ. I think the world situation in aggregate tends to be adverse. We have had a very strong increase in the demand for high quality foods around the world. That means animal proteins, which means a tremendous increase in the mandatory feedstuffs, especially corn and soybeans in this country. Soybeans are a principal source of protein supplement for animal feed. The chief additional source of protein supplement would be fish meal, which normally comes from the coast of Peru. That has been down markedly in the past year and on top of that, the drought conditions in India and other parts of that part of the world have aggravated this supply situation. Couple that with an increase in the Russian demand, for feedstuffs, and so on, especially and you have a very substantial increase in demand around the world.

Senator BENNETT. This, in turn, affects our situation because we have been a large source of feed grains for other countries.

Secretary BUTZ. Yes, a year ago this very date, we were struggling with surpluses in America. We had the CCC on substantial quantities of feed grains and wheat. In the last year we have sold the Government-held surpluses and it is the first time in 25 years that the Government does not own many of the commodities. We still own oats, but that is all. This is the first time in 25 years we have been out from under this.

Senator BENNETT. Are the price levels outside the United States higher than those inside the United States?

Secretary BUTZ. You are talking about the price levels of food now?

Senator BENNETT. Of the feed grains.

Secretary BUTZ. Essentially so. Also feed grains would not flow from this country to foreign markets.

Senator BENNETT. Isn't that one of the fundamental reasons we need this kind of legislation, to give the President——

Secretary BUTZ. Yes, that is right. Let me put another factor in here which I think affects the American attractiveness of the American market for feed grains.

We have had two devaluations of the dollar, and a de facto evaluation in the last few weeks, which makes the American market more attractive. But I think you put your finger on our real need for legislation of this kind, and that is to protect the feed supply of the domestic live stock and dairy industry.

Senator BENNETT. I appreciate your saying that in so many simple words, because I think this is the basic issue here and I think the President, must have the power to keep these grains from flowing out if we are going to have any hope of getting a handle on either the price of meat or the price of poultry.

Secretary BUTZ. Senator, may I say that the object is not to keep the grains from flowing out. It is to give us standby authority to keep them from flowing out in excess amount. We will continue to export.

Last year, for example, in the 12 months ending June 3, we exported approximately 72 million tons of wheat and feed grains and soybeans from this country, that is a substantial export.

As we look ahead for the next year, we—well, we anticipate at this time that we can export that much in the next year. I am sorry. That is about 72 million tons, if we get the crop production we anticipate this year.

Under our system of exporting where it is done through the private trade with a dozen major companies each exporting grains to nations all over the world, they can independently make commitments for shipments in the 12 months ahead that will exceed the physical quantity of supplies we have in this country. I think, for the first time in 25 years, we are aware of the fact that that can happen. Heretofore, our problem has been "Where do you find the market for this stuff?"

Now, our problem is, are we going to have enough to go around the available markets in the world and still protect our domestic livestock, poultry and dairy industry. That is the real need for this legislation.

Senator BENNETT. If I may express an understanding of what you have just said, we can still export next year as much as we exported this year and presumably by increased production in this country, have enough more feed for our own animals to give us some hedge against the present inflation and possibly reduce the price levels.

Secretary BUTZ. Yes, sir. I would hope that would be true. We are going to have a massive increase in the production in the United States in 1973. It will be the world's largest increase in production in any one year in the history of the world.

We are expecting to have an increase in corn production this year of 500 to 600 million bushels over last year's crop. The corn is in the ground. We will have a pretty good handle on what we have when the July crop report comes out on July 10. We expect to increase our wheat production this year in the magnitude of 230 or 240 million bushels. The winter wheat crop is made now.

We expect to increase our soybean production now in the magnitude of 220 or 230 or even more million bushels. This will give us a good basis for expanded exports and expanded production at home.

We want the hedge so that we do not over-commit ourselves on exports in the strong world market for wheat and other grains.

Senator PROXMIRE. Will you convert those into percentage increases—you gave us the tonnage, it is helpful, but would you tell us what percentage increase there would be in corn, wheat and soybeans.

Secretary BUTZ. This year's production?

Senator PROXMIRE. Yes.

Secretary BUTZ. Last year we had a corn production of approximately 5.5——

Mr. DUNLOP. They are in table 2.

Secretary BUTZ. They are attached to the testimony here.

Senator BENNETT. Can you identify the page.

Senator PROXMIRE. The very last page.

Secretary BUTZ. The next to the last page is corn.

Let us take the middle column there. It is 1972–73 crop year. That was last year's corn crop. We had given stocks of 1.126 billion bushels that we carried into the year. We had a production of 5.55 billion. Imports were negligible. It was a total supply of 6.7 billion.

Domestically we used 4.7 billion. We exported 1 billion. That gave us a total distribution, and the stocks at the end of this year that would be October 30, which is the end of the corn-marketing year, a carryout of 850 million bushels.

You may say that is a large carryout. It is not. It is on the low side of "safe," because the carryout of 850 million bushels is only about a 7- or 8-week supply for our domestic use and we must plan on at least that much, because we are not at all sure about the 1973 crop. But as we project the 1973–74 crop, we will carry into the year 850 million bushels. We are projecting at this time a production there of better than 6 billion bushels. The corn is in the ground, it looks OK now, as nearly as we can tell. We were concerned about the corn crop earlier this year in the wet spring, but historically, we almost never get a seriously short corn crop because of a wet spring. We get it because it does not rain in July and August. That remains to be seen. If we can anticipate normal weather, we think we will have a corn crop in excess of 6 billion bushels.

That will be the largest crop we have ever had.

Senator PROXMIRE. I think those figures on the corn and the soybeans, you don't have the wheat figures here but if you could give that for the record, we would appreciate it.

[The information follows:]

WHEAT—SUPPLY, DISTRIBUTION, AND PRICES

	1971–72	1972–73[1]	1973–74[2]
Beginning stocks (million bushel)	731.5	863.1	423
Production (million bushel)	1,617.8	1,544.8	1,770
Imports (million bushel)	1.0	1.2	1
Total supply (million bushel)	2,350.3	2,409.1	2,194
Domestic use (million bushel)	854.7	826.4	766
Exports (million bushel)	632.5	1,160.0	950
Total distribution (million bushel)	1,487.2	1,986.4	1,716
Ending stocks (million bushel)	863.1	422.7	478
Price, farm (dollar per bushel)	1.34	1.77	1.90

[1] Estimated.
[2] Projected.

Senator PROXMIRE. You are going to have a 10 percent increase in production, and a 10 percent increase in exports for corn and a very large increase, also, in soybeans, both in exports and in production.

Secretary BUTZ. Yes; we project an increase in the domestic utilization in corn and an increase in exports. We are simply saying that the remainder would be available for export if we carry out 850 million bushels.

Senator PROXMIRE. That is, if you have the authority Congress gives you?

Secretary BUTZ. Yes; we would like to have a carryout of 850 million bushels, and if we need the authority to do that, we will use it.

Senator PROXMIRE. Senator Stevenson.

Senator STEVENSON. Thank you, Mr. Chairman.

The President sought export control authority on an urgent basis. You, Secretary Butz, have mentioned the increased productivity of agriculture expected this year. Does this mean that the administration has not made a definite decision that export controls are now needed? If the administration had the authority which it now seeks, would it exercise that authority?

Secretary BUTZ. Well, I cannot answer that. That would have to be a group decision. We have been watching this very closely. We watched it closely in the Department of Agriculture. I know, asking for export controls places the Secretary of Agriculture in a seemingly inconsistent position, because we have pushed exports hard in recent years. We have been successful, and our exports in the current year will exceed $12 billion. We are making a net-plus contribution to our balance of payments this year of between $4 and $5 billion.

We have been quite successful. On the other hand, no Secretary of Agriculture can sit idly by, as can any Senator, and see our domestic livestock and dairy and poultry industry imperiled because of the physical lack of feedstuffs. Would we use this now? I would prefer to wait to answer that question until I can see the July 1 crop report which comes out July 10. This willl give us a firm handle on 1973 production of corn and soybeans. If it appears that we would be in short supply at that time, I certainly would be among those in the forefront to recommend some kind of licensing of exports.

If, on the other hand, at that time crop conditions looked pretty good and it looks like with the free market we could make these commitments right here, I would be reluctant to recommend export controls.

Senator STEVENSON. So the decision on all export controls is in abeyance at the moment.

The President's stated purpose in proposing additional export control authority was to preserve for the American consumer an adequate supply of meat at a reasonable price and yet there has not been any mention of possible controls on the exportation of meat. Now, we are exporting increasing amounts of pork to the Japanese. Is a restriction on the export of meat one of the possibilities being considered?

Secretary BUTZ. Our exports of the kind of meat we eat are negligible. In the case of beef, the exports are the offal products that we do not care much for. In the case of pork, the Japanese did buy, I think, 40 million pounds of pork. It made a rather spectacular story when the Japanese purchased 40 million pounds. That came out to be about one-and-a-half pork chops per person in America, and the aggregate was not very important. Our exports of meat as such are really negligible.

Senator STEVENSON. They are increasing at a rapid rate, aren't they?

Secretary BUTZ. In the aggregate they are still not important.

Senator STEVENSON. Secretary Butz, what effect would the additional export control authority have on agricultural productivity? You and other representatives of the administration have, I think rightly, placed considerable emphasis on the desirability of increasing productivity in agriculture.

Now, to propose at least the possibility of export controls on agricultural commodities, would not that have an adverse effect on agricultural productivity?

Secretary BUTZ. I think we have to divide agriculture into two sectors here, those who produce the grains and those who are livestock producers. They are, in many cases, the same farmers. In your State of Illinois, much of this takes place on the same farm. I think, if we were able to assure our livestock and dairy and poultry producers an adequate supply of feedstuffs at reasonable prices, they would be dissuaded from the present tendency to liquidate stock and liquidate breeding herds.

Our real problem now is to get increased production of meat and milk and eggs, which are the animal protein foods that we need, our people want; they are bidding the price up.

The current cost-price situation and the prospect of an actual physical shortage of feedstuffs and soybean meal, I think, is on the side of dissuading our livestock producers from increasing. Indeed, some are decreasing.

Senator STEVENSON. It seems to me some of our policies are working at cross purposes. For example, the Revenue Act of 1971 contains a provision which enables domestic corporations to gain substantial tax advantages by exporting products through subsidiaries called DISC's.

I understand, Mr. Dunlop, that the Cost of Living Council has asked the Treasury to consider suspending DISC treatment on income earned from the export of soybeans, hides, fertilizer, and animal feeds and steel scrap.

Has the Cost of Living Council made such a request to the Treasury?

Mr. DUNLOP. We have asked them to look at it, Senator Stevenson, and it is one of the matters that we have under review from time to time. And also the 75 cent tax on wheat is being reviewed.

Senator PROXMIRE. Is the Treasury looking at it, and has there been a response from the Treasury? Maybe that is a question best directed to Mr. Cross.

Mr. CROSS. I am certain that it is being looked at. I am not aware that there is any response as yet. We can check further to see for the record whether there is something more we can say at this point.

Senator STEVENSON. The fact of the matter is that exporters of feedstuffs, including soybeans, are continuing to receive this tax incentive to export, are they not?

Mr. CROSS. Secretary Butz tells me this was disallowed for exporters last year.

Senator BENNETT. I cannot quite hear you.

Secretary BUTZ. This came up last year as an item for consideration in connection with the wheat sales abroad, when there was an export subsidy on wheat and it was a ruling of the Treasury—I think it was the Treasury—last year that as long as exports involved in export subsidy, they were not entitled to the tax preferences under this system.

Senator STEVENSON. DISC treatment for subsidized exports was discontinued. I was not aware that the President's authority to suspend DISC treatment, for the export of agricultural products in short supply had been used.

Secretary BUTZ. I think you make an important distinction here and I am not familiar with the details, because the export subsidy has not been in effect for a great many months now. It may be that this does apply to exports for the first time.

Senator PROXMIRE. Mr. Cross, Secretary Butz mentioned the effect of the devaluation of the dollar on agricultural exports; could you elaborate on that point?

What effect have the reevaluations of the dollar had on our agricultural exports?

Mr. CROSS. Well, I would think the two devaluations of the dollar that we have had have tended to increase our competitive position across the board, in agriculture, as well as nonagricultural products, by quite a substantial amount.

They have given us a considerable competitive advantage over what existed before we undertook these devaluations.

Senator STEVENSON. Is it the Treasury's view that the dollar now is fairly valued?

Mr. CROSS. Yes. We feel the realinement that was worked out in February, and other changes that occurred about that time, when combined with the December 1971 realinement, brought about a reasonable balance in the international structure of exchange rates and should provide a basis on which we can build toward restoring equilibrium in our balance of payments.

Senator STEVENSON. Since that realinement, I believe Secretary Butz mentioned there has been a de facto devaluation of the dollar. It is possible to intervene in many ways in the markets. Is any thought being given to——

Senator PROXMIRE. I beg your pardon. I apologize for interrupting, but Secretary Dunlop does have to leave. He told me that earlier and before he leaves, I would appreciate it if he could give us the data on the portion of the increased cost of living resulting from an increase in food prices.

Mr. DUNLOP. I do have the cost-of-living index. The proportion of the rise in the cost of living index from December to May due to food prices is 60 percent. Over the past 5 years the proportion is approximately 22 percent.

Senator PROXMIRE. You have to leave now, I understand. The hearing is aimed at the legislation before us. This committee has responsibility for the Wage-Price Stabilization Act and any input that the Congress is going to have on phase 4 might very well come, to some extent, at least, through the hearings of this committee and the other committee in the House. So, I am very hopeful that we can have other hearings that are more comprehensive to cover phase 4 as a whole, because food, while a very important element has only been a part of the story.

Mr. DUNLOP. Mr. Chairman, I am happy to be available to the committee to discuss the matters you just indicated at your convenience.

Senator PROXMIRE. Fine.

Would you have anybody in your shop who could stay?

Mr. DUNLOP. Mr. Walker, our general counsel and acting deputy director will set in for me.

Senator PROXMIRE. We are glad to have you, Mr. Walker.

Senator STEVENSON. Could I ask one more question of Mr. Dunlop?

Your new freeze regulations provide that increases of imported commodities may be passed through on a dollar-for-dollar basis. The phase 2 regulations contain similar provisions, but they also provided that decreases had to be passed through dollar-for-dollar. Why was the decrease provision omitted from the new freeze regulations?

Mr. DUNLOP. I am informed that the second part of your statement is not correct, Senator Stevenson. As to the freeze period in general, though there are minor exceptions, we have tried to model the rules essentially on the series of questions and answers that were used during the first freeze period.

You are correct with respect to the statement that our regulations issued under the current freeze provided that import prices could be passed through on the dollar-for-dollar basis as you indicated. I am not aware that under phase 2 the statement of declines existed. Our general counsel advises me I am correct.

Senator STEVENSON. Thank you.

Just one final question, Mr. Dunlop, before you leave.

The President in his message spoke of food prices and of the necessity for an additional export control authority with which to control exports of foodstuffs, including these, but the authority which is requested is for broader than that. It is across the board.

Why is the administration seeking for price stabilization purposes export control authority across the board? Are controls considered now seriously for lumber or steel scrap or other commodities?

Mr. DUNLOP. May I comment on that with two observations, Senator Stevenson?

The first is that our major problem since the start of the year has been in the food area, as far as price increases are concerned. The President's message set forth the only new tool, perhaps the only remaining tool, that one can imagine to deal with this agricultural situation. I would emphasize it is a tool to be considered in the period between now and September, when we are uncertain as to the crop estimates for next year, a period in which we do not yet know fully the extent to which commitments have been made by private dealers of one sort or another to export products abroad. That is the emphasis on agriculture.

With respect to other matters, it does seem to me that to do a better job of stabilization, we need a new tool in more general areas, although I think I at least would be reticent to use it except under unusual circumstances.

It seems to me one of the problems we have faced this year is that the public debate over various kinds of pressures has turned out itself to be a highly inflationary aspect, as for example, the deliberation over export controls in this agricultural area.

They have no doubt encouraged many people to consummate contracts and get them under any wire that might be subsequently legislated.

So, it appeared to us to be better to recommend that the President ask for broad authority for the control of inflation. At the present time, I know of no plans to institute them, either in the agricultural area or outside, although they would be given very serious consideration; no decision to impose them yet.

Senator PROXMIRE. Thank you, Mr. Dunlop.

Senator STEVENSON. Let me finish that line of questioning with Mr. Cross.

We were discussing the value of the dollar and the effect of devaluation on exports and agricultural products. You gentlemen indicated that devaluation has had an effect of increasing perhaps substantially, agricultural exports.

There are numerous ways in which the Government can intervene in the marketplace to control exports and imports. One way is through devaluation of the dollar, or through revaluation upwards of the dollar.

What, if any, consideration is being given in the Treasury now in view of the de facto devaluation of the dollar to some defense of the dollar through swap arrangements, perhaps borrowing marks and using them to buy dollars or through the sale of gold reserves in the unofficial market?

Mr. CROSS. We held meetings with the group of 10 countries and the EEC members back in March, and agreed at that time that intervention in exchange markets could be undertaken by the various member nations, and may be useful in appropriate circumstances to facilitate maintenance of orderly markets. In the event, there has been relatively little market intervention by countries since that time, and the exchange value of the dollar has declined relative to the European currencies by about 9 percent.

It has declined much less relative to the totality of currencies—on the order of 2 or 3 percent—but there has been some decline, as you suggest.

Any possible moves to intervene in the way that you suggested would have the objective of maintaining the orderliness of the markets and not the appreciation or depreciation of the dollar or any currency to some more or less artificial level which would in turn require intervention policies to maintain the new, and artificial, rate.

I do not know if that answers your question.

Senator PROXMIRE. Senator Packwood?

Senator PACKWOOD. Senator Brock has to leave at 11. Could I yield to him and then question afterwards?

Senator BROCK. Gentlemen, I am going to be fairly brief.

I might start off by saying it becomes somewhat bothersome to me that every time we give what Mr. Dunlop describes as more tools the administration seems to be in more trouble, I am concerned. I am somewhat in agreement with Secretary Butz in the sense that we have a classic demand-supply situation taking place in the food market, and I think the actions of the administration and its proposals have been counterproductive.

We are creating more problems than we are solving, and I see no action on the part of the Cost of Living Council or anybody else to deal with what I consider to be a rather immediate problem that has been coming on us for some time.

We saw last year and more this year the small bakers going out of business because they simply could not pass through the price increases that hit them in terms of flour and corn syrup, the two principle ingredients.

No action that I know of was taken to give them any specific relief. The Senate farm bill would give some help, but I have no indication from the Cost of Living Council, Mr. Walker, that there is any immediate relief proposed in any of these areas, be they bakers, be they the cattle feeding industry, the poultry industry.

We have chickens being destroyed by the hundreds of thousands, a million and up. We have small operators either out of business already or very quickly going out of business, and yet nobody seems to want to do anything about it.

The question I have is what prospect is there for relief in this area?

Mr. WALKER. Senator, you have expressed matters that are of very serious concern to the Cost of Living Council as well, and we find ourselves, I think it is fair to say, somewhat on the horns of a dilemma.

It is of great importance to the administration and to the American people to maintain stable prices at retail on food prices to the extent that we can; to the extent that, for example, relief is given to bakers; to permit pass through of increased costs of production, the result is an increase in the price of bread and other baked products, and the same is true in the other fields that you mentioned.

We are concerned at the problems of supply and demand, but we are also concerned about the price of products at retail, the price the American consumer has to pay to feed his family.

Senator BROCK. I might point out two things.

First of all, the American consumer still has the best food buy of any consumer in the world, and if, in the second instance, the administration bows to public pressure to impede any increase at all at retail on selected products, to the extent that it destroys the essential long-term supply, you are doing no service to the consumer.

Mr. WALKER. I am quite aware of that, Senator Brock, and I can speak for Dr. Dunlop on that point, and one of the reasons that we have sought additional authority to impose controls upon exports is the prospect that it may be necessary, as Dr. Dunlop said—no decision has been made—but it may be necessary to limit exports cf some of these products in order to maintain adequate supplies to meet the needs of American growers.

Senator BROCK. If we pass this law today and the President signed it into law today, I don't believe export controls would have any effect on the marketplace for a period of some several months. I do not know, but I would assume that.

What I am asking is, is there anything that we can hope for now? How much is it costing the American people to destroy several hundred thousand baby chicks today? What is it costing? What does it cost us to have a small bakery go out of business in Tennessee? Or New York, for that matter. What does it cost us in terms of long-term meat supply? What is it going to cost us next year if the feed operators are not able to make a profit and they go out of business, or we drag out the supply cycle to a point where we reduce the efficiency of production in this country?

I just do not seem to get any answers, Mr. Secretary. I am not trying to speak out for the farmer or anybody else. I hope ultimately I am speaking for the consumer.

To me, the essential purpose of this program should be to correct the basic problem which is one of supply, inadequate supply, and if our program of food price controls shortens that supply, deters production in the long term, in the main, then it is absolutely counterproductive, and I cannot see any change in the philosophy of the program management, cannot see any response on the part of the administration to recognize the fact that the farmers are human beings, feedlot operators are human beings; broiler producers are human beings, and they simply cannot continue to pay their employees at a loss, and that is what they are doing today.

I do not have any indication that there is any relief in sight. It looks to me like you are asking me to give you authority for export controls, and all other controls have done more harm than good, and I do not know where we are going.

Does anybody want to try it? I am not trying to pick on you, gentlemen. I just do not like what is happening; I am concerned about it, and I think we have bought ourselves a package with phase III, and the freeze, and I am terribly concerned about what is going to come in phase IV.

Secretary DENT. Senator, we have experienced considerable upset in the farm economy. First of all, it was due to the inclement weather that has been prevalent for the first 6 months of this year. We have gone through revaluation of world-wide trade in commodities since the devaluation. We in this country are uncertain as to the commitments which have been made for the export of feed grains. Since these are handled through the private sector, that is true.

In his message of June 13, the President for the first time initiated a compilation of our order backlog. This should be available in the not-too-distant future. The reports are coming in, and are being compiled. As soon as these are compiled, they will be turned over to the Department of Agriculture for public relief, since they have the mechanism to reach those most concerned with this supply and demand situation.

In addition to that, we will have that firm knowledge in hand shortly, and the Department of Agriculture will then be in a better position early in July, as Secretary Butz has indicated, to know what we anticipate from this year's crop.

You are absolutely correct that the long-term solution is involved with increasing supply. We released 42 million acres for planting. It was the most constructive effort made to achieve this purpose, but here the weather interfered, and not all of it will be planted.

So, it is in the light of these uncertainties that the President is seeking this standby authority to use when facts are known and sound judgments can be made based on these facts and, of course, as the Secretary has indicated, the weather from now till harvest time of the various crops running into October will also have an effect upon the final outcome. It is the judgment of the administration that it is wise to go forward to equip those who have to deal with these matters with the proper authority at the present time.

Senator BROCK. I do not know. I am afraid that controls tend to take on their own logic after a while, and I wonder if we start with an export control on wheat and then to soybeans and then to cotton, and then to automobiles and steel, and so on—I do not know. I question whether the marketplace can stand that kind of a limitation, particularly in light of our current experience.

I am not trying to divert you from your subject matter of the bill at hand, but I want to point out that I do not see any evidence of providing relief for situations that impede production. That will cost a heck of a lot more money.

Thank you, very much.

Senator PROXMIRE. Senator Johnston?

Senator JOHNSTON. Secretary Butz, I am also concerned about this drowning of baby chicks. We have a big broiler industry in my part of the country.

I understand that the people in the poultry business right now, if they have raised their chicks to maturity, they would lose about 20 cents per chick, or per hen, by the time they are raised.

If that is true, why wouldn't the President exercise what I understand to be the authority he has reserved to himself to make an exception for poultry and let the pricing up on that?

Secretary BUTZ. This is a matter, of course, for the Cost of Living Council to initiate recommendations. I think under the current price-cost relationships, the cost would not be 25 cents per bird. It would be about 4 cents per pound, and they are marketing birds at 2½ to 3 pounds, so that would be 10 to 12 cents. That is serious, of course.

I think we are discussing a very serious thing right here, and that is that some of these ceilings tend to be strictly counterproductive. The best possible antidote for high prices is to have more of the stuff you have, and the present regulations are furnishing less of what we want, namely animal proteins and foods.

As Secretary Dent pointed out, this is a reason we want this legislation. We do not want to imperil the domestic feed supply program.

Senator JOHNSTON. Whether it is 12 cents or 25 cents, isn't it predictable that many more hundreds of thousands of birds will be drowned or destroyed?

Secretary BUTZ. In the short run they will. You have a 3-week incubation period, and you have had the adverse cost-price relationship arise since the eggs have set.

Senator JOHNSTON. Mr. Secretary, you mentioned a moment ago about soybeans and their importance, and fishmeal as a source of protein. Isn't cottonseed equally important—not equally important, but isn't it more important than fishmeal. Isn't it number two as a source of protein?

Secretary BUTZ. Yes, it is. I meant to say that the fishmeal was an important source throughout the world. It was in critically short supply and it raised the demand for soybean meal from our own market.

Senator JOHNSTON. Do I understand correctly from the figures supplied to me that about 54 percent of the cotton is raised by producers who receive or would be subject to receiving more than the $20,000 limitation?

Secretary BUTZ. Yes, that is my understanding.

Senator JOHNSTON. So, isn't it counterproductive, then, for the Senate and the House to put a $20,000 limitation on the amount that any one farmer can receive? In other words, won't it help us in our production to raise that limitation back up?

Secretary BUTZ. That depends, sir. If we pass a new farm act that has a built-in heavy production subsidy for our farmers, that would be counterproductive.

Our recommendation is that we move away from the income supplement features of the old farm bill. We can decrease it, and then the size of the payment is academic.

Senator JOHNSTON. If the price is kept up, you will not have to pay anything at all, but——

Secretary BUTZ. In that case, sir, the $20,000 limitation will be an academic question.

Senator JOHNSTON. Right.

What is your attitude on the $20,000 limitation in this bill?

Secretary BUTZ. I have been opposed to limitations of any kind on payments made to achieve adjustment in production. I think if the payment is an income supplement type of payment, the question takes on an entirely different character. If we should get into a posture in future years in which the export market for cotton disappears, and currently we export some 4 million bales a year of cotton; if we should get into a position where the export market is disappearing, and so forth, then I think we should not have a payment limitation. If you must make production adjustments, you make them where they are, and they tend to be on the larger farms.

Senator JOHNSTON. This question, I suppose, will be to Mr. Cross.

Mr. Cross, as we look at the dollar and its eroding effect overseas, what effect in your judgment does Watergate have on the dollar?

Mr. CROSS. That is a very difficult one for me to enlighten you very much about. Our view has been that the structure of rates, as I mentioned before, which was established back in February and March, is a broadly valid basis for the world economy, and we continue to feel that way.

Since March, there has been some erosion in the value of the dollar, and different analysts attribute this to a wide variety of factors, including some political developments in this country.

Senator JOHNSTON. I am wondering, once Watergate is overwith, if it ever gets overwith, whether we can hopefully expect a little improvement in the psychology that creates that assault on the dollar.

Mr. CROSS. Without saying that the market trends of the dollar are related to that, it is certainly our expectation and hope that the dollar will tend to stop this kind of erosion, whatever the reasons which are causing it. The exact reasons for the market situation are however very hard to unravel.

Senator JOHNSTON. My final question I would like to throw out for the panel and let anybody answer it who would like to.

Several months ago, we sat in this same committee room and heard testimony about phase III, a necessity to move away from the strict controls of phase II, and we were advised that controls breed more controls, and if we did not begin to relax, that we would get into the situation where we would be forever and ever with controls, and so here we are in phase IV–a or III–a, or whatever the number is, and I am just wondering whether your predictions, or the predictions of the administration, are going to come through, and that is, getting deeper into controls.

What is the scenario about how we can get out of controls and get back to a noncontrolled economy?

Secretary BUTZ. Well, Senator, you and Senator BROCK a moment ago expressed my own philosophy and reservations more clearly than I could do it myself.

I am basically a market/price economist. I think in our kind of society, price performs a very essential function, and when you try to interfere with it on a massive scale, as we have been doing, not alone in the last couple of years, but I would say progressively over the last 2 or 3 decades, you introduce maladjustments, you introduce uneconomic distribution schemes; you introduce uneconomic cost/price relationships that tend to get frozen in.

Then you raise the question of how do you get off that.

One of the things that concerns me greatly is that each time we impose a new set of controls, when we back off, we never back off quite as far as we were before we imposed the controls, and your deescalation is always on a higher plane each time you deescalate, and we move further and further away from the kind of economy we have had.

The thing—the chief thing we have to guard against is that we do not destroy the incentive system which has been inherent in the American free enterprise economy. That finds its most powerful expression in profit, and when you set out to regulate profit to deemphasize profit, to try and get production out of a situation that has inherently frozen into it a disincentive system, I think you are moving essentially away from the free society we have known.

There are two ways—to come back to meat production, for example, there are two ways that you can encourage added meat production, and that is what we are talking about here, how to get added meat production. The rest of 1973, into 1974, and 1975, we have to recognize that decisions we make in June 1973 have an impact on the supply of beef in June 1975, because there is no way that you can get a 2-year-old steer in much less time than 24 months. It takes about that long to do the process.

If we signal back to producers right now an unfavorable profit situation, they interpret that as a signal that we want less meat, not more. So, you can use the price system as a means of signaling back to them to get more, or in the absence of that, if you move to a totalitarian society, as the Soviet economists are, for example, you can make decisions in Washington and allocate resources and assign them and set production quotas, entirely disregarding the profit system.

The interesting thing is, as we sit here, we are the nations'—as we sit here, having had a price-oriented economy, we are the Nations' breadbasket. The Soviet nations, having had a controlled economy and having directed resources in the food sectors of their economy, are now the deficit food nations, and they are buying from us.

What bothers me is the very thing that you have just indicated, and that is that we are moving more toward their system as they move more towards ours. Ours has the record of success. Theirs has the record of failure.

Senator JOHNSTON. Thank you, very much, Mr. Secretary. I think that is a very powerful argument against what the administration is doing at the present time.

Senator PACKWOOD. Secretary Butz, essentially what you are telling us is that the soybean, corn, feed-grain problem is one more of production than of demand. Had we known a year and a half ago how great foreign demand was going to be, we could probably have produced at that level; is that right?

Secretary BUTZ. Yes, sir.

I think we could have produced more had we known a year and a half ago, but like every member of the Senate, my hindsight is 20/20 without glasses, and we would look back at decisions made, and think how well we might have made decisions.

We didn't know what we know now.

Senator PACKWOOD. You are estimating roughly 6 billion bushels of corn for 1973–74. If you turned the corn farmers loose could they produce 6.5 billion next year?

Secretary BUTZ. I don't know if they could or not. They probably could at the expense of soybeans. Those crops are in the main competitive for acreage. If you do that in the delta areas, you may do that at the expense of cotton.

Senator PACKWOOD. Mr. Secretary, I have had relatively little experience overseas, however, I have seen some countries that farm land we would regard as marginal.

Given a 3, 4, or 5-year projection of needs, do we have a great quantity of land that could be turned into arable farm land?

Secretary BUTZ. We have some. I wouldn't say a great quantity. We have some that could be made arable by irrigation, but again the supplies of water are limited in many parts of the country, where water tables are going down because of excess utilization of water for irrigation from underground pools.

I think in 5 years we can hit 6.5 billion bushels of corn. We have had two or three great increases in corn yields. We had one when we had hybrid corn when we had great increases in corn yields.

Then we learned how to mechanize the nytrogen cycle and this gave us a substantial increase in yield, and we plateau'd again. There will be other breakthroughs.

I think the point now is the rate of photosynthesis, and some of these days, I think our breeders may develop a different stalk that will increase the opportunity for photosynthesis and the uptake of carbon dioxide from the underneath. I think we can hit 6.5 billion bushels in 5 years without a decrease in the soybean production.

Senator PACKWOOD. Is the shortage of soybeans absolute or relative? Is there not enough to go around domestically, or is there enough to go around but the price is such that they simply can't afford to buy it?

I don't make any real distinction between those two. Shortages are always relative. We use price to allocate supply. Anybody who wants to pay $400 a ton for soybean meal can get it. That is an excessive price.

Senator PACKWOOD. In some cases we import commodities because we don't have an adequate domestic supply—you are saying this year this is an adequate supply of soybean meal——

Secretary BUTZ. No, sir; I am not saying that.

We had an increase, as you will see in table 2 on our attachment, we had increases in production of soybeans last year of nearly 100 million bushels over the year before. It was an all-time high crop last year.

Yet, utilization has gone up so much, partly because of increased demand around the world, and in this country, too, and partly because of the short fish supply off the Peruvian Coast.

You will notice that we are going to go out of this year—this soybean year—with about a 40 million bushel carryout. This is the lowest we have ever had.

We had 72 million bushels last year, which is on the low side; 40 million bushels keep the pipelines barely filled. There are crushers who will have to close down between now and the new crop. We do have a physical shortage of soybeans before the new crop comes in.

Senator PACKWOOD. You are saying that regardless of the favorable effect exports have on our balance of payments, we are going to look after the domestic user first?

Secretary BUTZ. Yes.

Senator PACKWOOD. Why don't we do the same with respect to softwood logs?

Secretary BUTZ. I feel I can talk in grains but not logs.

I think the essential difference is that we are on an import basis for lumber. It is my understanding that we do import approximately as much as we export.

Senator PACKWOOD. We import twice as much.

Secretary BUTZ. Then we are on an import basis. If we curtailed our exports, and I am told this is a substantial chance that those who purchase from us would buy from those who supply our imports.

Senator PACKWOOD. That is a debatable point in the lumber industry. We have seen, to a great extent, prices go out of sight for a good many people who wanted to build a home. If we didn't export logs we would have a slightly lower lumber price. The administration is implying the desirability of grain export control as it wants to make sure we have enough grain so that the American consumer has bread and meat even if he eats it in a tent.

Secretary BUTZ. Barbeque eating is not so bad this time.

Senator BENNETT. As long as you have an insect control spray; you are all right.

Secretary BUTZ. In the last 2 months, the price of lumber and plywood has come down substantially, whereas the price of soybean meal and feed grains have gone up.

Senator PACKWOOD. When the housing starts continue at a high level you will see the lumber price go back up.

Lumber consumption has increased in the last year or 2 years or 3 years. It is much more a factor of demand in this country, whereas agriculture is much more a factor of supply.

Secretary BUTZ. We are trying to reach 11.8 billion feet this year, and our forestry people assure me we will reach that. I think that will take the edge off the type price situation we have.

Senator PACKWOOD. I have no further questions.

Senator PROXMIRE. Senator Hathaway?

Senator HATHAWAY. Thank you, Senator.

Mr. Secretary—and I don't know which one I am talking to—but either one could answer:

What would be the mechanics of implementing export restrictions assuming the proposed legislation is passed?

Secretary DENT. Senator, if a decision was made to implement export controls, this notification and the terms under which it would be applied would be published in the Federal Register advising all those who have export commitments as to how they would apply for export licenses. The allocation mechanism that we outline with this notice, it might be only the basis of country-by-country, or on the basis of the experience of the exporting firm, the decision as to the mechanics for allocation has not been determined.

It might be a combination of these factors. Then the exporters are, in order to export, would have to obtain the license from the Office of Export Control of the Department of Commerce.

Senator HATHAWAY. Are you saying that all present export orders are going to stay in effect?

Secretary DENT. The President in his speech indicated that all national commitments made prior to June 13 would be honored and put them on notice that orders subsequent to that were subject to allocation.

Senator HATHAWAY. The same procedures you are outlining.

Does this procedure provide the opportunity for a public hearing for those who are affected and others who might be interested.

Secretary DENT. Certainly, the decision to act would have to be made publicly; and that there would be hearings.

You couldn't do it in advance, because of the market effect.

Senator HATHAWAY. Would you publish in the Federal Register that there were going to be restrictions on the export of soybeans?

When would that necessarily take effect, 30 days thereafter? Would it be in conformance with the Administrative Procedure Act?

What is the purpose of publishing in the Federal Register?

Secretary DENT. That is how the procedure is made public, and those involved domestically and offshore are given the decision and the procedure.

Senator HATHAWAY. Can the soybean growers come in and protest that this is an undue restriction on exports and thereby have some opportunity to affect your final decision, or is your decision final when published?

Secretary DENT. The procedure to proceed would be final. The decision with respect to the details of the allocation and so forth would be subject to amendment.

Senator HATHAWAY. What would you think of an amendment to this bill which would provide that no decision would become final until 15 days after the order is published in the Federal Register, which would give not only those who are affected an opportunity for some kind of hearing before you but would also give the Congress an opportunity to act if it so desired? Assuming the Congress doesn't act in the 15 days, the order would go into effect.

Secretary DENT. In my judgment, we are involved with a highly sensitive market, and just as when moves are made in economic stabilization generally, action has to be taken that has an immediate effect, and there are opportunities for appeal for changes and so forth; but I think it would be quite detrimental to have this hanging over us.

It would be an invitation for all those to come in and book orders during that period.

Senator HATHAWAY. The problem as I see it is that you are going to run into a situation that we ran into a year ago, I think with respect to the export of hides. We gave the President authority to control these exports, and somebody tacked an amendment onto it that revoked that authority. If we had a procedure whereby Congress was assumed to have acquiesced after a 15-day period, that might preclude such amendments being tacked on. This would be more destructive to your program, I would think, than the procedure I am suggesting.

Secretary DENT. If this proposed legislation relating to feed grains is passed, the Congress would be granting the necessary authority to be used in the judgment of those who are evaluating the export backlog versus the production estimates. When they come up with a decision, that they would have to be able to support it.

Senator HATHAWAY. It is easy to acquiesce before you know that your product is the one that is going to have the restrictions placed on it. We know, since each of us represents a different agricultural area, that as soon as you restrict the exports of certain commodities, you are going to have certain groups—Congressmen and citizens alike—screaming.

If you had some procedure whereby the order didn't take effect until 15 days, at least they would have an opportunity for some kind of a hearing, and at least would be partially satisfied that they had their day in court, and, as I mentioned earlier, thereby precluding amendment to other legislation that might top an order once it is in effect.

Senator BENNETT. Would the Senator yield?

Senator HATHAWAY. Yes.

Senator BENNETT. I would think the only way you could do that is to have the order take effect so far as anybody who is affected by it on the day it was issued.

In other words, you deprive everybody of the opportunity to take advantage of the market in the 15 days. If you had it take effect immediately so that there could be no transactions entered into after that time and then have a chance to look at it, that would not be so serious, would it?

Senator HATHAWAY. Right, that would be fine. If Congress would have 15 days to act thereafter to rescind it.

Senator BENNETT. Yes.

Secretary DENT. We could run into other problems, however, if, for instance, we stopped the export today of a given item, and it took 15 days in which to deliberate. We would have actual commodities on the docks in transit, on trucks and trains, and this in effect would be a 15-day embargo during which nothing would move while all of this is being put together; whereas if we put into effect a system with the opportunity to review it as individual problems arose, then these sensitive markets and the needs offshore might better be served.

We are involving primarily ships that move these bulk commodities and they would be tied up in port for 15 days awaiting the final decision.

Senator HATHAWAY. You are going to have the problem anyway, because you are going to use time for allocation; aren't you?

Secretary DENT. You can devise a system which provides for partial shipment of the things on the docks and in transit so that you have a transition, even though the program keeps going during a 2-week period you are talking about here.

Senator HATHAWAY. Do you have a suggestion with respect to a shorter time that would not be disruptive?

Secretary DENT. In my judgment the best way to proceed is to use the system that has prevailed in the past whereby controls are announced and a best-thought-through system is devised and announced at that time; these systems might vary from crop to crop depending on where they are destined. The system would give opportunity to those who have grievances under the system to come in and protest so that the whole marketing mechanism can go on while these individual adjustments are heard and considered and decision made on what is in the national interest.

Senator HATHAWAY. But you are going to put the farmer in a position where he thinks that he has a chance of getting the Congress to amend your order by some future legislation. He will be holding up his commodities and going into the domestic market thinking that, well, "My friend in Congress will be able to overrule this," and so you are going to have just as bad a situation, I would think, as if you allowed a certain amount of time and let them know once that time had expired that the die was cast. And that would be it.

Secretary DENT. I see your point.

It is a question of whether you can affect that problem since the marketing system generally is well beyond the farmer level by this time of year, as far as the export commitments are concerned. The commodities are generally in the hands of exporting firms and not individual farmers.

I think that the vast majority of these commodities would in all probability have passed beyond the farmer interest and then we are getting involved with new crop marketing problems.

Senator HATHAWAY. They might, too, hold them up in anticipation of some change, depending on how strongly they lobby in Congress.

Secretary DENT. It is the kind of problem you get into——

Senator HATHAWAY. I would appreciate it if you could get back to us with suggestions before we go to markup on—is it Wednesday, Mr. Chairman?

Senator PROXMIRE. About Wednesday.

[The following was received for the record:]

DEPARTMENT OF COMMERCE,
July 12, 1973.

Hon. SPIRO T. AGNEW,
President of the Senate,
U.S. Senate,
Washington, D.C.

DEAR MR. PRESIDENT: Enclosed are four copies of a draft bill—

"To transfer to the Secretary of Commerce certain functions of the Secretary of the Interior relating to encouraging, promoting, and developing travel within the United States, and for other purposes,"

together with a statement of purpose and need in support thereof.

We have been advised by the Office of Management and Budget that there would be no objection to the submission of our draft bill to the Congress from the standpoint of the Administration's objectives.

Sincerely,

FREDERICK B. DENT,
Secretary of Commerce.

STATEMENT OF PURPOSE AND NEED

The purpose of the legislation is to transfer to the Secretary of Commerce the tourism functions vested in the Secretary of the Interior by P.L. 76–755 of July 19, 1940. The functions, which are to encourage, promote, and develop travel within the United States, its territories and possessions, currently are assigned by the Secretary of the Interior to the National Park Service.

Coordination and orderly development of tourism policy and programs at the federal level is made difficult by the extreme fragmentation of responsibility. At present, there are 126 federal programs affecting travel or tourism divided among 46 executive departments and independent agencies. The Secretary of the Interior and the Secretary of Commerce have agreed that the transfer would be a significant step toward greater federal effectiveness in tourism. The proposed transfer also has the support of Chairman Charles S. Thomas of the National Tourism Resources Review Commission.

The International Travel Act of 1961 vests the United States Travel Service with the responsibility of promoting international understanding and appreciation of the United States by encouraging foreign citizens to visit for the purposes of study, culture, recreation, business, and other activities. The Travel Service possesses the expertise, experience, and world marketing apparatus to coordinate and consolidate the efforts of the federal government in promoting domestic travel by both our citizens and those of foreign countries.

The United States Travel Service has the primary responsibility of correcting the steadily-worsening deficit suffered by this country in its tourism balance of payments. This deficit, which last year rose to a record $3.1 billion, results from United States citizens spending more in foreign countries than foreign visitors spend here. In closing this "travel gap," the United States Travel Service—unlike other national government tourism offices—has been handicapped by lack of authority to influence our citizens to explore the attractions of their own country before going abroad.

Thus, the proposed consolidation will not only eliminate overlap in federal tourism activity and enhance the effectiveness of the federal program, but it can also be expected to benefit the tourism balance of payments position of the United States.

A BILL

TO TRANSFER TO THE SECRETARY OF COMMERCE CERTAIN FUNCTIONS OF THE SECRETARY OF THE INTERIOR RELATING TO ENCOURAGING, PROMOTING, AND DEVELOPING TRAVEL WITHIN THE UNITED STATES, AND FOR OTHER PURPOSES

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, That there are hereby transferred to and vested in the Secretary of Commerce all functions, powers, and duties of the Secretary of the Interior and other offices and officers of the Department of the Interior under the Act of July 19, 1940, as amended (54 Stat. 773; 16 U.S.C. 18–18d).

SEC. 2. The assets, liabilities, contracts, property, records, and unexpended balances of appropriations, authorizations, allocations, and other funds employed, held, used, rising from, available or to be made available in connection with the functions, powers, and duties transferred by the first section of this Act are hereby transferred to the Secretary of Commerce.

Senator HATHAWAY. I would like to ask Secretary Butz; could you give us a brief picture of the status of research with respect to alternative crops or ways to furnish the poultry industry and the beef industry, for example, with feed they could use as substitutes for the ones that are now being exported, and which now are very high priced?

Secretary BUTZ. Can you vary the rations of beef and poultry?

Senator HATHAWAY. I would like to focus on areas of the country now being used for soybeans, and so forth.

Secretary BUTZ. Within limits, it is easier to vary the rations of beef than it is poultry.

The most efficient feedstuffs we have to make animal protein is corn and soybean meal. We don't have anything that will equal that combination for efficiency.

By the same token, in the areas where rainfall and climate permit, corn is the most efficient converter of solar energy that we have.

Therefore, our job, really, I guess, is to maximize the production of those two crops in the area where it can be done. We have had a very marked expansion in soybean production in the Southern States in recent years.

As cotton has gone out of the Old South, soybeans have tended to go in. It is a good production area. Livestock has increased a good deal in that part of the country, too.

What are the alternatives?

If you get out in the fringe areas of the Corn Belt, grain sorghums are grown, in the Southwest especially; and they are a pretty good feed, but acre-to-acre, they don't come up to corn.

We can use wheat as a feed. We normally feed about 200 million bushels of wheat a year, depending on the price relationship.

In the Pacific Northwest, where wheat is in abundance and corn has to be shipped in, you tend to feed more wheat.

These are the principal alternatives, I think; but research is going forward all the time, except that for the use of acreage in the temperate part of the country where rainfall is adequate, corn is king.

Senator HATHAWAY. Are we using all the farm acreage we could use for this purpose?

Secretary BUTZ. We are pulling some 25 to 43 million acres back into production this year that were not utilized last year. We are not quite at capacity this year, but the acres not being used this year are marginal acres.

Next year I would anticipate we will be in full production.

Senator HATHAWAY. With regard to Senator Johnston's questions, you commented that you didn't care much for administered prices, as I understand it?

Secretary BUTZ. That is a personal opinion of mine.

Senator HATHAWAY. Given the nomcompetitive society we have, administered prices is the only solution with giant industries——

Secretary BUTZ. We are becoming closer and closer and closer to it on many fronts. there are institutional prices. We have it in the labor front, of course, with institutional prices We have it in the cost of money which is virtually institutional pricing.

I guess we are moving toward it in agriculture. I am being dragged in myself by my heels.

Senator HATHAWAY. We don't have much choice in agriculture, do we?

Secretary BUTZ. I am still fighting a rearguard action.

Senator HATHAWAY. Thank you.

Senator PROXMIRE. As I understand it, you will use this legislation only if an emergency develops and if the weather holds fairly well and your projections prove true, you won't need this legislation; is that correct?

Secretary DENT. We hope we don't have to use the proposed legislation. But, the legislation specifies that it might be used for inflationary control purposes, which infer this relationship of balances between livestock, feed grains, and the price of livestock.

Senator PROXMIRE. But I think your projections are reasonably pessimistic. You assume—there is going to be this enormous increase in demand—you assume in corn and soybeans, which are the two critical products, where you might use this. You have a very, very large projected export increase, particularly in the area of corn, and especially if you compare corn exports with 1973–74, that, is this coming crop year, with 1971–72 almost—well, it looks like an 80-percent increase in exports.

So it would appear that there is at least some reasonable chance that the President may not have to use this emergency legislation. Is that correct?

Secretary BUTZ. I think that is a fair statement.

Senator PROXMIRE. Now, you are asking us for very, very far-reaching changes when you look at the language. I wasn't really aware of this until I began to study your statement, which is a very helpful statement, and the law itself.

One element of this is that it goes further than the Price Stabilization Act language. That expires on April 30. You don't amend the Price Stabilization Act. You chose to amend instead the Export Control Act, which is more or less a semipermanent law which expires, as I understand it, on June 30, but we automatically reenact that every year.

Now, there are two reasons why it seems to me we should either make the determination April 30 on this provision, or amend the

Price Stabilization Act. One, of course is that if we put the language in the Price Stabilization Act, this extraordinary grant of power will expire when other inflation controls expire.

The second is that it would be a shorter period and Congress could also hold its control a little more closely. Would you object if we made the determination April 30 instead of amending the Export Control Act and went along with that?

Secretary DENT. No, sir.

The administration initially sought to amend the Economic Stabilization Act and it was found after consultation with the Congress that it was more desirable to move forward on this basis.

The difference, as you indicated, is about 60 days as far as the expiration is concerned. I don't think that the date is at all objectionable.

Senator PROXMIRE. Fine.

Almost all of the testimony, and of course, the expert testimony of Secretary Butz, has made the case for this, legislation on an emergency basis in the feed area. There has been virtually no case made in any other area.

Why shouldn't we confine this to food and, of course, Congress can always act promptly if other shortages develop. Why should we make this as universal as it seems to me?

Maybe I misread it.

Secretary DENT. Basically, as the Senator from Oregon has indicated, there have been serious concerns about various exports from this country in addition to lumber, and we have been dealing insofar as possible with the proposition that the best way to solve these is to increase the supply rather than to put on export controls.

Senator PROXMIRE. The Senator from Oregon intends to offer an amendment on Log Export Control. I have talked with him about that, and we can handle that separately. If we did that, would you be concerned if we confined this to food?

Secretary DENT. No, sir.

As I say, the log problem has been dealt with under the terms of the present Export Control Act, and the principle involved there was to try to increase the supply to satisfy the demands both at home and abroad. The major concern has been in the food area.

Senator PROXMIRE. When you say that, I want to make sure I understand this very clearly. This is quite an important point.

If the Congress should act to provide the authority for the President with respect to food only, and specify food would you object to that kind of modification?

Secretary DENT. It is more desirable as requested, but certainly the major reason to obtain this authority is in the feed-grain area.

Senator BENNETT. I would like to continue a discussion of the last thing.

Do you know of any other areas in which there could be an impending shortage affecting price which would require the extension of this provision—you mentioned logs and scrap—outside those, do you know any other area that threatens?

Secretary DENT. These are the two major ones. When you say logs, let's include lumber with that. That is tied together; and scrap, that is correct.

Senator BENNETT. It seems to me that if there are no other areas threatened, that something might follow; I can't see any danger in giving you the general authority unless we are afraid that the President is going to use this authority indiscriminately in areas which apparently do not now exist in order to damage the American economy, and I can't believe that.

So it seems to me that we are limiting his authority and just for the sake of limiting the authority.

Senator PROXMIRE. If the Senator would yield?

I don't think that is implied in my position. I think the President would act on the basis of what he thinks is the national interest, but I would hope we would give authority to the President on the basis of a record and the basis of a need.

Congress has been rightly criticised for giving up too much authority to the Presidency, where no case has been made, and where these very able and distinguished Secretaries can't give us new areas where they think a shortage is likely to develop, it would be wise for us to confine the authority to this area; and if the President wants other authority later, we can entertain that.

Otherwise, we can say the President is a good man, and give him all our legislative authority.

Senator BENNETT. That is going too far, but here we have a tool which we are forging to solve the problem in certain areas which are created when excess exports are reducing the availability of products in our own market and raising the prices, and we are now going to say that we can see only these two problems.

And that is as far as you can go with the tool.

That seems to me that it is like saying to men to operate an ambulance—"You can pick up all the broken legs you find, but if you find a man with a broken arm, you can't pick him up, because we don't expect that."

I don't think you are giving the President undue authority that can damage his relations with the Congress if you say to him this is a tool that meets only a certain situation. Something might happen tomorrow, and therefore, before you can meet it, you have to come back to us and ask us if it is proper to pick up a broken arm.

I would believe that if we are going to give the President the tool, we ought to give it to him, the authority to use it.

Senator PROXMIRE. I wonder if the Senator would feel the same way if the election had been reversed and Senator McGovern would have been the elected leader?

Senator BENNETT. The problem would have been there; I think we would have had to give President McGovern the tools.

Mr. WALKER. I would like to make an observation that Dr. Dunlop made, that when this relates to exports and possible shortages in the commodities in the domestic market, then there is some anticipatory inflationary effect of having public protracted discourse on the suitability of whether or not export controls ought not be imposed; therefore it is our feeling that export controls to curtail serious domestic inflation is the last remaining tool that the President lacks at the present time to deal with the problem. And that—for that reason, standby authority ought to be granted him for future use promptly when shortages show up and increased excessive rates, shall we say, of exports which appear on commodities where there is a short supply here, and where it would help curtail domestic inflationary crises by restricting imports.

Senator PROXMIRE. Senator Stevenson?

Senator STEVENSON. Has there, this year, been an abnormal foreign demand for wheat and feed grains?

Secretary BUTZ. Yes; I think I have to answer that categorically "Yes."

The Russians had the hottest, driest, summer in 100 years. They purchased substantially more wheat from us than they will purchase this year, or that can be anticipated being purchased over the longer run. I anticipate their corn purchases would remain about where they were.

Senator STEVENSON. Has the foreign demand had an inflationary impact?

Secretary BUTZ. I think it has. This certainly has an impact.

Senator STEVENSON. That has lead to an excessive drain of scarce materials?

Secretary BUTZ. You define "excessive" in relative terms. I think it did lead to an excessive drain of soybean meal and soybeans. I don't think it has in the case of corn and wheat.

Senator STEVENSON. The point is that under the Export Administration Act, the foreign demand is abnormal, has a serious inflationary impact; and leads to an excessive drain of scarce materials. The President has the authority to control exports. He has that authority right now, doesn't he?

Secretary BUTZ. I defer to the Secretary of Commerce.

Secretary DENT. All of these have to be combined in order for action to be taken. In certain instances these conditions do prevail, but the important and significant thing is that the relationship between feed grains and the meat prices in this country may involve situations where all three requirements do not exist at the same time.

Senator STEVENSON. Would the President impose controls without an abnormal foreign demand, without a serious inflationary impact, or without an excessive drain of scarce materials?

Secretary DENT. It depends, I think. He would certainly avoid it. The question would arise as to the degree of inflationary pressure, and where it is showing up.

It might not show up in the corn, it might show up in a decline of broiler growth, or in livestock growth.

Senator STEVENSON. He has the authority to expose export controls right now. In the case of agricultural products, there is, as the Secretary knows, an additional requirement. The Secretary must certify that supply is inadequate to meet domestic demand.

Now, I should think that that certification would be easily obtained from the Secretary if those other conditions were met. If not, if there is any difficulty, all the Congress would have to do, it seems to me, to give the President the authority he seeks is simply repeal that one provision in the law which does give the Secretary of Agriculture the authority to block export controls when supply is inadequate to meet domestic demand.

Senator BENNETT. Would the Senator yield?

I can see a situation in which the foreign demand is normal but the domestic production is so low that you get into a serious situation and you require all three of those conditions to be met, or the President could not move.

Senator STEVENSON. I am asking the witnesses for their opinions.

Secretary DENT. Your question as an alternative was merely to eliminate the requirement of the Secretary of Agriculture to find that these are in short supply.

Senator STEVENSON. Yes.

Secretary DENT. That would certainly be useful. It would not be as flexible an authority as we we have requested.

Senator STEVENSON. I grant you that. I would not be as flexible; but it would permit the President to impose controls when there was an abnormal foreign demand, as there is when the abnormal foreign demand had a serious inflationary impact as has been conceded, and when that demand led to an excessive drain of scarce materials, which is happening at least in some cases——

Mr. WALKER. Senator, the administration bill, S. 2053, provides—in its subsection E—a proposed amendment of the finding that the Secretary of Agriculture would be required to make to eliminate the need for him to make a finding as to the relationship between domestic supplies and domestic needs.

I think in addition, however, our concern relates to the necessity for, under current legislation, the coincidence of all three elements in the operative language of the statute. That is to say, they must coincide, the abnormal demand, the domestic scarcity, and the serious inflationary impact; and as Senator Bennett has suggested, we are concerned at the prospect of situations where there may well be domestic scarcity which results either in reduced supplies or vastly increased domestic demand without any significant demand without any significant change in foreign demand, and in those circumstances under current law, the statute does make it very difficult for the President to act.

Senator STEVENSON. Are you saying that in those circumstances when supply is inadequate for domestic demand, the administration might impose controls if given the authority?

Mr. WALKER. If in the face of something less than abnormal foreign demand, if it were necessary under the terms of our amendment to curtail serious inflation, that would contemplate a situation in which the problems of the inflationary price increases resulting from supply-demand imbalance, but where the imbalance is not the product of abnormal foreign demand, but may be the result of short supply domestically and so forth.

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

Senator PROXMIRE. Senator Johnston?

Senator JOHNSTON. Secretary Butz, you spoke of the 100-year drought in Russia, and that accounting for the tremendous demand for feed grains, or wheat, shall I say.

What is the long-term demand, as you see it, absent any unusual weather conditions for feed grains and other protein products?

Secretary BUTZ. I think the long-term demand will be going up, because of the rising affluence of the people around the world.

The U.S.S.R. demand for wheat this year will be approximately half what it was last year, and they will distribute that over many purchasers. I think this requirement for feed grains will be at least as great as they were last year.

Senator JOHNSTON. The effect that climatological conditions around the world, droughts, or floods, can cause such a peak in demand, wouldn't that imply that we ought to have more of a storage program for grains in this country to take care of that kind of unusual demand?

Secretary BUTZ. We have the storage capacity now. I guess what you are saying is shouldn't we have a bigger carryover?

It was fortunate last year that we did have a bigger carryover, although we regarded it as a burden on our taxpayers. I think we need to shoot for a larger carryout than we have this year.

Hopefully, it should be carried by the private trade and by farmers themselves rather than the Government.

Senator JOHNSTON. You don't think the Government ought to be involved in that?

Secretary BUTZ. I think it is quite important that the Government is out of that business.

Senator JOHNSTON. Doesn't this program imply that phase 4 will continue the price ceilings as opposed to the passthrough? It seems to me that if you allowed just a passthrough that the prices on exports and the exports are more or less controlled themselves; doesn't this imply that phase 4, or 4–A, or whatever the number is, is going to continue price ceilings?

Secretary BUTZ. I think that is the inference in the request for export controls. Otherwise, the price itself would regulate the domestic supply.

Senator JOHNSTON. It is your prediction that there is going to be a price ceiling?

Secretary BUTZ. Unfortunately, we seem to be headed in that direction.

Mr. WALKER. Mr. Chairman, I have the figures if you would like them for the record.

The rise in the wholesale price index from December to May due to farm products, due to farm products and feeds is 53 percent.

Over the past 5 years the proportions are approximately 19 to 20 percent.

Senator PROXMIRE. Our next witness is Dr. D. Gale Johnson, chairman, department of economics, University of Chicago.

STATEMENT OF D. GALE JOHNSON, CHAIRMAN, DEPARTMENT OF ECONOMICS, UNIVERSITY OF CHICAGO

Senator PROXMIRE. Dr. Johnson, we are happy to have you here.

Senator STEVENSON. Mr. Chairman, I am pleased, especially pleased, to welcome Professor Gale Johnson to this committee.

Professor Johnson is chairman of the Department of Economics at the University of Chicago. He is one of the Nation's foremost agricultural economists. He served on the 1967 National Conference on Food and Fiber, and has consulted with several administrations on agricultural policy; and I am sure his testimony will be of great benefit.

Dr. JOHNSON. Thank you very much.

Senator PROXMIRE. You have a very concise statement. Go right ahead.

Dr. JOHNSON. I know our time is very short, so in order to save time, I will read the statement quickly.

Given the existence of the price freeze on all farm commodities at all levels except unprocessed farm products at the farm level, I favor granting the President authority to impose export controls on both raw and processed farm products. In the absence of export controls the domestic price freeze could become entirely unworkable if there were a substantial increase in the international demand for our farm products or a decline in U.S. production.

For example, if the current ceiling prices are such as to permit wheat processors, bakers, and distributors to pay $2.75 per bushel for wheat plus the 75 cents per bushel marketing certificate, an increase in the cash price of wheat to somewhat more than that—say $2.90 per bushel—because of the state of foreign demand would probably result in the disappearance of many wheat products from the shelves of retail stores.

Similarly, if the foreign demand for feed grains were to increase market prices above current levels, there would be a real squeeze on poultry and egg producers, beef cattle feeders, dairymen and pork producers. The result of the squeeze on their margins would be a decline in production and within a matter of months a reduction in supplies available to the market. This reduction in supplies, in turn, would either result in interruptions of supplies at the wholesale and retail levels or widespread violation of the price freeze or both.

If there is a major grain crop failure anywhere in the world—or even rumors of such a failure—it is highly probable that the rise in international prices for one or more major grains would result in increased U.S. exports and an increase in domestic prices above current levels.

Such crop failures—or rumors of them—cannot be ruled out. Given the domestic price controls, I believe that the President should have the authority to limit exports to a level consistent with grain and feed prices no higher than those now prevailing.

The prices for the major farm products for the past several months can be realistically described as unstable and this situation is likely to prevail for the next several months until Northern Hemisphere crops are harvested and the production levels are determined. Stocks of major farm products are low in the United States and in the rest of the world. If grain yields are satisfactory or better than satisfactory in North America and Europe, and there is not a major crop failure in Asia, it is highly probable that export controls would not be required for the grains of soybeans.

But if crop prospects look poor in some major producing region over the next few weeks, then the authority to impose export limitations is essential if the domestic price freeze is not to result in major disruptions in the supply of food to the American consumer.

Even though the price freeze will last only 60 days, export controls may be required during that short period. In the current world market situation for grains and feedstuffs one cannot rule out anticipatory purchases.

Since it is not known what form of controls will follow the price freeze, foreign buyers are likely to make additional purchases as a means of meeting their own anticipated requirements.

If the President is granted authority to impose export controls on farm products and uses that authority, it would not be the first time that exports of a major farm product have been controlled.

Export controls were imposed on cotton in 1950 following a poor crop in the United States and a sharp rise in market prices. The average price received by farmers for the 1949 crop of cotton was 28.6 cents per pound; for the 1950 crop the price was 40.1 cents, even with the export controls. But the price would surely have gone much higher without the export controls. Prices of reasonably comparable foreign growths increased by 80 percent between the 2 years while the domestic price increased by 40 percent.

The 1950–51 experience with export controls illustrates a problem that I feel should be recognized. If export controls are imposed and the controls are effective in limiting exports, the value or price of a product will be greater than the domestic price. Thus someone will enjoy a windfall and I assume that the gain will go to the foreign importing agency.

The only way to prevent this is to impose an export tax or its equivalent. I know the U.S. Constitution does not permit the imposition of an export tax, but Congress was ingenious enough to devise wheat export marketing certificates, Public Law 88–297, April 11, 1964. As with the wheat export marketing certificates, any amount collected could be distributed to producers. I assume the distribution of the receipts from the wheat export marketing certificates to farmers was the basis for not classifying the certificates as an export tax.

I will conclude with two brief comments:

First, I have considerable experience in the design and administration of price ceilings for agricultural products—particularly livestock products—as an employee or consultant to both OPA and OPS. Thus I speak from a base of experience as well as empirical and theoretical knowledge of the functioning of markets.

Second, I am a supporter of free trade as the appropriate national policy.

Controls over exports have no more place in a free trade policy than do import quotas. Thus, my support of the President's request for export controls does not go beyond support in the present particular set of circumstances.

In fact, I believe that if it becomes necessary to apply export controls that doing so will harm our long-run prospects for expanding exports of agricultural products since we will be looked upon as an unreliable supplier.

The choice is between two unsatisfactory alternatives and given the economic and political implications of further increases in food prices, I believe the President has chosen the least unsatisfactory.

Senator STEVENSON. Taking the argument of the desirability of controls, would it not be sufficient to give the President authority to adopt such controls to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal demand?

Wouldn't that language meet the need? That is the language in the Export Administration Act right now. It has been given a strict interpretation in the past. But that is the language.

Dr. JOHNSTON. I believe the issue is what one defines as "abnormal foreign demand." There is not, say, abnormal foreign demand for broilers, or beef.

The difficulties with production of broilers and pork comes not from the abnormal foreign demand for those particular products, but from the strong demand both domestically and internationally for the raw materials that are used to produce the pork and broilers, and I am not sure whether we could say that in this context there is abnormal foreign demand for corn.

There is a very large demand. Exports have been very high this year, and in fact one can visualize the situation where feed grain exports would be slightly less next year, and we might be struggling with pressure on the feeding margins for pork and broiler producers.

As I say, what I do not understand is whether the abnormal demand has to relate to the finished product or to the raw material that goes into the finished product. If it has to apply to the finished product, the broiler, then the export control, it seems to me, could not be imposed until long after the damage has been done; and in no case would there be abnormal foreign demand for broilers, it seems to me.

Senator STEVENSON. I think it applies to the product you place the controls on.

You participated in the preparation of the Flanagan report on agricultural trade policy. That report estimates that a reduction in barriers to international trade would bring about an $8.2 billion increase in our balance of trade by 1980. Won't export controls hurt the prospects of reducing agricultural trade barriers?

Dr. JOHNSON. As I indicated in my prepared statement, I am very reluctant about recommending any circumstances in which export controls would be imposed, because I do think that will be slightly adverse to our long-run prospects for expanding agricultural export, because it will make us appear as unreliable suppliers, and for that reason my support is a very, very reluctant one.

Senator STEVENSON. Were you finished?

Dr. JOHNSON. I was going to say that given the fact that the price freeze has been imposed, then unfortunately, certain things seem to have to follow.

Senator STEVENSON. That concerns me, too. Our trading partners, Japan and Europe, are already saying that their import barriers are a necessary part of their effort to remain as self sufficient in agricultural products as possible.

The threat of export controls in the United States adds great weight, I would think, to that argument, in the EEC, for example.

Dr. JOHNSON. That is one of the reasons I feel this authority be made to appear that it is very, very temporary, and not to have a life that is willy-nilly extended from time to time.

Senator STEVENSON. What effect will the expanded authority and the threat of controls have on agricultural productivity, the expectations of the producer?

Dr. JOHNSON. I doubt the export controls themselves, if used judiciously, would have very much impact in that direction. The problems are the instabilities and the distortions in price-cost relationships that have come about because of the freeze--price freeze—on livestock products, and with no really comparable control—not that I am recommending control—over the price of feed.

Obviously if we don't have a ceiling on broilers, we have something very, very close to it, and this is much more effective than any limitation that we impose, say, by putting a price ceiling or a freeze on food products made from corn.

These products are so unimportant in the total demand for corn that it has no effect on the price for corn, but the retail and wholesale freezes on broilers limits the price the farmer can get for broilers.

Broilers, because of the very narrow margin, productivity is apt to be affected unless feed prices can be kept in balance.

[Senator Stevenson assumed the Chair.]

Senator STEVENSON. Senator Johnston?

Senator JOHNSTON. Do you think the retail price freeze was a mistake on agricultural products?

Dr. JOHNSON. As an economist, I would say yes.

Senator JOHNSTON. As to what would you say no?

Dr. JOHNSON. That is what I am. I guess I can understand the political reasons why a whole range of direct controls have been imposed in the past 2 years, but as an economist, I think most of these measures are counterproductive, and it would have been desirable if the measures had been avoided.

My testimony here is within the context of the situation as we find it.

Senator JOHNSTON. Would it be your recommendation not to have this bill or the controls, either one? That is, take both of them over as far as agricultural commodities are concerned?

Dr. JOHNSON. I think the situation would be preferable if neither existed; yes.

Senator JOHNSTON. The thing the price mechanism would regulate is the amount of export?

Dr. JOHNSON. Yes, though I think one would have to agree that you would run, as a Nation or an administration or the Congress, a significant probability that there would be further increases in the prices of food over the next few months. I am not saying that would happen if they were removed, but there is a probability that that could happen, and the question is whether either Congress or the administration wants to accept the responses that would come to that, or from that to the public.

Senator JOHNSTON. Without being willing to pay that price, aren't we really asking for permanent controls, because sooner or later you either have to face that music or you have to keep the controls on?

Dr. JOHNSON. There is an unfortunate tendency in my mind that controls begat controls, as rabbits begat rabbits.

I believe, even with the difficulties that farmers face today, with the price freeze and other difficulties, that output will expand, and I would hope by the end of this year—though that seems somewhat less likely—I would hope that sometime next year there would be a substantial easing in the prices of major agricultural products.

Senator JOHNSTON. That might allow us at that time to get out from under the controls?

Dr. JOHNSON. Yes; I am quite confident it will happen a year from now. Though, again, one cannot rule out the possibility that if there is a national or crop disaster, say in Asia, that the whole scenario could be upset.

Senator BENNETT. Or another corn blight in the United States?

Dr. JOHNSON. Yes.

Senator JOHNSTON. Thank you, Mr. Chairman.

Senator BENNETT. I have nothing further.

Senator STEVENSON. Thank you, Professor Johnson.

I wish we had more time.

Dr. JOHNSON. Thank you.

Senator STEVENSON. The last witness is Mr. Ira Tannenbaum.

Do you have a statement?

STATEMENT OF IRA TANNENBAUM, DIRECTOR, TAX ANALYSTS AND ADVOCATES, WASHINGTON, D.C.

Mr. TANNENBAUM. Yes, I do. I left some copies with the staff.

Senator STEVENSON. Please proceed. We will find copies of your statement. We are short of time. If it is possible to summarize the statement, we would appreciate it. I could enter the full statement in the record.

[Statement follows:]

STATEMENT OF IRA L. TANNENBAUM, TAX ANALYSTS AND ADVOCATES, WASHINGTON, D.C.

I greatly appreciate the invitation of the Committee to appear before it today. My purpose is to bring to the attention of the members an important incongruity in current export policies. The application of a substantial export tax incentive, known as "DISC", is being maintained by the Administration to encourage the export of the very same commodities the Administration apparently is seeking to limit through the enactment of statutory export controls. Although the DISC legislation empowers the President to terminate this tax incentive for income from any commodity the supply of which he determines "is insufficient to meet the requirements of the domestic economy," so far the President has failed to utilize this authority, and there is no indication he will do so in the near future.

I. DOMESTIC INTERNATIONAL SALES CORPORATIONS (DISC'S)

In order to provide tax incentives for United States firms to increase their exports, Congress, as part of the 1971 Revenue Act, enacted a system of tax benefits for a new type of U.S. corporation known as a Domestic International Sales Corporation, or a "DISC", and its shareholders. Under the system, income tax liability may be deferred indefinitely on a substantial part of the profits derived from the export sales of goods manufactured, grown, or extracted in the United States. Almost any United States firm can set up a paper DISC subsidiary through which it can channel its export sales.

A DISC which makes an export sale of goods produced by its parent company is considered to have earned the greater of 4 percent of the gross receipts from the sale or 50 percent of the taxable income.

In addition, an additional part of the combined income of the manufacturing parent company and its DISC can be deemed earned from the sale by the DISC where the DISC has incurred "export promotional expenses".

One half of the income attributable to the DISC on its export sales is treated as being paid to the parent corporation as a dividend; the rest of the DISC income may be maintained in the DISC and reinvested indefinitely in a number of enumerated approved investments free of U.S. income tax. Although the DISC statute lists a number of ways in which deferral of tax on the DISC income may be terminated, in fact, most U.S. corporations utilizing DISC believe they will be able to maintain indefinitely the requirements necessary to continue to defer tax on this income.

I would like to illustrate these principles with a highly simplified example of how DISC works. If the "A" corporation incurs costs of $1,000,000 to produce steel scrap and sells it through a DISC to a foreign purchaser for $1,040,000, under the 4 percent gross receipts pricing rule, the DISC will have taxable income of $40,000 and "A" will have no taxable income on the sale. The DISC will either pay or be deemed to pay a $20,000 dividend to "A" at the end of the DISC's taxable year, and will reinvest the remaining $20,000 indefinitely without paying U.S. corporate tax of 48 percent on it. "A" will pay corporate tax only on the $20,000 it receives as a dividend. In effect, "A" has saved indefinitely $9,600 (48% x $20,000) tax as a result of the use of its DISC for this transaction, which is one half the tax "A" would have paid if the DISC legislation had not been enacted. (Without DISC, "A" simply would have paid 48 percent tax on $40,000 of sales income or $19,200.)

If, on the other hand, the same steel scrap were sold for $1,100,000, and resulted in a combined $100,000 profit for the DISC and its parent, the 50–50 division of income pricing rule would apply. In this case, $50,000 would be earned by the DISC, half of which would be retained tax free indefinitely by the DISC.

The DISC legislation was formulated in 1970 and 1971 when the United States was incurring much greater balance of payments deficits largely as a result of maintaining an overvalued dollar at unrealistic exchange rates. Proponents of the DISC legislation stressed that it would keep U.S. jobs from being exported by preventing manufacturing operations from being transferred abroad for tax reasons. On the other hand, DISC was severely criticized by its opponents in 1971 as a windfall to those companies with existing substantial export business, as resulting in excessive revenue losses for the possible improvements in the balance of trade it might cause, and as an extremely complicated piece of legislation.

Whatever justification the DISC legislation had in 1971, the subsequent beneficial trade effects of the 8 percent August 1971 devaluation, the 10 percent February 1973 devaluation, and the informal continued depreciation of the dollar since February against the stronger European currencies and the yen, apparently have vitiated the justification for DISC today. As a result of these devaluations, United States exports obviously are much more price competitive today in world markets than they were in 1971.

II. DISC SHORT SUPPLY EXCEPTION

The DISC legislation contains provisions which authorize the President to exclude income from the sale of enumerated classes of goods manufactured, grown, or extracted in the United States from receiving DISC treatment. One of these provisions, Section 993(c)(3) of the Internal Revenue Code is what I shall refer to as the short supply exception. It provides in relevant part that, "If the President determines that the supply of any property described in paragraph (1) [i.e. property manufactured, purchased, grown, or extracted in the U.S.] is insufficient to meet the requirements of the domestic economy, he may by Executive order designate the property as in short supply."

Unfortunately, the legislative history of Section 993(c)(3) sheds no light on the standards to be used by the President to determine that a commodity is in short supply. One might initially think this language could be interpreted very narrowly to be applied only in those instances where export controls could be or are applied under current law. On the other hand, the denial of DISC benefits obviously will have a much less severe effect on exports than the application of export controls. Therefore, the degree of short supply necessary to trigger the loss of DISC benefits should be much less than for invoking controls. The difference in degree of effect on exports between the denial of DISC benefits and the imposition of controls clearly suggests it is not necessary to condition the application of the DISC short supply exception upon the imposition of export controls under current law.

Moreover, if one makes the reasonable inference that a properly functioning domestic economy requires supply to be sufficient at a reasonable price level, the DISC statutory short supply language supports a conclusion DISC should not apply where commodity prices rise sharply and to some extent as a result of foreign demand.

Since the DISC legislation was enacted in December 1971, neither the White House, Treasury Department, nor Internal Revenue Service has invoked the DISC short supply exception or even enunciated any guidelines or standards indicating how this tax provision would be interpreted. On October 4, 1972, the Internal Revenue Service proposed exceptionally long and detailed regulations for the implementation of the DISC legislation generally. However, with respect to the short supply exception, the proposed regulations merely repeat the aforementioned statutory language.

I understand that earlier this year the Cost of Living Council unsuccessfully attempted within the Administration to have the DISC short supply exception invoked with respect to soybeans, lumber, hides, fertilizer, wheat, animal feeds, and steel scrap. Apparently it failed because at that time the Administration had focused its anti-inflation efforts on increasing the supply of these commodities, rather than by reducing the demand for them.

Now that the position taken by the Administration on June 13 concerning the 60 day freeze and Phase IV recognizes the importance of reducing export demand to lower domestic prices, the rationale for the previous non-application of the DISC short supply exception no longer applies. However, it is important to note that today U.S. exporters of such increasingly costly commodities such as wheat, steel scrap, lumber, soybeans, hides, animal feeds, and fertilizer continue to receive the substantial DISC tax benefits. This situation continues even though the President now has the statutory authority to deny by executive order DISC benefit to these exporters.

III. DISC REVENUE AND BALANCE OF TRADE EFFECTS

No statistics have been published concerning either the nation wide revenue or balance of trade effects of DISC since its enactment. The Revenue Act of 1971 requires the Treasury to make an annual report to the Congress on these effects, but the first of these reports, which would cover calendar year 1972 (the first year DISCs were in operation), is not due until April 15, 1974. If Congress waits until at least that long to act upon the short supply and other aspects of DISC, the American public will suffer some combination of heavy revenue losses from the DISC windfall given to exporters, and, as consumers, higher prices for commodities pushed up by export sales which were exacerbated by the DISC incentive.

The DISC legislative history indicates an anticipated revenue loss in 1972 of $100 million, and an annual revenue loss thereafter of $170 million.

According to the Treasury, over 3,000 elections to be treated as DISCs already have been filed by U.S. companies. However, almost no information has been made public as to the activities of these thousands of DISCs. After a survey of 1972 annual reports of numerous large U.S. exporters, I am aware of only one which disclosed its DISC income for 1972.

Weyerhaeuser forthrightly stated in its 1972 annual report that "* * * the cumulative undistributed earnings of the company's DISC in respect of which income taxes are not provided, were $7.5 million at December 31, 1972." In effect, if Weyerhaeuser has correctly calculated its DISC income, it has deferred $3.6 million in corporate tax (48% corporate tax rate x $7.5 million) in 1972 through the use of a DISC.

This large an indefinite tax deferral for only one company creates some initial doubt whether the $100 million revenue estimate for DISC in 1972 and the $170 million figure for subsequent years are not much too low. One doubts whether Weyerhauser could have 3.6 percent of the DISC income of all U.S. companies in 1972. (I would parenthetically note there is no public indication by the Weyerhauser Company or the Treasury of the extent to which, if any, DISC resulted in increased income for Weyerhaeuser or other U.S. companies in 1972 which would increase U.S. tax collections to offset the substantial revenue losses attributable to DISC.)

IV. RECOMMENDATIONS

A. *Controlled Exports Should Not Qualify for DISC.*—At an absolute minimum, any new export control legislation enacted by Congress also should amend the DISC statute to provide that property manufactured, grown, or extracted in the United States which is subject to export controls in order to stabilize domestic prices automatically shall not be export property for purposes of Section 993(c) of the Internal Revenue Code, and therefore cannot result in DISC benefits. If such a provision were not enacted along with expanded export control legislation, the United States would be in the anomalous situation of providing a tax subsidy to export more of products the export of which was being curtailed by law. No clearer example of a counterproductive, wasteful loss of revenue could be imagined.

B. *Sharply Rising Commodities Should Not Qualify for DISC even if They Are Not Subject to Export Controls.*—In view of the fact that the denial of DISC benefits to profits from export sales is a much milder action than export controls, DISC treatment should be denied to income from sales of commodities the prices of which are sharply rising to a substantial degree as a result of increasing foreign demands, even before the price increases of product shortage became so substantial as to justify export controls.

One informal step which could be taken quickly to this end would be the bringing of Congressional pressure upon the President to interpret broadly and utilize his existing authority under the short supply exception in the DISC legislation with respect to commodities which can no longer be purchased at reasonable prices, even before new export control legislation is enacted. However, the authority to invoke the short supply exception is presently discretionary, and the President so far has shown no inclination to use it. As a result, a more fruitful Congressional action most likely would be an amendment to the DISC short supply exception to make it mandatory that it be exercised when export property is in short supply, and to provide detailed guidelines indicating how it is to be invoked for commodities the prices of which are sharply rising in domestic markets as a result of foreign demand.

C. *Abolition of DISC.*—Although this recommendation goes beyond the immediate scope of the subject of export controls, I still am compelled to bring it to your attention. The sharply increased attractiveness of U.S. commodities which has resulted from the recent devaluations of the dollar, has made the continued existence of DISC clearly unjustifiable. Until it is repealed across the board, the American public ultimately must share a heavier percentage of our national budget costs to the extent DISC unjustifiably reduces the taxes paid by American exporters on their manufacturing profits. The current application of DISC to products in short supply is only a clearer area than most to illustrate the general inappropriateness of the DISC system generally.

Senator BENNETT. There are only three of us here, Mr. Tannenbaum. You remember the old story about the preacher who went to be considered for appointment and there were only three people in the audience, and they were there to hear him and he didn't know whether to proceed. So the elder who had called him in said:

Well, if you were a cattle feeder and you went to the feedlot and there were only two cows there, you wouldn't take your feed back.

So he started out and started to present a long sermon and he was stopped and the elder said:

If there were only two cows there you wouldn't unload the whole load.

Since it will be in the record——

Mr. TANNENBAUM. I will give you about 25 percent.

I greatly appreciate the invitation of the committee to appear before it today. My purpose is to bring to the attention of the members an important incongruity in current export policies.

The application of a substantial export tax incentive, known as "DISC," is being maintained by the administration to encourage the export of the very same commodities the administration apparently is seeking to limit through the enactment of statutory export controls.

Although the DISC legislation empowers the President to terminate this tax incentive for income from any commodity the supply of which he determines "is insufficient to meet the requirements of the domestic economy," so far the President has failed to utilize this authority, and there is no indication he will do so in the near future.

In my statement I summarize the workings of the DISC corporations and give you an indication of how they work in a highly simplified example.

I then indicate that the legislative history of section 993(c)(3), the short supply exception provision, sheds no light on the standards to be used by the President to determine that a commodity is in short supply.

One might initially think this language could be interpreted very narrowly to be applied only in those instances where export controls could be or are applied under current law. On the other hand, the denial of DISC benefits obviously will have a much less severe effect on exports than the application of export controls.

Therefore, the degree of short supply necessary to trigger the loss of DISC benefits should be much less than for invoking controls.

The difference in degree of effect on exports between the denial of DISC benefits and the imposition of controls clearly suggests it is not necessary to condition the application of the DISC short supply exception upon the imposition of export controls under current law.

I understand, and Mr. Dunlop stated earlier, that the Cost of Living Council had indicated interest in having the DISC short supply invoked with respect to soybeans, lumber, hides, fertilizer, wheat, animal feeds, and steel scrap.

Apparently it failed because at that time the administration had focused its antiinflation efforts on increasing the supply of these commodities rather than decreasing the demand for them.

Now that the position taken by the administration on June 13 concerning the 60-day freeze and phase IV recognizes the importance of reducing export demand to lower domestic prices, the rationale for the previous nonapplication of the DISC short supply exception no longer applies.

However, it is important to note that today U.S. exporters of such increasingly costly commodities such as wheat, steel scrap, lumber, soybeans, hides, animal feeds, and fertilizer continue to receive the substantial DISC tax benefits.

This situation continues even though the President now has the statutory authority to deny by Executive order DISC benefit to these exporters.

The DISC legislative history indicates an anticipated revenue loss in 1972 of $100 million and an annual revenue loss thereafter of $170 million.

I attempted to get some information as to what the revenue effects have been for 1972, but no such information has been made public by the Treasury.

The Treasury is required to make an annual report indicating the balance of trade and revenue effects of DISC annually, but the first report is not due until Apri 15, 1974.

After a survey of 1972 annual reports of numerous large U.S. exporters, I am aware of only one which disclosed its DISC income for 1972.

Weyerhaeuser forthrightly stated in its 1972 annual report that:

> * * * the cumulative undistributed earnings of the company's DISC in respect of which income taxes are not provided were $7.5 million at December 31, 1972.

In effect, if Weyerhaeuser has correctly calculated its DISC income it has deferred $3.6 million in corporate tax—the 48 percent corporate tax rate times $7.5 million—in 1972 through the use of a DISC.

This large an indefinite tax deferral for only one company creates some initial doubt whether the $100 million revenue estimate for DISC in 1972 and the $170 million figure for subsequent years are not much too low. One doubts whether Weyerhaeuser could have 3.6 percent of the DISC income of all U.S. companies in 1972.

RECOMMENDATIONS

a. Controlled exports should not qualify for DISC. At an absolute minimum, any new export control legislation enacted by Congress also should amend the DISC statute to provide that property manufactured, grown, or extracted in the United States which is subject to export controls in order to stabilize domestic prices automatically shall not be export property for purposes of section 993(c) of the Internal Revenue Code, and therefore cannot result in DISC benefits.

If such a provision were not enacted along with expanded export control legislation, the United States would be in the anomalous situation of providing a tax subsidy to export more of products the export of which was being curtailed by law. No clearer example of a counter-productive, wasteful loss of revenue could be imagined.

b. Sharply rising commodities should not qualify for DISC even if they are not subject to export controls.

In view of the fact that the denial of DISC benefits to profits from export sales is a much milder action than export controls, DISC treatment should be denied to income from sales of commodities the prices of which are sharply rising to a substantial degree as a result of increasing foreign demands, even before the price increases or product shortage became so substantial as to justify export controls.

One informal step which could be taken quickly to this end would be the bringing of congressional pressure upon the President to interpret broadly and utilize his existing authority under the short supply exception in the DISC legislation with respect to commodities which can no longer be purchased at reasonable prices, even before new export control legislation is enacted.

A more fruitful congressional action most likely would be an amendment to the DISC short-supply exception to make it mandatory that it be exercised when export property is in short supply and to provide detailed guidelines indicating how it is to be invoked for commodities the prices of which are sharply rising in domestic markets as a result of foreign demand.

c. Abolition of DISC. Although this recommendation goes beyond the immediate scope of the subject of export controls, I still am compelled to bring it to your attention.

The sharply increased attractiveness of U.S. commodities which has resulted from the recent devaluations of the dollar has made the continued existence of DISC clearly unjustifiable. Until it is repealed across the board, the American public ultimately must share a heavier percentage of our national budget costs to the extent DISC unjustifiably reduces the taxes paid by American exporters on their manufacturing profits.

The current application of DISC to products in short supply is only a clearer area than most to illustrate the general inappropriateness of the DISC system generally.

Thank you.

Senator STEVENSON. Thank you, Mr. Tannenbaum. You effectively describe the anomalous situation in which the administration offers tax incentives to the exporters of scarce materials on one hand and wants controls over those materials on the other hand.

Is Weyerhaeuser the large timber-producing company?

Mr. TANNENBAUM. Yes.

Senator STEVENSON. It is receiving the benefits of DISC, and many of us in Congress are very concerned about the shortage and the price of timber and lumber in the country.

Do you have any evidence to indicate that DISC in fact encourages exports? Does it really bring about exports that would otherwise be lost, or does it simply fatten the profits of the exporter?

Mr. TANNENBAUM. I am a tax lawyer, not an economist. It is my recollection that when Congress had the DISC legislation before it, the balance of trade effects that were contemplated were never supported with hard evidence. It is just my layman's opinion that it is vey hard to tell whether in fact DISC is having a beneficial effect on exports.

Senator STEVENSON. Senator Bennett?

Senator BENNETT. As a member of the Finance Committee I can tell you it is impossible to amend this bill to affect DISC because if it were amended it would get over to the House and it would be nongermane under the House rules, and if there is a bill to change the DISC legislation it must be offered through the House Ways and Means Committee under the Constitution. That is the only place that changes in tax law can originate.

I think, and I hope, that the President will use the powers he has and it was put in the legislation for that purpose. I don't think we need new legislation. I think we need to try to persuade the President to use the powers he has.

But the proposals to modify this or repeal it have to be offered first and come up through the Ways and Means Committee of the House, and even if we offer an amendment to the bill on the Floor, it would be nongermane.

Senator JOHNSTON. If the Senator would yield, couldn't we require that the export limit authority could be exercised only as to those commodities that have been declared in short supply under the DISC legislation without violating the nongermane rule?

Senator BENNETT. The DISC legislation doesn't have to concern itself with short supply. This is a program under which taxes are deferred. It permits the setting up of a corporation which can qualify for the privilege of deferring taxes on profits that are generated through exports and I don't think there is any provision in there that has anything to do with materials that are in short supply.

If you attempt to say that, you are again amending the DISC legislation.

Senator JOHNSTON. There is a provision against short supply.

Mr. TANNENBAUM. I am sorry I may have skipped over this in my statement, but the Internal Revenue Code states——

Senator BENNETT. That is based on a finding by the President.

Mr. TANNENBAUM. That is right.

Senator BENNETT. That is not mandatory. So the President can find now that the export of soybeans is in short supply and that this benefit doesn't apply to it. You can't make it mandatory by changing this legislation.

Senator JOHNSTON. No, but we could give him the authority to exercise this expert—put limits on exports—only as to those commodities which he has declared in short supply under the DISC legislation.

Senator STEVENSON. In other words, the withdrawal of those tax preferences under DISC for the exporters could be conditioned, or could be a condition of the exercise that the export control that is already in this bill.

Senator BENNETT. That can't work because in order to qualify for DISC you have to create a special corporation. The exporter would abandon the DISC corporation and go about his business. You can't force everybody who exports to become a part of DISC, and since it is possible to be an exporter without being subject to the DISC law, I think this would affect the ultimate result.

DISC is a privilege. It isn't a requirement.

Again, I think if you start fooling with DISC in this legislation on any basis, Chairman Mills will find that you are not germane. The power of the Ways and Means Committee is very strong in the House and their power is respected, and the slightest indication that you are attempting to change a tax law either directly or indirectly will produce a nongermane decision.

I think I agree, and I hope the President will agree, but I don't think we have the power to force his hand with respect to this.

Senator STEVENSON. Senator Bennett, do you have any further questions?

Senator BENNETT. No further questions.

Senator STEVENSON. Senator Johnston?

Senator JOHNSTON. I am persuaded that Mr. Tannenbaum is making a logical point here, that in effect to subsidize the exports of something that is in short supply makes no sense at all and the President is asking for this authority.

I don't see that we would be repealing a tax law or tax benefit indirectly, but what we would——

Senator BENNETT. Let me give you an example. Here is an exporter who doesn't use this——

Senator JOHNSTON. Then he won't be affected by it. But let's say on corn, that corn is eligible for DISC treatment, and it is in short supply and so we would be in effect subsidizing with a tax benefit the export of the corn while with the other hand the President would be saying you can't export more and certain amount because it is in short supply. It doesn't make any sense.

Senator BENNETT. What I think we should do is put in the report of the bill a strong statement that it is the opinion of this committee that if this bill is passed the President should make sure, using the power he has under DISC, that no exporter of this—that whenever he does it he will use the power under DISC to see that the preferential power of DISC is not given.

I think he would respond to that kind of statement. I think that is better to try to reach over and run the risk of having the thing thrown out. I would support a strong statement in the report.

Senator JOHNSTON. That is all I have, Mr. Chairman.

Senator STEVENSON. It is a good point and well put. The committee should do something.

Thank you very much, Mr. Tannenbaum.

That concludes this morning's hearing. The hearings will resume tomorrow morning at 10 o'clock.

[Whereupon, at 12:45 p.m. the committee was adjourned, to reconvene at 10 a.m., June 26, 1973.]

EXPORT CONTROLS ON AGRICULTURAL COMMODITIES

TUESDAY, JUNE 26, 1973

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:05 a.m. in room 5302, Dirksen Senate Office Building, Senator Adlai E. Stevenson III presiding.

Present: Senators Stevenson, Johnston, and Packwood.

Senator STEVENSON. The meeting of the Senate Banking Committee will come to order.

This morning we continue our hearings on the export-control authority sought by the administration.

Our first witness is Mr. John Schnittker. Mr. Schnittker, among many other things, was Under Secretary of the Department of Agriculture from 1965 to 1969. We are very glad to have you with us this morning.

STATEMENT OF JOHN SCHNITTKER, FORMER UNDER SECRETARY, DEPARTMENT OF AGRICULTURE

Mr. SCHNITTKER. Thank you, Mr. Chairman. I have a very brief statement which I will read.

Application of export limitations to selected agricultural commodities under the Export Administration Act of 1969 at the earliest possible date is necessary if a degree of price stability in livestock products and other agricultural commodities is to be maintained in 1973 and 1974. The probable need for this action has been apparent for months, especially with respect to the soybean complex. Rising market prices for agricultural products, reduced placement of cattle in feedlots, smaller than expected supplies of soybeans and feed grains remaining from the 1972 crop, and continued food price inflation all make it clear that this action should be taken immediately.

The basic objective of export controls, if applied now, would be to reduce U.S. prices of feed grains and soybeans. Meat price ceilings were imposed prior to the general price freeze announced June 13, based upon meat prices during March, when livestock feed prices were high by previous years standards but far below current levels. At that time, the relationship between feed and meat prices was quite favorable for the expansion of livestock production. Since mid-March feed prices have risen sharply, reducing the profit margin for meat production in some cases and eliminating it in others. The June 13 order did not freeze the prices of unprocessed agricultural commodities such as corn, soybeans and wheat, but did freeze prices of the products dependent upon those commodities.

Present feed and livestock product price ratios are too narrow to expand or even maintain livestock and poultry production. Either the price ceilings on meat will have to be raised or the price of feed will have to come down. Export controls, applied soon enough, can do the latter.

The President's statement on June 13, requiring exporters to report their export sales commitments was an essential first step leading to the application of export controls. This, too, was months overdue. The first reports are now in, and are expected to be made public shortly. I believe these reports will support the immediate application of export controls to soybeans, and possibly to corn and sorghum grain, for what remains of the 1972 crop year and in addition, may support controls on these commodities plus wheat and other grains for the 1973 crop year. Export controls should also be applied now to meat products even though a relatively small percentage of our total output of meat is now exported. The supply is now inadequate to meet domestic demand at present ceiling prices, probably making it possible to limit exports under section 4(4)(e) of the law.

I support, in broad terms, the amendments to the Export Administration Act of 1969 as proposed in S. 2053, and urge the Senate to enact such a measure at the earliest possible time. I believe, however, that existing authority provides the administration an adequate basis for invoking selected export controls on short-supply grounds immediately on soybeans, and possibly on grains as noted earlier, despite some ambiguity in the law. Export controls could also be applied, in my opinion, under the foreign policy provisions of the act, in the event the export sales data do not provide clear justification for invoking the short supply criteria.

Application of export controls under existing law to meet a pressing situation in the next few days or weeks, however, would not reduce the need for early congressional action to clarify the conditions under which export controls can be applied to agricultural products.

Congress should also insure that the executive branch reports both actual exports and export commitments of key agricultural commodities within 2 or 3 days after those reports are made to the Government. Export sales should be made public and many elements of the trade will remain uninformed regarding actual supplies available for domestic use, and for further export sales. If public reports are too limited only certain companies making export sales, and companies or individuals favored by the inevitable leaks from privileged sources will be able to judge the situation accurately.

Thank you.

Senator STEVENSON. Thank you.

There seems to be general agreement that the only satisfactory long-term answer is increased agricultural productivity. What effect will export controls or the additional authority to impose export controls have on productivity? Would there be any short-term effect on the expectations of producers, any adverse effect on productivity if the Congress were to give the President the authority he seeks?

Mr. SCHNITTKER. In regard to that, I would speak separately to crops and livestock. Crop production decisions for 1973, have been principally made. The crops are in the ground, the fertilizer is applied and the outcome is in the hands of the weatherman. Thus, decisions on export control for the next few months would not affect the 1973 crop measurably.

In regard to livestock, a decision to apply export controls at an early date, as I believe is needed in certain commodities, would produce the conditions required to rollback feed grain and soybean prices by 15 or 20 percent, to target prices around the level that we had in March when meat ceilings were applied. This would encourage cattle feeders, poultry producers and hog producers to expand their production in the months immediately ahead.

So, export controls are neutral in the case of crops, and expansionary in the case of livestock. I would not worry, Senator, about next year so far as crops are concerned. Even the target price levels as implied in yesterday's testimony by representatives of the administration, which indicated corn at $1.50 on the farm and soybeans at $5 or $5.50, are relatively high prices in the context of the past few years' prices, and thus should be looked upon as quite attractive to farmers.

Senator STEVENSON. Spokesmen for the administration yesterday indicated that they had no present intention to use existing or new authority to impose controls. I understand from what you say that selective controls should be imposed now on exports. What will happen if controls are not imposed now? The administration indicated yesterday that they want to wait until the middle of July to learn more about crop conditions before imposing any controls on feed grains or on meats.

Mr. SCHNITTKER. I heard those statements, and I trust that they meant what they said. Yet I can visualize circumstances, Senator, which would cause these decisions to be reversed.

For example, if it were to become known that a large and unexpected grain sale had been made to China, India or Russia, or if it were to be learned reliably that the acreage planted to corn was not nearly as high as the administration had expected, this would put an immediate upward pressure on prices, which is exactly the opposite of what the administration's target. I think it would create the conditions where export controls would have to be invoked in order to achieve their own objectives of getting grain and feed prices in line with livestock prices. Two weeks ago, administration officials were saying they would never consider imposing export controls, but yesterday they testified in support of proposed amendments to the act.

Senator STEVENSON. For years now, the United States has been attempting to develop and to expand its foreign markets for agricultural products. The development of those foreign markets depended on availability of supply and dependability of supply in the United States.

If controls are to be imposed, how would it work? Should the exports be allocated among old customers, by region of the world? Should we give the President blanket authority and, if so, how would they be used in such a way to at least minimize the risk that we will be seen as an undependable source?

Mr. SCHNITTKER. That is not a great problem if the export control is properly administered. First of all, the margin of restraint on exports in the coming year would not be very great. For example, yesterday's tabulation in the administration testimony suggested corn exports in 1973 of 1.2 billion bushels. I think that figure might have to be cut back to 800 or 900 million bushels under an export control program. The cutback would be 20 to 30 percent, but exports would by no means be terminated.

The same thing would be true of soybeans and wheat. We could provide substantial, if not adequate, supplies to all our customers under those conditions.

Even so, I believe that export controls ought to be—that, under an export control program—allocations ought to be made to countries, not simply a global allocation that the countries would then bid for or fight over. Only if the allocations are made to countries can we be sure of minimizing adverse diplomatic and adverse trade effects in the long run.

If country allocations are not made, the country that can pay the highest price will get the most, and those countries which move in later or do not have enough money, will get the least, or none at all.

Senator STEVENSON. What would be the effect of this legislation and its subsequent exercise on our trade negotiations with the Europeans?

Mr. SCHNITTKER. I suspect that it might—it would change our trade negotiating position slightly, but not seriously. There are so many other matters affecting trade negotiations that this would just be another gnat on the camel's back. As I recall, in the previous trade negotiation, only Japan was seriously interested in the United States being a reliable supplier, with reserves to meet all contingencies. Most of the rest of the countries were interested in slowing down exports from the United States. Only Japan was very interested in our position as a reliable supplier. But beyond that——

Senator STEVENSON. I think India has at times in the past been concerned.

Mr. SCHNITTKER. In the past, yes, but that has changed substantially.

Beyond that, Senator, looking to 1974 and 1975, when I would hope the world has had some good grain and oilseed crops, the United States is inevitably going to be the most reliable supplier. We will be the largest supplier of wheat, corn, and soybeans, and actually the world's almost unique supplier of protein meal for animal feeding.

So this temporary application of export controls is not going to change our position. Canada, Australia, Argentina, always invoke export controls, and the occasional application of export controls by this country will not put us behind those countries as reliable suppliers.

Senator STEVENSON. Have exports of red meat increased significantly in 1973?

Mr. SCHNITTKER. I believe in 1972 and 1973, only the export of pork products. Japan has moved into the Midwest with some pork purchases and it is my view that Japan's substantial purchases of pork products in the early months of 1973 trace directly to the period when hog prices and pork prices in this country rose rather significantly. That is why I would support the immediate imposition of export controls on meat products from this country.

Senator STEVENSON. Which meat products, pork?

Mr. SCHNITTKER. Principally pork. We export very little beef, except byproducts. I think pork is the most serious case. It may be that it would have to be applied across the board since, if we limited exports of pork, perhaps countries would turn to other products that they could then get. But in my opinion, since we are a rather large importer of meat, one could clearly use present authority to say that there is now an inadequate supply of meat products in the United States for domestic consumption and therefore the existing export control authority is applicable.

Senator STEVENSON. Senator Packwood?

Senator PACKWOOD. No questions, Mr. Chairman.

Senator STEVENSON. Would it be profitable for livestock producers to produce now with prices frozen where they are and with food costs frozen where they are?

Mr. SCHNITTKER. Generally, no. I think it is quite unprofitable for broiler and egg producers at the ceilings for those two products. Beef is a little different story. I think it may still be profitable to feed beef cattle, but only because there is an internal stabilizer. The price of feeder cattle can be forced down in this kind of situation, and would be forced down if cattlemen showed a disinclination to place cattle on feed. This would reduce another element of cost, offsetting the high feed cost and again making it profitable to feed cattle.

Pork, I think, is a different story. There are some feeder pig transactions but most pork is produced on farms which produce the pig and the final product and thus the feed cost is two-thirds of the total input. You cannot produce hogs at around $39 or $40 and pay $2.30 for corn and $6, $8 or $12 for soybeans.

Senator STEVENSON. What was the figure you used earlier? You referred to 20 or 30 percent, I believe, cutback in exports of feed grains.

Mr. SCHNITTKER. I used an example, Senator, that in the 1973–74 crop year beginning October 1, the so-called new crop, most estimates are that we—that in an open market situation—we could export 1.2 billion bushels of corn. But in my judgment, we will not have 1.2 billion bushels of corn to export and have $1.50 or $1.60 corn prices at the same time. We would, therefore, have to cut our corn exports back perhaps to 900 million bushels from a potential 1,200 million bushels in order to reach our price and meat production targets here at home. That would be 25 percent in that example. That is my judgment of about what we would have to do in the situation we face. It might be altered by the crop estimates that come out in a few weeks.

Senator STEVENSON. Is there any way of quantifying the effect of such controls on our trade balance, the cost in dollars?

Mr. SCHNITTKER. The cost in dollars, Senator, would depend upon how we operated the export control program. I believe it was Dr. Johnson's testimony yesterday that mentioned that when we apply export controls and create a shorter supply in the rest of the world than would otherwise exist, the world price will rise while the domestic price will decline because we have a bigger supply here at home.

If we do not create some means of capturing that differential, then our earnings from agricultural exports will fall. We will export less corn at a slightly lower price.

On the other hand, if we create a mechanism such as the export certificate program for wheat to recapture that price differential, then I would think that we could earn about as much from reduced exports of corn as we would otherwise earn from the larger exports.

Senator STEVENSON. Are you also saying that we should not permit the world to simply bid for our exports, but they ought to be allocated country by country? How would that affect the price?

Mr. SCHNITTKER. Even if exports are allocated country by country, the fact that each country would get slightly less than it would like, I think would probably drive the world price somewhat above the U.S. price. Therefore, there would be a differential to recapture.

If we do not use any export allocations, there may be simply allocations to the handfull of large exporters.

Those companies would recapture the windfall of higher world prices and this would improve our balance of payments.

Senator STEVENSON. I do not know how much of the testimony yesterday you heard—there was some discussion of DISC and the anomalous position of the government through DISC.

It encourages exports through DISC tax breaks on the one hand and on the other hand is imposing controls on exports. Do you have comments on that?

Mr. SCHNITTKER. I am not closely familiar with the DISC authority. It is my understanding that it was designed to stimulate exports by providing certain tax benefits to exporters. I understand that it is possible for the Government to not use that authority from time to time.

In the present situation, whether or not the Export Control Act is applied, there is no need to stimulate the exports of most agricultural products, hence DISC should not be applied in the year ahead to exportation of agricultural products.

Senator STEVENSON. Senator Johnston.

Senator JOHNSTON. Mr. Schnittker, of course, I missed the first part of your talk which I am sorry for, but I am wondering if you share the view that Secretary Butz had yesterday about price controls on farm commodities leading to all kinds of dislocations and shortages and lack of production.

Do you share that view?

Mr. SCHNITTKER. Only if it is badly administered, Senator, and only if we move in and individually control the price of everything.

I believe, however, that indirect price control can be applied, through export limitations, so that we keep enough commodities at home to limit price rises or to roll prices back slightly, thus letting the market operate but still having a form of price control.

Senator JOHNSTON. Through the exports?

Mr. SCHNITTKER. Yes; I think price control on food products at retail is quite applicable if we maintain adequate supplies so that these ceilings can be held. That prevents the retailers, or at least discourages them, from raising prices to increase their profits before they can be caught by the very limited enforcement machinery we have.

I do favor indirect approaches such as export controls, rather than trying to control agricultural product prices at the farm level.

Senator JOHNSTON. When you control it at retail, doesn't it back right up to the original producers?

Mr. SCHNITTKER. Yes; but if you act to create the right kind of conditions on the farm, in the feedlot, in the poultry factory, conditions consistent with the retail price ceilings that have been set, then it can be managed.

I would say that refusal, or failure to apply export controls to soybeans now is entirely inconsistent with ceilings on poultry, pork, and beef. But in my opinion the administration has authority to apply export controls to soybeans and so it is just plain poor administration not to do so.

Senator JOHNSTON. You say that we ought to allocate, our exports rather than let the marketplace do so. Did I understand that you say that unless we do so that some of the brokers would get the windfall rather than the United States, rather than the farmers?

Mr. SCHNITTKER. In this case, I suggested that exports, of certain commodities like corn and soybeans, if they are substantially limited by invoking the export control act, should be made by countries, for several reasons.

The principal reason is that unless this is done, those countries with the best information systems or the greatest gold supply might move in and buy speculative quantities of scarce commodities to resell to the poorer or less well-informed countries later on.

We have certain reasons to maintain good relationships with many small countries as well as with large countries.

Therefore, on the basis of historic patterns of purchases and other patterns as well, I would make allocations to countries to preserve an appropriate international climate as to our future trade; I think this would also help limit the windfalls to American export companies.

I think it would also be very useful if there were time to consider enactment, or application, if there is present authority, of some kind of export charge to eliminate the prospect of any windfall to American companies exporting at a higher world price than we have domestically.

Senator JOHNSTON. American companies, you are talking about—the great export companies?

Mr. SCHNITTKER. Yes; I can visualize a situation in which grain exporters, in the United States might be able to buy corn at $1.70 or $1.80 per bushel, but sell it on the world market at 50 percent higher prices

I believe measures ought to be taken to prevent, or to limit those possibilities.

Senator STEVENSON. Expand on that a little?

We have some constitutional problems.

Mr. SCHNITTKER. First, I think country allocations would substantially minimize that possibility. If we allocate the corn available for export among all the countries who want to buy, that is buy our corn, then Venezuela cannot bid against Colombia and Russia cannot bid against China.

Russia would have her allocation of x millions and Venezuela her allocation of x thousand tons and unless the country had said no to that quantity, no one else could bid for it. That would reduce the chance that the world price would be sharply above the U.S. price.

Senator JOHNSTON. It would hold down the world price but it would also hold down the balance-of-payments bonanza which we might get from a higher world price.

Mr. SCHNITTKER. All right. In event we wanted to get that bonanza as you put it, Senator, we could go to the other route of a program of export certificates, in effect a charge or a tax on exports.

This, I believe, except in the case of wheat, would require legislative action. Under an old wheat program there is authority to apply what was called an export certificate, but was in reality an export tax, to equalize the domestic and the world price.

Senator JOHNSTON. Thank you very much.

Senator STEVENSON. Would you envisage the operation of Public Law 480 in conjunction with the controls that you have advocated?

Mr. SCHNITTKER. Public Law 480 would have to be cut to the bone in my opinion in the kind of situation that I have visualized for the main grain and oilseed products.

In fact this has already been done. Public Law 480 shipments have been declining for the past 5 years for most commodities and have only risen, in the past year, under the urgency of the world grain shortage.

Either under application of present law, using the foreign policy criteria for application of export controls, or under the present law as amended by the proposed amendments being considered by this committee, Public Law 480 could be continued, even while commercial exports were being limited.

But in any case, the sheer scarcity of supply would require that it be cut back as sharply as possible.

Senator STEVENSON. A final question: How long or for how long a period do you envisage the necessity of such controls?

Mr. SCHNITTKER. I believe there is every prospect of requiring export controls through the entire 1973–74 marketing year, which would take us to September 30, 1974, for corn and soybeans.

I say this because I see little chance that the corn crop discussed yet by Secretary Butz will be realized. I see every prospect that the corn crop will be substantially smaller than the 6.1 billion bushels that was incorporated hypothetically in the administration testimony.

But with attractive prices, at $1.50 corn, $2.50 wheat and $5 or $6 soybeans, and with farmers on notice from this season on that 1974 can be an expansionary year so far as production is concerned, with time for fertilizer companies and fuel companies to prepare for that contingency, I see the strong possibility of getting back to a fairly normal situation in the grains and oilseeds in 1974.

This requires that we have reasonably normal crops around the world, not the disastrous grain shortfall that was experienced in three major countries, Russia, China, and India, last year.

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

Mr. SCHNITTKER. Thank you, Senator.

Senator STEVENSON. The next witness is Mr. Al Baxter, president of the National Forest Products Association.

STATEMENT OF ALFRED X. BAXTER, PRESIDENT, THE NATIONAL FOREST PRODUCTS ASSOCIATION; ACCOMPANIED BY RALPH D. HODGES, JR., EXECUTIVE VICE PRESIDENT; JOSEPH B. McGRATH, VICE PRESIDENT, GOVERNMENT AFFAIRS; AND JOHN MUENCH, CHIEF ECONOMIST

Mr. BAXTER. Mr. Chairman and members of the committee, I am Al Baxter, president of J. H. Baxter & Co. of San Mateo, Calif. I appear here today as the elected president of the National Forest Products Association. Appearing with me are Ralph D. Hodges, Jr., executive vice president of NFPA, Joseph B. McGrath, vice president, government affairs, and Dr. John Muench, our chief economist.

I am appearing on behalf of the NFPA federation which represents 25 other industry organizations comprised of timber growers, wood product manufacturers, and elements of the distribution chain throughout the United States.

We support the pending legislation to provide the President with broader authority to control exports of agricultural commodities including forest products. I am well acquainted with the problems of export markets and domestic problems in relation to timber supply and logs.

My home office is in San Mateo, Calif., but my company operates nationally and we have wood treating plants in Washington, Oregon, California and Wyoming.

In addition, we own or manage timberlands in the West including some 100,000 acres in California, Oregon, and Washington.

The primary manufacturing function performed by J. H. Baxter & Co. is the preservative treatment of wood including poles, pilings, railroad ties and lumber and plywood. We buy nearly all wood supply from others. Because of this I can assure you that our competitive interests as a company have been affected by the export trade in logs from the northwestern states.

Nevertheless, I am personally convinced and we, as an industry, believe it would be a mistake to impose by statute an extensive system of export controls or ceilings on either raw materials or manufactured wood products as would be created by some of the bills now pending in the Senate, including S. 1033.

The National Forest Products Association supports legislation which would provide the President with the flexible statutory authority to impose export controls on commodities, in the event such action is necessary to curtail serious domestic inflation.

The key consideration as we see it is to provide the President with the powers he must have to act expeditiously to limit the outflow of commodities when there is export demand that puts an undue burden of rising prices on domestic consumers.

The vesting of these powers in the President for discretionary use is superior to legislating specific categories of commodities or products so that ironclad quotas or allocations are imposed which will become meaningless in our rapidly shifting economic circumstances.

Senator Packwood and Senator Stevenson of this committee are sponsors of a bill and amendment—S. 1033—to establish not only specific ceilings on the export of softwood logs and softwood lumber but a procedure to require public officials to decide well in advance of each fiscal year on ceilings which might not pertain by the time that fiscal year actually began.

In effect, the Packwood bill would seek to remedy a rising price situation for wood brought about by accelerated demand in the domestic housing market by stopping the exports of logs, lumber and plywood. The importance of softwood lumber exports relative to total lumber consumption can be seen in figure 1.

SOFTWOOD PRICE AND SUPPLY

The current price situation for softwood lumber and plywood is shown on figure 2. It is a repeat, with increased duration and severity of the price situation experienced in 1968–69. The aggregate causes of this situation are many—strong housing demand, adverse weather conditions in the producing areas, railcar shortages, and economic control systems which lessen the incentive for production.

However, the overall basic problem is the same as 4 years ago, and that is strong demand coupled with unnecessary restrictions on the availability of raw material. When in the second quarter of 1969 lumber and plywood prices collapsed along with home construction, popular interest in timber supply problems also dropped dramatically.

With a recovery of housing in 1972, lumber and plywood pricing problems came back. It should now be evident that whenever home construction is accelerated there will be supply problems and upward pressures on lumber and plywood prices.

There is no relationship between these fluctuations and lumber exports, and this can be seen by comparing prices in figure 2 to the history of log exports in figure 4.

A tight supply of lumber and associated wood products resulting in large and rapid price increases and local shortages is, except for wartime dislocations, a new experience for domestic consumers. The first evidence of this problem came in the last half of 1968 and in early 1969. A moderately increased pace of housing construction resulted in sharply increased prices for lumber and plywood.

In March 1969, the Senate Banking Committee held hearings on the problems in lumber pricing and supply. This committee's subsequent recommendations on how to cope with these problems require only minor updating to be applicable to today's situation.

In the second quarter of 1969, lumber and plywood prices collapsed along with home construction as a result of the credit crunch. Popular interest in timber supply problems also dropped dramatically. With the recovery of housing activity to a new record year in 1972, lumber and plywood shortages and pricing problems came back with expanded breadth and intensity.

It should now be evident that whenever home construction is accelerated, there will be supply problems and upward pressures on lumber and plywood prices.

There is no relationship between these price fluctuations and log exports or lumber or plywood exports. This can be seen by comparing prices in figure 2 to the history of log exports in figure 3. Since March, softwood lumber and plywood prices have been falling rapidly at the same time that log exports are at record levels.

RAW MATERIAL SUPPLY

The housing industry has difficulties over lumber supply because the domestic lumber industry has very little ability to increase production in response to price incentives. The Senate Banking Subcommittee hearings of 1969 and 1973 indicated that inability to expand domestic production is due to raw material limitations—logs and stumpage.

These raw material difficulties are not indicative that the Nation's timber inventory has been drawn to a dangerously low ebb or that dangerously high volumes of timber are being exported.

The recently released Forest Statistics of 1970, compiled by the Forest Service, show that for softwood timber that total inventory was reduced by only 5 percent in the 18 years between 1952 and 1970. The gross rate of net inventory reduction (after allowance for growth) was 0.4 percent. On the basis of growing stock, which takes into account trees down to 5 inches in diameter and tree volumes to a 4-inch top, total softwood volume increased by 5 percent between 1952 and 1970.

In 1970, gross removals were 2.2 percent of inventory, but growth exceeded removals so that there was a net increase in inventory of 0.3 percent. These relationships between inventory, growth and removals conclusively demonstrate that inability to expand log production is not due to an unsatisfactory state of the Nation's sawtimber or growing stock inventories.

What is indicated is that ways must be found to manage this huge timber resource—1.9 trillion board feet of softwood sawtimber—so that more than 2.5 percent of its volume can be harvested annually, and its growth percent will be raised to exceed the harvest rate.

FEDERAL FOREST LANDS

Where to put the effort to improve the timber growth and yield is readily apparent. More than one-half of the national softwood sawtimber inventory is in the National Forests, and almost two-thirds is on public lands including the National Forests. The timber that will be used for lumber and plywood in the next 20 years predominantly has already attained sufficient size to be included in the sawtimber inventory.

The rate of sawtimber harvest on private lands cannot be increased materially without adverse effects on the productivity of this ownership class. The public lands, and particularly the National Forests, are the only possible domestic source of increased supplies of softwood sawlogs for approximately the next 20 years.

By and large, those cases of shortage of logs for domestic production have been due to factors other than exports, such as failure of the Forest Service to reach allowable sell levels or where environ-

99-281 O - 73 - 5

mental litigation or unseasonable weather have reduced the volume of logs for manufacture. Briefly stated, the general establishment of controls on logs would not increase lumber and plywood production in the United States to a level where there would be a marked reduction in the price to the homebuilding markets.

The reason we support an embargo on exports of timber from Federal lands is that many mills and their communities were established to operate in Federal timber areas and have no alternate source of supply. Experience has shown exporters will bid the timber to prices that are too high for the domestic market.

NFPA has strongly advocated a reduction of the export of logs from Federal lands to zero. In addition, we have urged that the administration impose a strong rule against the substitution of Federal logs for private logs sold to export.

In effect, both of these worthy objectives have now been included in the appropriations bill of the Interior Subcommittee of the House Appropriations Committee which was made public last Friday. It would go into effect July 1, 1973 for 1 year. We would prefer it be made permanent. There is no need for further restrictions on the export of logs, lumber or plywood at this time.

Senator Stevenson's amendment of the Packwood bill to impose an export limit on all softwood lumber creates new problems which could, unlike the log export situation, have a marked effect on the availability of wood building materials for housing.

Senator Packwood in discussion with Secretary Butz yesterday suggested that when housing starts revived softwood lumber and plywood prices would rise sharply.

This will surely be true unless the Congress takes positive action on long range timber supply on a nationwide basis. It will be even more true if domestic lumber and plywood manufacturers are arbitrarily denied by law the right to seek alternate markets for their products during the time when housing demand slacks off.

Housing is now declining from its unprecedented 2.4 million level of the past year. Some housing economists think the rate will hold at 2 million a year and some think it will go lower. These estimates however, are predicated upon many factors remaining in relative balance—family formations, mortgage money rates, land availability, and Federal housing supports.

The history of housing demonstrates a boom-bust cycle and a tradition of being used by successive administrations as a means to control the economy. If housing cools off during manipulation of the economy to achieve other anti-inflation purposes, the bottom will fall out of softwood lumber and plywood markets.

In the past when that has happened many mills have closed down; in many cases these shutdowns tend to become permanent if they last over an extended period. If shutdowns are to be avoided and if skilled work forces in both the mills and the woods are to be retained, there must be an opportunity for producers to seek alternate markets.

In the face of increasing world demand for wood products of all kinds, export markets afford a rational outlet for domestic production and for retention of operating capacity. Senator Packwood's prediction of rising costs for the home-builder and home buyer will certainly come true if domestic lumber and plywood manufacturing capacity is permitted to deteriorate and disappear during the next housing slump because the firms can't sell their production either at home or abroad.

We are earnestly opposed to S. 1033, as we have made clear to both Senator Packwood and more recently to Senator Stevenson, and I ask that a detailed statement of that opposition be included as attachment A to the statement presented here today.

It has a direct bearing, in my opinion, since it demonstrates the need to have the flexibility of action contained in the legislation, which enables the President to impose limitations on exports as necessary and to remove them expeditiously in the interest of sustaining economic prosperity for industries which are subject to peak and valley demand domestically.

In conclusion, Mr. Chairman, we believe there is a need for the President to be given authority to exercise discretionary controls on exports for such periods as may be warranted by conditions pertaining at the time. We oppose the statutory establishment of specific volume export quotas for any domestic production and find little solace in the suggestion made yesterday at the hearings that limits could be acted upon by the Congress as needed.

We believe that the annual review by the Congress of the export control powers provided under the legislation would afford a timely measure of the President's use of these powers in the battle against inflation and we strongly urge that these powers be granted.

Thank you.

[The attachments to the statement of Mr. Baxter follow:]

ATTACHMENT A

THE FOREST PRODUCTS INDUSTRY OPPOSITION

TO S. 1033 - AND THE REASONS WHY

June 25, 1973

Now pending on the Senate calendar for floor action is S. 1033, a bill to amend the Export Administration Act of 1969 (50 App. U.S.C. 2401-2413), so as to add at its end a new title on Timber Export Controls. This title is to be cited as the "Timber Export Administration Act of 1973."

The bill was introduced on February 28, 1973, by Senator Packwood (R., Ore.) and co-sponsored by Senators Church (D., Idaho), Mondale (D., Minn.), McGovern (D., S.D.), Tunney (D., Calif.), Domenici (R., N.M.), Hartke (D., Ind.), Abourezk (D., S.D.) and Cranston (D., Calif.). It was reported out favorably by the Senate Committee on Banking, Housing and Urban Affairs and filed with the Senate by Senator Packwood on June 7, 1973.

The original Packwood bill introduced on February 28, 1973, was substantially amended in the Senate Banking Committee before it was reported out and after hearings which were held in Washington, D.C., in March and in Portland, Oregon, and San Francisco, California, in April. By a vote of 7 to 5, on May 16, 1973, the Committee adopted substitute language offered in an amendment to S. 1033 by Senator Stevenson (D., Ill.), Chairman of the Subcommittee on International Finance. After this amendment, the Committee voted 13 to 2 to report the bill. A Committee report (Report No. 93-198) was filed on June 7, 1973, entitled, "Softwood Log and Lumber Restrictions."

CONTENTS OF THE BILL

Section 201 - Timber Export Controls

The bill would add four new sections to the Export Administration Act under a new "Title II - Timber Export Controls." Section 201 provides that this title and its sections may be cited as the "Timber Export Administration Act of 1973."

Section 202 - Timber from Federal Lands

The first series of provisions is under a new Section 202 which relates wholly to the question of exports of timber from Federal lands located in the western states. In effect it is a complete revision of the provisions in existing law (known as the Morse Amendment) which expire on December 31, 1973, and which limit export of timber from Federal lands to 350 million board feet.

ATTACHMENT A
Page 2

Section 202(a) provides that "beginning on July 1, 1973, no unprocessed timber of species and grades generally used for domestic manufacture of construction lumber or plywood from Federal lands located west of the one hundredth meridian shall be exported from the United States." This cuts to zero the limit now in existing law, described above. (The one hundredth meridian runs roughly through the heart of the Great Plains about 300 miles east of the Rocky Mountains.)

Section 202(b) provides that the proposed export restriction in (a) will not apply to timber exported from Federal lands "pursuant to contracts entered into prior to May 10, 1973."

NOTE: On Tuesday, March 27, 1973, in a hearing before the Senate Subcommittee on Housing and Urban Affairs on this matter, forest products industry representatives testified in favor of a zero limit on exports of timber from Federal lands, and in favor of a reasonable and workable substitution regulation. The first part of S. 1033, Section 202, is therefore fully supported by the forest products industry.

Section 202(c) provides that, despite the above sections, the Secretaries of Agriculture and Interior may designate specific quantities, grades, and species of unprocessed timber "as available for export" provided certain conditions are met. There must first be a public hearing and a finding by the Secretary that these "are surplus to the needs of domestic users and processors." In addition, the Secretaries may, in their discretion, permit the export of timber from sales having an appraised value of less than $2,000, or timber "which does not meet the utilization specifications of the Federal timber sale contract from which it originated."

NOTE: These provisions are very similar to existing law under the Morse Amendment.

Section 202(d) provides that any timber proposed to be exported under subsections (b) or (c), above, shall nevertheless be subject to the provisions of Section 203 of the bill which imposes an overall ceiling limit on log exports.

Section 202(e) directs the Secretaries of Agriculture and Interior to issue rules and regulations to carry out the purposes of this entire section, "including the prevention of substitution of timber restricted from export by this section for exported timber harvested on non-Federal lands." The key amendment is a change of existing law which presently simply says that the Secretaries "may" issue such rules and regulations, which they have never done insofar as the problem of substitution is concerned.

The forest products industry supports this change from "may" to "shall," and the issuance of reasonable and workable substitution regulations. We also support the language in the Committee report which states (p. 2):

"The objective of regulations directed at preventing the substitution of Federal timber for exported non-Federal timber is to preclude persons engaged in exporting logs, either directly or indirectly, from bidding on or purchasing Federal timber to replace private timber they have exported.

"The regulations should be written to ensure that domestic users and processors who are dependent on Federal timber for a substantial portion of their timber supply shall not be placed at a competitive disadvantage to exporters of non-Federal timber in bidding on and purchasing Federal timber.

"Substitution is the purchasing of Federal timber for use in the exporter's mill at the same time the exporter is selling private timber for export from within a region that is within an economic transportation distance from the subject mill. The Committee cautions the Secretaries of Agriculture and Interior not to accept as 'prima facie' evidence of substitution the cases where one who exports private timber is also purchasing Federal timber. Rather, the Committee has in mind a specific problem regarding the incidence of substitution.

"After consideration of the complexities inherent in resolving the question of what constitutes substitution, the Committee feels that the Secretaries of Agriculture and Interior will be well advised to establish a procedure for determining, on an 'ad hoc,' case-by-case basis, whether the actions of an exporter of private timber constitute substitution as described above."

NOTE: Despite the Committee's reservations about the complexities of resolving questions of substitution, the bill carries heavy civil and criminal penalties for anyone found to have violated its provisions "willfully and knowingly." See discussion of Section 204, below.

Section 202(e) also provides that timberlands "administered by any State or the Bureau of Indian Affairs" will not be subject to the restrictions against substitution. In addition, it provides that timber from non-Federal lands which is of a grade or species that has been designated surplus under Section 202(a) above, will not be subject to the anti-substitution restrictions.

Section 202(f) repeals the provisions of existing law in the Morse Amendment, which currently expires on December 31, 1973 (16 U.S.C. 617).

ATTACHMENT A
Page 4

Section 203 - Export Ceilings on Logs and Lumber

The second part of S. 1033 imposes total export limitations on softwood logs and softwood lumber. (Hardwoods are not affected by this part of the bill.) It is this part of the bill to which the forest products industry strongly objects.

Section 203(a) sets a ceiling on exports of softwood logs and lumber for fiscal years 1974 (begins July 1, 1973), 1975 and 1976. The ceiling is 2.25 billion board feet (scribner scale) of softwood logs, and 1.2 billion board feet (lumber scale) of softwood lumber.

NOTE: The log ceiling is less than was exported in 1972 (3.1 billion board feet) and in 1970 (2.7 billion board feet). It is approximately at the level of log exports for 1971, when there was a dock strike (2.31 billion board feet) or in 1969 (2.31 billion board feet) or 1968 (2.47 billion board feet).

The lumber ceiling is approximately at the figure for lumber exports in 1972 (1.19 billion board feet) and in 1970 (1.16 billion board feet). In 1971, when there was a dock strike, the export of lumber was 927.2 million board feet. In previous years exports were around one billion board feet or below.

Plywood is not covered by Section 203(a) but the Committee report nevertheless says (p. 3), erroneously, that this Section places a ceiling on "softwood lumber and plywood." This is not so. Furthermore, plywood production (which is not measured by a lumber scale) increased by 25 per cent between 1970 and 1972 and has had a 10 per cent average annual growth rate for over 20 years, with about one-quarter of this now produced in the South. Plywood needs an expanded export market, which at present is negligible.

These lumber export figures include the exports from Alaska, which were about 340 million board feet in 1972. None of the Alaskan lumber goes to the 48 lower contiguous states because of the Jones Act. Alaskan lumber goes principally to Japan. Excluding the Alaskan-Japanese lumber, only four per cent (4%) of other softwood lumber exported in 1972 went to Japan; the remainder (96%) went principally to Europe and Australia. Most of these exports were high value lumber items not critical to our domestic home building or construction markets. Lumber exports are from Southern, Northeastern, Gulf Coast and Western states, as well as from the Northwestern part of the nation.

The world market for softwood lumber and plywood has been growing over the past decade, though exports constitute only a small part (3.7%) of the total U.S. production of softwood lumber (32.1 billion board feet in 1972), and an even smaller part (3.0%) of the total consumption of softwood lumber in the U.S. (39.9 billion board feet in 1972).

Section 203(b) establishes a lengthy, complex and difficult system for increasing or removing the ceilings set in subsection 203(a), above. There is no provision for changing the ceilings for fiscal 1974. Repeal or increase is possible only for fiscal 1975 and '76. The bill sets up the following procedure:

ATTACHMENT A
Page 5

... On or before March 1 of 1974 the Secretary of Commerce, if he wants to increase or remove the ceiling for fiscal 1975, must certify that for the next fiscal year "there will be a sufficient volume" of softwood logs, lumber and plywood from all sources, "to assure an adequate supply at reasonable price levels for domestic consumption."

... In determining whether there will be "a sufficient volume" for domestic use, the Committee report (p. 4) further states that, "the Secretary shall not consider any imports of softwood logs and lumber anticipated to be in excess of that volume actually imported during the immediately preceding calendar year." So the expectation of increased imports from Canada (22.4% of domestic consumption in 1972) could not be taken into account to aid our domestic export trade.

... Before making a certification to increase or remove a ceiling on either logs or lumber, if he so desires, the Secretary of Commerce must consult with the Secretaries of Agriculture and of Housing and Urban Development. His certification must be based on "estimates of supplies of softwood logs, lumber and plywood from all sources" (as noted above).

... By January 29, 1974, or at least thirty days before his certification, if he makes one earlier than March 1, 1974, the Secretary of Commerce must publish a notice in the Federal Register of his intent to increase or remove either the log or the lumber ceiling, or both, and he must request "comments from the public with respect to the proposed action."

(NOTE: In effect, this means that the industries concerned, the interest groups for or against the ceilings and all of the Government officials involved must make judgements on anticipated building volumes, housing production mixes, financing flows, weather conditions for timber harvests and for construction, sales markets and other pertinent economic data -- at least by late December or early January with respect to adequacy of wood supplies over the following 15-18 months. This is an impossible task in light of the repeated volatile nature of the home building and wood production industries.)

... Following the Secretary's certification on March 1, 1974, if he makes one to increase or repeal either the log or lumber ceiling, the Senate and the House of Representatives have a ninety-day (90 days) period to pass a resolution disapproving the action of the Secretary. If either body passes such a resolution, it nullifies the action of the Secretary. (So if any such action were to be announced on March 1, 1974, no one would know for sure that it was effective until May 31, 1974.)

... For fiscal 1976, the same procedure must be followed as set forth above. The Committee report (p. 4) specifically states that if the Secretary is able to increase or remove the limits for fiscal 1975, "such action shall not apply to fiscal year 1976."

... Furthermore, the Committee report emphasizes that: "If no action is taken by the Secretary of Commerce, or if either House of the Congress should act to disapprove the proposed modification, the limitations provided for in Section 203(a) will remain in effect." (The tenor of the language in this part of the Committee report seems clearly to forcast an effort in the future by the bill's sponsors to continue these statutory ceilings on log and lumber exports.)

... Finally, the procedure described above for increasing or removing the ceilings on log and lumber exports in no way conveys authority to the Secretary of Commerce to lower the ceilings or further limit exports of logs and lumber. The Committee report recognizes this and erroneously, and unfairly, states that -- nevertheless -- the Secretary of Commerce has blanket authority under the Export Administration Act to further limit logs and lumber without going through the cumbersome process set forth in the bill for increasing or removing the ceilings. In short, these provisions of the bill are like a one-way street directed solely towards limiting the export markets of the solid wood products industry.

(NOTE: The Committee report is in error with respect to its assertions of authority for the Secretary of Commerce to set lower ceilings on log and lumber exports than established in S. 1033. In the first place, the pending bill, if passed, would specifically establish by statute the terms and conditions of the grant of authority to the Secretary to limit exports of logs and lumber. If no mention is made in the bill of authority for the Secretary to set limits lower than established by the Congress, there is none. No reasonable stretch of the rules of legislative construction can justify the conclusion so blithely stated in the Committee report (p. 3-4) that because the Secretary of Commerce may now have authority, prior to the passage of S. 1033, to set export ceilings for softwood logs and lumber without Congressional review, this authority would continue, as is, following passage of S. 1033, but within the limits set by the bill. This is simply not so, and no amount of report writing can make it so. Further, under the most recent amendments to the Export Administration Act (50 App. U. S. C. 2403(e)), there is a clearly stated exclusion of agricultural commodities (which certainly includes timber) involving statutory guidelines binding also the Secretary of Agriculture and the President. If limits are to be set by the Secretary of Commerce lower than those in S. 1033, then the bill's procedures must be amended so that Section 203(b) applies to lowering of the limit as well as increasing or removing them.

Section 203(c) provides a means by which the Secretary of Commerce may, if he so desires, exempt "specific grades or species of softwood timber" from the export ceilings set up under Section 203(a). The exemption is good for one fiscal year only. Before approving an exemption, the Secretary must do the following:

(1) Certify that the grades or species "are surplus and that their exportation will not cause a substantial distortion of the domestic market price or supply of such grades or species"; and also,

(2) At least 30 days before making such a certification, he must publish a notice of his intent to make the certification and request "comments from the public" with respect to his proposed action.

NOTE: This section is patterned after a section in the existing Morse Amendment governing export of unprocessed timber from Federal lands (16 U. S. C. A. 617(b)). This is probably the reason why this section of S. 1033 speaks of "softwood timber" rather than of "softwood logs" and "softwood lumber," as under Section 203(a). The result is confusing and, unless changed, this Section 203(c) could at best only apply to logs (as a derivative of timber).

In addition, the legislative history and the practice of the Secretary of Agriculture in carrying out the terms of its predecessor (Sec. 2(c) of the Morse Amendment) preclude this exemption provision of S. 1033 from being used in any fashion as an escape hatch for the forest products industry or for the Government should markets for wood products suddenly turn downwards and thus make export markets more desirable.

Also, there is no mention of "quantities" of timber which might be exempted, as there is in the Morse Amendment. And the Committee report gives no support to the view, now argued by some Senate staffers, that Section 203(c) could be used to escape the ceilings through exemptions should this become desirable because of economic changes and because of the cumbersome nature of the ceiling modification process under Section 203(a). Clearly, this Section 203(c) exemption process will be useable only, as under present law, for grades or species for which there is no market in the U. S. under normal conditions.

Section 203(d) authorizes the Secretary of Commerce to set up an export allocation system to carry out the provisions of this part of S. 1033. He is authorized to prescribe such rules and regulations as he determines "necessary to assure the equitable allocation of export authority" within the ceiling limits on logs and lumber established in Section 203(a), above. In doing this, the bill states he must --

... Take into account all appropriate factors, including but not limited to,

... "historical volumes of export activity and customs districts in which this activity has taken place in the past," and

... such other rules and regulations as he determines necessary to implement this section.

The Committee report (p. 4) reinforces the inescapable conclusion from the above criteria in the bill that this section is designed to protect the existing export activity in the hands of those firms which are now, or have a record of, exporting logs or lumber. In effect, the growing and potential export markets for lumber in the Southern states, from the Southeastern and Gulf Coast parts, would be frozen under S. 1033. The larger export allocations would continue to go through the Northwestern ports (Portland, Oregon, being one of the largest) under this system and, as the Committee report states, to "any exporter and the customs district in which this export activity has taken place in the past."

Although the Committee report does recognize the need for new exporting firms in the market, it further emphasizes the discriminatory geographic impact of the export ceilings under S. 1033 by stressing the design for "equitable allocation" of log and lumber export quotas, as follows (p. 4):

> "The Committee feels that it is particularly important that Secretary not act in a manner to disrupt the existing geographical distribution of export activity. As nearly as possible, the Secretary shall allocate further export activity among the various customs districts according to the existing proportional distribution of export activity."

Section 204 is a penalty provision. It provides that "whoever willfully and knowingly violates the provisions of this title shall be fined not more than $5,000 or imprisoned not more than five years, or both." It is the final provision of the bill and applies to both the sections covering limitations on exports of timber from Federal lands and to the sections establishing export ceilings and an allocation system for export quotas on logs and lumber.

NOTE: The prison penalty set forth above, for violation of export controls on logs and lumber, is the same as set under other provisions of the Export Administration Act for willfully and illegally exporting goods for the benefit of any Communist-dominated nation. It is also the prison term established

ATTACHMENT A
Page 9

for a second or third time violator of other provisions of the Act. The limit for a first-time offender under other provisions of the Act is a one-year prison term. Thus, under the Packwood bill violation of the log and lumber export controls is given the status of a very serious Federal crime.

Also, with respect to the civil penalty of up to a $5,000 fine, there is no provision for refunding of the penalty, as there is under other provisions of the Act, where there is found to be a material error of fact or law in the imposition. The ordinary civil penalty authorized for violations of other provisions of the Act is $1,000 for each violation, which may be levied by any department or agency exercising functions under the Act. (The original version of the Packwood bill leveled even heavier penalties at log and lumber exporters for violations: a fine of up to $10,000, or imprisonment for up to one year, or both, for each violation, and a blacklisting from the export business for five years.)

MAJOR OBJECTIONS AND COMMENTS ON S. 1033

1. Exports from Federal Lands (Sec. 202)

Most of the objections of the forest products industry to S. 1033 stem from and center upon the log and lumber export ceilings established under Section 203 of the bill. With respect to the curtailment of log exports from Federal lands, as set forth under Section 202, we support the reduction from a ceiling of 350 million board feet to a zero level.

The provisions of S. 1033 which cover timber from Federal lands (Section 202) may not be necessary, however, in light of the action of the House Appropriations Committee on June 22, 1973. In reporting out the appropriations bill for fiscal 1974 (H. R. 8917, H. Rept. 93-322) for the Interior Department and related agencies, including the Forest Service, the Committee provided that no money made available by this bill can be used in fiscal 1974 for preparation or administration of any new timber sales (July 1, 1973 and thereafter) which include timber for export or timber that will be used as a substitute for timber exported from private lands. The Appropriation Committee's report on this states (p. 9) as follows:

> "The limitation would not apply to the use of such funds for activities under sales already made, or to quantities or species of timber which the Secretaries determine are surplus to domestic needs. In any future sales, the Committee expects the Secretaries to take steps to include provisions in timber sale contracts that will assure that the timber involved will not be exported, or used by the

purchaser as a substitute for timber he exports, or sells for export.

"The Committee expects the Secretaries to publish regulations to implement this limitation and the Act of April 12, 1926 ... so as to control substitution of Federal timber for private timber sold for export. This provision will make an estimated additional 200 million board feet of timber available for domestic needs."

NOTE: The forest products industry requested the Appropriations Committee to adopt this provision. The 200 million board feet referred to is only of Federal timber; the indirect impact of this in curtailing the export of private timber will be even more substantial.

2. Export Ceilings Will Not Accomplish Their Purpose

However, well-intentioned, the overall export ceilings on logs and lumber in Section 203 of S. 1033 are illogical and shortsighted. They will not accomplish the stated goal of the bill, to increase the domestic supply of softwood lumber, and they will have little, if any, effect on lumber prices at the wholesale and retail levels.

Prices for lumber and wood products are determined almost wholly by market demand. The export of logs and lumber cannot determine this demand in our domestic economy. This is strictly a function of the flow of credit to the building industry especially as it influences construction and the rate of housing production, which uses about half of all the softwood lumber and plywood manufactured in the United States. An illustration of this is the present situation in which prices have fallen rapidly and substantially this spring on lumber and plywood while exports of logs from the Northwest have continued at an accelerated rate.

3. Export Ceilings Will Be A Deterrent To Expanded Supply

For several reasons the proposals for export ceilings are self-defeating as a means of increasing domestic supplies. Primarily this is so because the lack of export markets for lumber and logs is a deterrent to investment both in expanded production capacities for the industry and in the incentives for private tree growing, the latter a key to the third forest program of the South.

With respect to lumber, it is certainly likely that foreign buyers, including the Japanese, would turn to Canadian suppliers to fill their needs. Canada is aggressively seeking this trade. Both the private industry and the governments in Canada have stepped up their overseas promotion budgets for developing their world markets for lumber and plywood. Canada would like to insulate itself against its single-market dependency on the U.S., which now takes 60 per cent of its production. Imports of Canadian lumber are now at a rate of 25 per cent of U.S. consumption, and they are increasing.

To the extent the Japanese purchase their lumber from Canada, these amounts would be substracted from the supplies available for the U.S. The net result to domestic buyers would be to leave supply just where it is in the U. S., with prices still fluctuating in concert with the ups-and-downs of the house building cycle.

Moreover, with respect to logs, it is by no means clear that the ban on exports will result in greater lumber supplies in the short run. There is evidence to the contrary, that little additional production could have been achieved during the past 18 months from mills in the areas of the Northwest from which logs are exported.

The assertion in the Committee report that "adequate sawmill capacity exists to process the logs" was directly challenged in testimony at the hearings. And, in any event, in a rapidly falling market for lumber it is apparent that it will be a long while before the Committee's expectation would be realized, "that logs prohibited from export will find their way into the domestic market." (See report, p. 6)

3. Export Ceilings Will Be Difficult To Change

The system established under Section 203(b) of S. 1033 (see above) for changing the export ceilings to meet changing economic conditions in the domestic economy simply won't work. These provisions display a lack of understanding of both the nature and the dynamics of timber supply, lumber production and industry marketing.

The requirements in the bill which must be met before modifying the export ceilings are extraoradinary under any circumstances. They go so far beyound any comparable requirements for export controls that it is difficult to regard them as anything but punitive in nature.

Furthermore, the delays in action to relieve the industry from the export ceilings which are built into the bill would be compounded in all likelihood by challenges to the environmental impact of any administrative change in export ceilings. The consequent delays and difficulties in obtaining relief from the ceilings imposed by S. 1033 render ineffective the provisions of Section 203(b). The plain fact is the ceilings would never be changed by the Secretary of Commerce. This is recognized, inferentially, in the Committee report which notes (p. 7) the difficulty in forecasting domestic lumber supplies and states this as a reason for imposing export ceilings "for the next three fiscal years only."

4. Impact Of Export Ceilings Will Hurt Home Building

The immediate effect of export ceilings is to shut off prospects of a growing alternative overseas market for the lumber and wood products industry. But this, in turn, can and will hurt the housing industry by making it more difficult for the forest products industry to supply reasonably priced products to builders whenever the demand goes up.

A foreign market is the only stable alternative wood producers can turn to when the domestic market drops, as it is now doing. A foreign marketing program is the only realistic means of keeping plant capacity in operation when domestic markets hit their periodic low points. There is no other stable and growing market alternative strong enough to justify maintenance of plant capacity, to attract investment for modernization and expansion and to induce land owners to plant more trees, to carry out the thinnings and other long-term investments of time, money and effort to enhance the growth of their future timber.

In 1969 and 1970, when the bottom dropped out of the home building market, the forest products industry shared in that depression. A number of mills simply quit, and there would have been more except for the ability to reach some markets abroad. The production capacity that is driving lumber and plywood prices down today -- despite freight car shortages, restricted timber supply and adverse weather conditions -- would not now be available if S. 1033 had been law in the recent past.

Futhermore, the operation of the system for modification of export ceilings (described above) is so cumbersome that in an economic downturn in construction, its effect will be to drive the lumber industry into a deeper depression than it might otherwise experience and keep it there for a longer time than otherwise would occur under free market conditions. This is because the system established under Section 203(b) of S. 1033 (see above) simply lacks the flexibility necessary to permit quick turnarounds in marketing of wood products. The result will be that when home building starts take an upwards turn, it will simply take longer to expand domestic solid wood production.

5. S. 1033 Runs Counter To Free Trade

The free world trade markets greatly benefit the domestic economy of the U. S., including the housing industry. Many foreign made goods are used in construction today, and many more help make new houses more livable.

Yet, enactment of S. 1033 runs counter to the principle of free world trade, and it could have serious consequences to our domestic economy and to our trade relations with Japan and Canada. Certainly the bill is a unilateral trade action inviting retaliation in some fashion. In addition, the General Agreement on Tariffs and Trade (GATT) is involved. Our commitment to GATT might well require, under Article XX, a restriction on domestic production of wood products, following the precedent set some time ago when the U. S. curtailed the export of walnut logs.

No one has yet suggested that if we are to curtail the foreign markets for domestic lumber and logs when U.S. demand is high, as S. 1033 does, then there should be an equal protection for the domestic lumber industry against foreign imports when U. S. demand for lumber and plywood is low. Yet this is a logical follow-through to S. 1033 and it would certainly provoke opposition from Canada. (It would also be opposed by the home builders who want lumber cheaper.)

ATTACHMENT A
Page 13

6. <u>Long Term Expansion Of Timber Supply Is The Real Answer</u>

Export controls or ceilings will have no real effect (except adverse) upon the stability of supply of wood products and the expansion of mill capacities to meet sharply rising demand curves. The real answer to these problems is not to take away markets, as S. 1033 does, but to expand the available supplies of timber as would be encouraged under the bills introduced by Senators Sparkman (D., Ala.) and Tower (R., Tex.), S. 1775, and by Senator Hatfield (R., Ore.), S. 1996.

Contractors, home builders, general consumers -- all will benefit from a greater flow of commercial timber from the National Forests. But to accomplish this with adequate long-range planning to protect the environment and the sustained yield basis for timber harvesting, requires an investment of funds that is guaranteed to the Forest Service and other agencies. Legislation to assure this funding should receive the support of everyone who now seeks to curtail exports of wood fiber, for the possibilities are clear that with a concerted effort in this direction, the Federal Government could solve all the timber, log, lumber and plywood supply problems which otherwise will continue to plague the nation in periods of high construction levels.

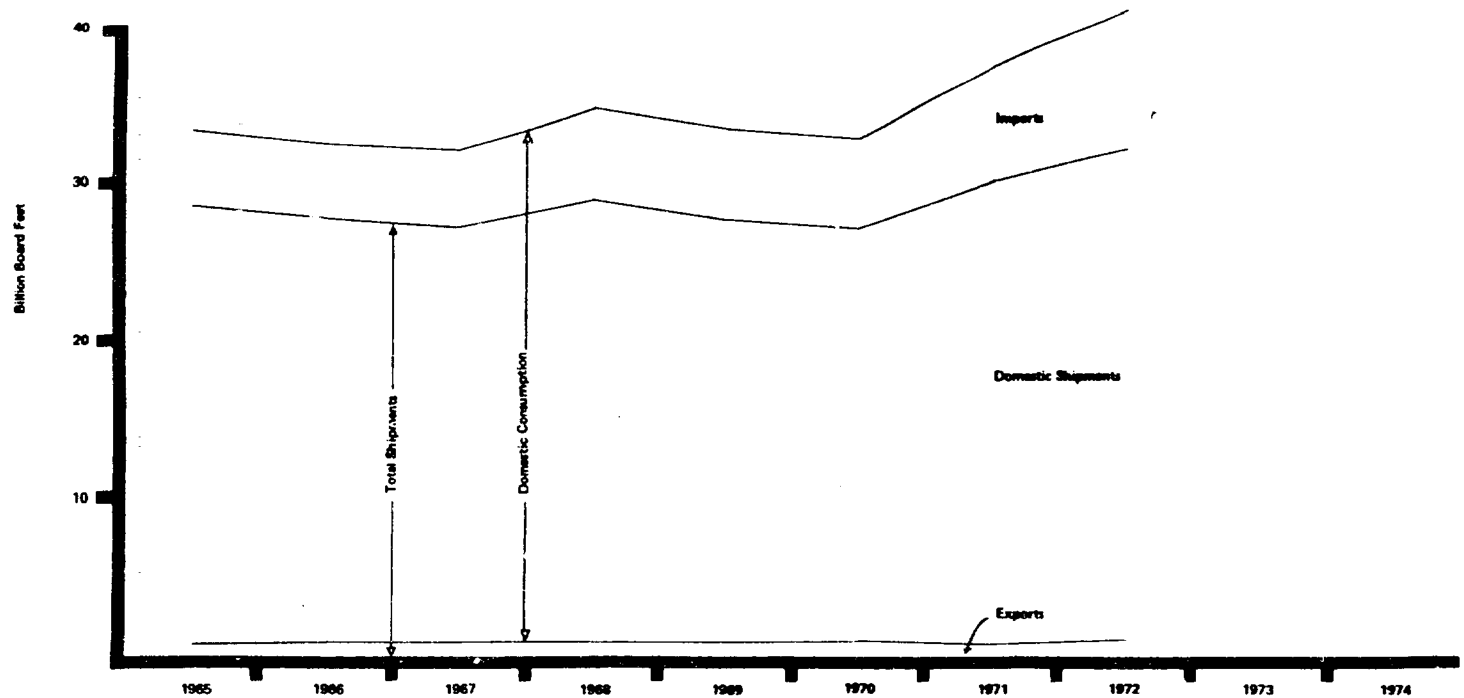
With respect to S. 1033, finally, we agree fully with the Additional Views in the Committee report submitted by Senators Tower and Bennett, summarized (p. 8) as follows:

> "The limitation on exports of softwood logs and lumber provided for in S. 1033, as amended by the Committee, is unnecessary and may in fact be counterproductive to the goal of stabilizing lumber prices and supply. It would have little or no effect on reducing lumber and plywood prices domestically, which is the intended purpose of the measure. Indeed, it could easily result in higher prices for domestic users of both domestic and imported lumber and plywood products. Furthermore, it is contrary to the principle of free international trade, a goal toward which the U.S. has been making great strides in recent years. Finally, it would discourage processors of lumber and plywood products from adding much-needed plant capacity by forcing them to rely solely on the variable homebuilding sector as their primary market."

* * * * *

ATTACHMENT B

FIGURE 1
U. S. SOFTWOOD LUMBER
Shipments, Exports & Imports



NFPA
June 26, 1973

FIGURE 2
SOFTWOOD PRODUCT PRICES
Index Items

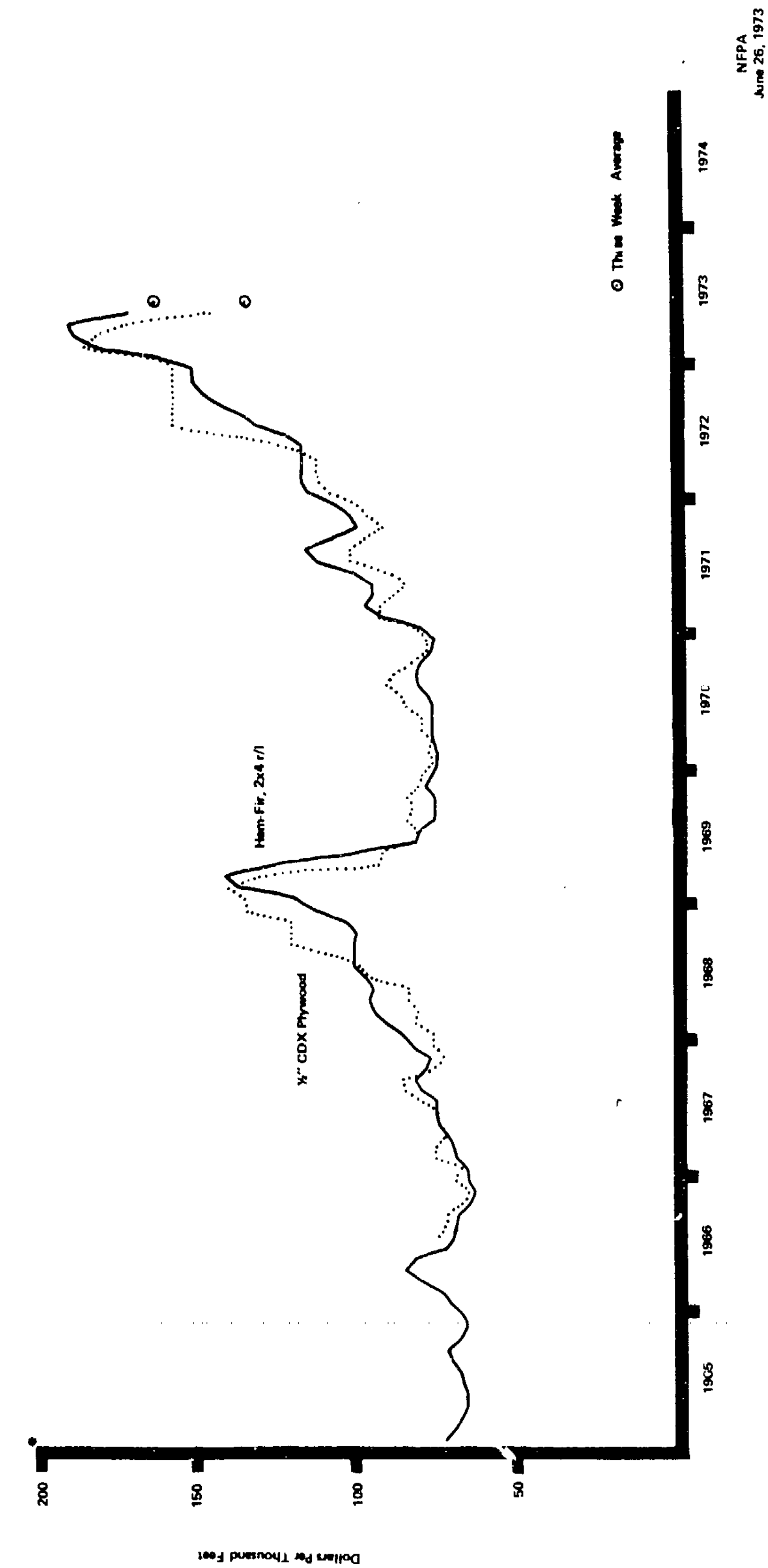


FIGURE 3
QUARTERLY SOFTWOOD LOG
EXPORTS FROM
THE WEST

NFPA
June 26, 1973

Senator STEVENSON. Thank you, Mr. Baxter.

The U.S. price of lumber produced domestically is frozen. The export price of logs is not frozen. The increasing price of lumber imported from Canada may be passed on. Don't those conditions all encourage log exports and lumber imports?

Dr. MUENCH. Mr. Chairman, under a 60-day freeze I don't believe anyone is going to make commitments to exports. Sixty days maximum. Canadian lumber prices are coming down just like U.S. lumber prices are, because we are all in the same market, and as the figure 2 in the attachment show U.S. product prices have been coming down for the past several months.

Canadian prices have been coming along with it, because we are all selling in the same market.

Senator STEVENSON. Senator Packwood?

Senator PACKWOOD. Mr. Baxter, you mention the action of the House Appropriations committee. You say that the committee expects the Secretary to implement this limitation so as to control substitution of Federal timber for private timber.

There is language similar to that in the current amendment on export limitations from Federal lands. What do you suggest the Secretary should do to control such substitution?

Mr. HODGES. In the report language they state that the timber sale contract will include a provision to make it illegal to substitute purchased Federal timber from the sale to be covered by the contract for exported private timber owned by the purchaser, and——

Senator PACKWOOD. What do they mean by substitution?

Mr. HODGES. I am sure that the committee report states that the Secretaries will have to issue regulations to explain that, and we cannot—I cannot—state what that would be.

Senator PACKWOOD. We have had a situation, Mr. Hodges, for a good many years in which the Secretaries could draw such regulations under the current Morse amendment, and they have not been able to.

How do you expect them to do it in the future?

Mr. HODGES. I would not agree that they have not been able to. They have not seen fit to. I think that is a mistake in administration. The problem there was that we worked with the Department of Agriculture for many months, with many meetings between industry and the Forest Service, and I think they were expecting industry to come up with the regulations, or at least agree on them.

There is no possible way that a competitive industry like ours could come to an agreement on such a subject. Each operator that could substitute would want to have regulations that would allow him to substitute, and that would be perfectly legitimate.

That is exactly what happened. With operators each in a unique situation, there is no possible way of the industry coming to agreement. It is not a fit subject for the industry to try to provide a solution for the Government. It is an action for the Government to take.

Senator PACKWOOD. I assume you will have no complaint when the regulations are issued?

Mr. HODGES. I assume there will be many complaints.

Senator PACKWOOD. You have no suggestion as to what they should be.

Mr. HODGES. I just repeat. It is an inappropriate subject for a group of competitors to try to arrive at a solution on. It should never have been attempted in the first place.

Senator PACKWOOD. It is appropriate for you to complain afterwards, but not to offer any suggestions ahead of time?

Mr. McGRATH. We support, as our attachment points out, the language that is in the committee report with respect to substitution.

Senator PACKWOOD. It just says to stop substitution.

Mr. McGRATH. But it gives guidelines. I think you did an excellent job in outlining your thoughts on that point, and we say so in this attachment, and I would expect that when this appropriation bill comes before the Senate, some similar thoughts would be given in the Appropriations Committee.

Senator PACKWOOD. I have no more questions at the moment, Mr. Chairman.

Senator STEVENSON. Senator Johnston?

Senator JOHNSTON. Gentlemen, you point out that the long-term expansion of the timber supply is the real answer, and then you go on to talk about expansion of mill capacity to meet sharply rising demand.

Now if we sharply expand the mill capacity would we not then be using up our timber faster than we grow it? I am concerned that we keep a balance between that which we are growing, producing, and that which we are cutting.

Dr. MUENCH. Senator, we still have a lot of capacity to go in timber production before we achieve a balance.

Senator JOHNSTON. We are growing it faster now than we are using it?

Dr. MUENCH. We are capable of growing much more timber than we are growing. Presently there is an apparent imbalance in that the rate of removals exceeds the rate of growth. But this is an apparent imbalance, because of the predominance of old growth timber, which virtually is nongrowing in the West.

The only way we are going to achieve a balance is to convert that old growth timber into the kind of timber that you have growing in the South, Senator; it is young, vigorously growing timber.

Senator JOHNSTON. The beautiful virgin timber that they have in the West?

Dr. MUENCH. Much of it is timber literally falling apart because it is so old.

Mr. BAXTER. If we had an assured supply of raw material, we would be assured in making the capital investment necessary to have the mill capacity to serve our markets.

Senator JOHNSTON. If you had the raw timber?

Mr. BAXTER. Yes, sir. I think this can come primarily through better management on the forest lands and incentives for the small woodlot owners to grow more timber.

Senator JOHNSTON. Do we have curves available so we can know how much more we can produce, or cut, and plans, and where that balance will be?

Dr. MUENCH. Senator, we can supply that for the record, but it already is on the record in other hearings. Several years ago, Ed Cliff, at that time Chief of the Forest Service, said there could be a two-thirds increase in the allowable cut on the National Forests that there was plenty for the Forest Service to operate with.

More recently John Maguire has said there could be a 50-percent increase. Now I think those figures show something of the order of magnitude of the kind of increase in production we could get from better management of the National Forests.

Senator JOHNSTON. You can sustain that—if you had the money to plant—you could sustain a 50-percent increase?

Dr. MUENCH. Yes; by more money for planting, and thinning, and more money for carrying out genetic improvement programs, and protection of the trees that are already there to enhance the natural growth of timber.

Senator JOHNSTON. Thank you. That is all I have, Mr. Chairman.

Senator STEVENSON. What percentage of capacity are the mills operating at now? This is one of the questions that has perplexed this committee. We don't seem to get any unanimity of opinion on the answer to that question.

Dr. MUENCH. Senator, there are many figures floating around on what the capacity of the industry is. I have a study in progress, and I have a table right here which I can make available.

Senator STEVENSON. We would be glad to have that, and we will enter a copy of it in the record.

[The following table was received for the record:]

LUMBER INDUSTRY CAPACITY

Lumber industry region [1]	(Capacity) peak period production annual rate (MMBF)	Average production 1968-72 (MMBF)	Average utilization rate 1968-72 (percent)	1972 production (MMBF)	1972 utilization rate
Southern pine	8,870	7,456	84	8,337	94
Douglas-fir	9,587	8,082	84	8,892	93
Western pine	11,184	9,953	89	10,436	93
California-Redwood	3,008	2,333	78	2,423	89
Other softwoods	1,670	1,370	82	1,485	81
Total softwoods	34,319	29,194	85	31,577	92
Total hardwoods	7,924	7,18[illegible]	91	7,152	90
Total lumber	42,243	36,376	86	38,725	92

[1] As defined by the U.S. Bureau of the Census. Current industrial reports, lumber production and mill stocks, 1971 series MA-24T (71)-1, October 1972.

National Forest Products Association, June 1973.

Dr. MUENCH. I anticipated this kind of question, so I made extra copies of the table for the committee. It shows my estimates of regional capacity in the lumber industry, and these estimates are based on peak period production levels during the period from January 1968 through March 1971.

The column marked "Capacity" shows what I estimate to be 100-percent capacity in the regions. The next column, "Average Production, 1968 Through 1972" shows the average production during the 5-year period in those regions, by region.

The next column shows what was the average utilization rate of that capacity in the 5-year period. For the total industry, it was about 85 percent of capacity, and this is fairly well in line with the average operating rates for U.S. manufacturing industry.

The next column shows the 1972 production, and the last column shows the utilization rate in 1972. It shows that for the softwood lumber industry, a 92-percent operating rate prevailed. In the Douglas fir region, where the majority of the exported logs come from, there was a 93-percent operating rate.

This is a pretty high rate to be sustained over a long period of time.

More recently, in the first few months of 1973, with the flexibility in price controls afforded by phase III, operating rates have been up around 95 percent; 94 or 95 percent. I sincerely doubt, Senator, that any embargo on the exports of logs would have meant a significant increase in production.

You can just see that even if the Douglas fir region operated at 100 percent, it would have meant a few hundred million board feet compared to export from the west coast of 2.3 billion board feet of logs in 1972.

Senator STEVENSON. I can see from your figures that the industry is operating at a high utilization rate now, but if I understood Mr. Baxter earlier, he said that capacity depended on the assurance of supply. I think that would mean that an assured supply of the raw materials could increase the capacity of the mills. If that is so, why wouldn't export controls help to assure a long-term supply of raw materials which then would lead to greater capacity?

Dr. MUENCH. Export controls would not necessarily provide an incentive for more capacity, Senator, because the reason we were able to export so much in log volume is because the prices were so high and landowners produced more timber.

Now no American company is going to put in mill capacity unless he is sure of two things. One, is that the raw material is available, but second, that the market will exist for that product when it is finished, and I think we need some assurance of a continuing market, and not the kind of boom, temporary boom period, we had in 1972.

But sustained levels of markets, enough to attract additional investment, but also a sustained flow of timber, and not necessarily the kind of flow of timber that was induced by high export prices. We need the kind of flow of timber that could come from improved management of timberlands, especially from the National Forests, where the timber now is, and at rates which are not related to the export price.

The point here is that if we can get more timber from the National Forests, more investment will be attracted to serve expanding markets in the United States for lumber and plywood.

Senator STEVENSON. With the price of lumber frozen in the domestic market, and the export price of logs unfrozen, the mills in the absence of log export controls would not be assured that the raw materials would be available.

Dr. MUENCH. The point about prices being frozen does not pertain at all, because market prices are below the ceilings.

Senator STEVENSON. What are your timber prices?

Dr. MUENCH. Timber prices are not frozen, but it does not matter if the timber is sold to a domestic or export buyer, they are still exempt. Under the legislation that we propose, that we support, exports of timber from Federal lands would be not allowed, and also substitution of Federal timber for private timber that is sold for export would not be allowed.

But under the current market situation, the prices for softwood lumber and plywood on most items are below the legal ceilings.

Senator STEVENSON. I still don't understand why, with the price of the raw material unfrozen, and the exports uncontrolled, why the raw lumber is not going into the export trade out of the domestic trade.

Mr. HODGES. As the product market falls, and I expect that it will continue to fall on into next year, and because there is increasing world demand for lumber and plywood I expect that more will go to export. The plywood association is spending considerable money trying to build its position in world markets, the lumber industry not quite so much.

I would hope that the lumber and plywood industry utilizes and takes advantage of these world markets when the slowdown in housing causes a slump, instead of going through these periods of depression every 3 or 4 years that last a year or two.

Mr. BAXTER. Senator, I believe it really comes back to the question of timber supply, too. The growth rates and the harvest rates can be accelerated on National Forest lands and also on the small wood lots in the South, and I believe there is enough timber to take care of our domestic market and have export markets as well to help the balance of payments problems.

Senator STEVENSON. We are in the National Forests already cutting more than we are growing?

Mr. BAXTER. We are not managing the National Forest. The privately owned lands are managed in terms of restocking and regrowth.

Dr. MUENCH. Although it is true there is a current imbalance in the National Forest, we are below the allowable cut. We are still in this conversion period, trying to get the timber out of the old growth situation into a kind of a balanced condition where we have more vigorous, younger timber producing more timber growth, and until we achieve that situation we will have the apparent imbalance, but the Forest Service is now selling much less than the allowable cut would permit them to.

Senator STEVENSON. You say that lumber prices are falling. Housing starts have been off, also. Aren't housing starts off, and therefore the lumber prices are falling, because of the high price of housing? Hasn't that been one of the principal causes of the falloff in housing starts?

Mr. McGRATH. I wonder if I could respond.

Senator STEVENSON. I recognize there are other factors.

Mr. McGRATH. You have touched on a point I think, Senator, which is obviously of great concern to all of us here in relation to the export control bills now pending in the Senate and before this committee.

I would like to submit for the record a copy of what I think is the very best economic analysis of housing starts that there is available in the Nation, and that is the "Economic News Notes," published by the National Association of Homebuilders. It is not true, Senator, as you just said a moment ago, that housing starts have fallen because the rate of housing starts just this past month was up, and there has been steady activity.

But if I may I would like to refer to the "Housing-Starts Bulletin," because the economist for the housing industry points out that the historical high numbers that we have experienced on housing starts during the past few months tend to obscure the weaknesses which are evident in most of the other housing indexes.

For one thing, the building permits which are an indication of future activities for April and May .. e substantially below the levels which were registered just a year ago, and the May rate is unchanged from April, down over one half million units from December, and 351,000 units below the January figure.

There are other signs, too, of what is happening in the housing market. It now takes longer to sell a house. According to the homebuilding industry in March and April, it took 4.8 months compared with 3.2 months in April. In other words, the length of time it is taking to sell houses is changing and the price of housing is going up in a situation that is tightening in the housing market, and this is clear from the median sales prices.

That price for all the new homes sold jumped by 4.5 percent in April over March, and that is up 22.8 percent higher than the median sale price in April of a year ago. The figures they quote are $26,700 a year ago, and $32,800 this April.

Finally the median sales price of new homes sold climbed by 8 percent between 1971 and 1972. Now of course, we have heard, as this committee has heard. that a large part of the reason for that is the increased price of lumber and plywood and other wood products.

We really don't think that is so. Some of the figures that we have heard and that have been stat d in press releases and elsewhere we think are exaggerated. There is no doubt that the cost to the builder and ultimately to the consumer of the increased prices of lumber and wood products have had to go into the sales prices of the house, but the increases in housing sales prices we do not think can be laid to the door of the lumber and plywood industry in the percentage jumps that have been taken in the sales prices of the newly constructed homes.

In relation to the export control legislation and the sales prices of houses and the supply of housing, I think it is important to pay close attention to the mix of housing construction markets, because it is largely in the construction of single family homes that the bulk of the lumber and plywood are used.

Multifamily construction does use much less wood products. The mix during the last couple of years has been strongly in the direction of single family homes. The production of single family homes jumped measurably during the past 2½ years, but now that trend is changing and now the figures show that the multifamily housing units are up, and single family housing units are down.

With your permission, I would like to submit the economic statistics that I have been referring to, the Economic News Notes for the record. I only have one copy, but if I could do that, I would appreciate it.

Senator STEVENSON. Without objection, the statistics will be entered in the record.

[The information follows:]

Economics Department
National Association
of Homebuilders
1625 L Street, N.W.
Washington, D.C. 20036

Subscription:
$72 a year.

[illegible]
[illegible]
[illegible]
[illegible]

Housing Starts Bulletin

[illegible], Publisher

VOLUME XIX, NUMBER 6
June 18, 1973

Starts Rate Increases First Time Since January

The seasonally adjusted annual rate of housing starts increased 15.5% in May to 2,430,000 units from 2,104,000 units in April. The May rate is 4.8% above the 2,318,000 units in the same month a year ago. The rate of single family starts increased 5.9% to 1,268,000 units from 1,197,000 units. The multifamily rate jumped 28.1% to 1,162,000 units from 907,000 units.

Regionally, the Northeast dropped 9.5% to 257,000 units from 284,000 units. The North Central led in regional increases with a jump of 57.4% to 603,000 units from 383,000 units. The South rose 14.4% to 1,011,000 units from 884,000 units; and the West increased 1.1% to 559,000 units from 553,000 units.

Actual Starts Up

Actual starts increased 15.7% in May to 235,300 units from 203,400 units in April. Both single and multifamily starts increased–single family starts rising 9.5% to 131,400 units, and multifamily starts showing a 24.9% jump to 103,800 units from 83,100 units.

In the regions the Northeast declined 10.3% to 27,900 units from 31,100 units. This decline was offset by a 37.5% increase in the North Central region to 56,500 units from 41,100 units. Starts in the South rose 19.8% to 97,900 units from 81,700 units, and in the West starts climbed 7.1% to 52,800 units from 49,300 units. May starts include 100 publicly owned dwellings.

Building Permits Up Slightly

The May seasonally adjusted annual rate of building permits issued increased 1.8% to 1,867,000 units from 1,834,000 units in April. The rate of single family permits fell 2.7% to 898,000 units from 923,000 units. The multifamily rate rose by 6.4% to 969,000 units from 911,000 units.

Regionally, the permit rate showed a 5.6% decrease in the Northeast to 251,000 units from 266,000 units; the North Central rose 9.2% to 390,000 units from 357,000 units; the South fell slightly with a 1.0% decline to 767,000 units from 775,000 units; and the West Region increased 5.3% to 459,000 units from 436,000 units.

Actual building permits issued increased 7.5% in May to 188,900 units from 175,700 units in April. Single family permits rose 4.4% to 94,700 units from 90,700 units, and multifamily permits increased 10.7% to 94,200 units from 85,100 units.

Regionally, permits followed the same pattern as starts. The Northeast region declined 3.4% to 25,200 units from 26,100 units; the North Central showed an increase of 14.5% to 40,300 units from 35,200 units; the South rose 10.7% to 78,400 units from 70,800 units; and the West had a 3.2% increase to 45,000 units from 43,600 units.

Mobile Home Shipments Continue Record Highs

April mobile home shipments reached another all time monthly high with 61,560 units, 8.0% above the 57,000 units in March and 15.0% higher than the 53,400 shipments in April 1972.

The cumulative total for the first four months of 1973 was 202,210 units, a 15% increase over the 176,270 units in the January-April period a year ago.

The April seasonally adjusted annual rate of mobile home shipments was 680,000 units, 7.7% below the 737,000 unit rate in March and 9.7% higher than the rate in April 1972.

In Summary

The seasonally adjusted annual rate of housing starts in May sets a record for that month. The unadjusted actual starts of 235,200 units was also an all time monthly record. These historically high numbers tend to obscure weaknesses of most other housing indices.

For one thing, building permits (an indication of future activity) for April and May are substantially below the levels registered earlier this year. The May rate is virtually unchanged from April but down over one-half million units from December and 351,000 units below the January figure.

In addition, the May rate of starts increased 57.4% in the North Central Region. The North Central Region happens to be the only region with very peculiar seasonal adjustments for May in buildings with 5 units or more: the April adjustment is 130.8 but May goes down to 87.2 and June is up again to 115.7. This sharp drop in the seasonal adjustment makes little sense and could well account for much of the rate increase. Most May figures show that something is wrong with this adjustment: in almost every year for the last ten years the May seasonally adjusted annual rate has jumped over April.

The increase in starts was largely concentrated in multifamily buildings of 5 units or more, with a 28.8% increase over April. Thus, the start of several large apartment projects in the North Central Region could be responsible for much of the annual rate increase.

Unused permits peaked out in March at 434,000 units. In April, for the first time in many months, unused permits dropped to 428,500 units. Still, they were exactly 100,000 above the April 1972 figure. The decline in unused permits is hard to interpret. The downward trend follows several months of decline in the issuance of building permits. To what extent this drop suggests a speed-up in the use of commitments is not clear.

The April annual rate of homes sold dropped below the rate a year ago for the first time in the current housing cycle. At 667,000 units the rate was 7% below the March figure and 5% below the April 1972 figure.

The ratio of homes for sale to homes sold reached the highest level ever: at 7.9 it was substantially above the 5.7 ratio shown last April (the higher the ratio the slower the sales).

In addition, houses took longer to sell in March and April than a year ago (4.8 months compared to 3.2 months).

The median sale price of all new homes sold jumped 4.5% in April over March and was 22.8% higher than the median price in April 1972 ($26,700 compared to $32,800). No doubt some part of this increase has been due to the drastic drop in Section 235 subsidized housing. Other reasons for the rise are sharp increases in the cost of land, lumber, and other materials. In comparison the median price of new homes sold climbed by 8% between 1971 and 1972.

MONTHLY COMPARISON OF ACTUAL HOUSING STARTS, 1964–1973
New Housing Activity (Thousands of Units)

May 1964–1973	Total Private & Public Housing Starts	Total Private Housing Starts	Private One Family Housing Starts	Private Multi-Family Housing Starts	FHA Home Units Started[1]	–Government Programs– FHA Project Units Started[2]	FmHA Housing Units Started[3]	VA Housing Units Started	Public Housing Units Started[4]	Seasonally Adjusted Annual Rate Total Private Housing Starts	Total Building Permits Issued
1973	235.3	235.2	131.4	103.8	NA	NA	NA	10.4	2.4	2430	1867
1972	227.9	225.8	135.2	90.7	18.8	13.6	8.6	9.4	3.6	2350	1955
1971	203.5	198.5	115.6	82.9	24.5	16.2	6.5	8.3	8.2	2046	1971
1970	127.3	125.0	74.8	50.2	18.8	17.8	5.2	5.2	6.0	1280	1328
1969	157.7	155.5	91.3	64.3	13.4	7.3	4.0	4.3	3.1	1583	1328
1968	144.5	140.9	86.8	54.1	13.8	6.3	–	5.5	–	1408	1297
1967	134.2	132.0	87.3	44.7	14.3	3.3	–	4.7	–	1304	1076
1966	133.9	130.0	84.7	45.3	12.8	1.6	–	3.3	–	1265	1078
1965	157.7	153.3	98.4	54.9	14.7	4.2	–	4.3	–	1478	1207
1964	155.9	152.8	98.2	54.6	15.9	7.4	–	5.2	–	1467	1299

NEW HOUSING ACTIVITY
(In Thousands of Units)

Year	Total Private & Public Housing Starts	Total Private Housing Starts	Private One Family Housing Starts	Private Multi-Family Housing Starts	Total Building Permits Issued	FHA Home Units Started	FHA Project Units Started	VA Units Started	FmHA Units Started
1972	2378.5	2356.6	1309.2	1047.3	1955.3	198.5	168.7	104.0	91.4
1971	2084.5	2052.2	1151.0	901.2	1888.7	300.9	233.1	94.3	74.7
1970	1469.0	1433.6	812.9	620.7	1324.2	233.5	182.0	61.0	57.7
1969	1499.6	1466.8	810.6	656.2	1322.3	153.6	79.7	52.2	43.6
1968	1545.5	1507.7	899.5	608.2	1353.4	147.8	79.4	56.1	43.0
1967	1321.9	1291.6	843.9	447.7	1141.0	141.9	37.8	52.5	38.3
1966	1195.9	1165.0	778.5	386.5	971.9	129.1	29.3	36.8	25.2
1965	1509.6	1472.9	963.8	509.1	1239.8	159.9	36.7	49.4	12.5
1964	1561.0	1528.8	970.5	558.3	1285.8	154.0	50.7	59.2	11.4
1963	1642.0	1610.3	1020.7	589.6	1334.7	166.2	54.9	71.0	15.8
1962	1492.4	1462.7	991.3	471.4	1186.6	197.3	62.2	77.8	9.0
1961	1365.0	1313.0	974.4	338.6	1064.2	198.8	44.9	83.3	7.0
1960	1296.0	1252.1	994.7	257.4	998.0	225.7	35.2	74.6	4.2

MANUFACTURER'S SHIPMENT OF MOBILE HOMES
MONTHLY 1963–1973
(ACTUAL SHIPMENTS IN THOUSANDS OF UNITS)

Month	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Jan	8.5	10.9	12.8	11.6	12.2	19.0	27.1	23.9	24.7	33.5	40.7
Feb	10.2	12.8	14.2	14.3	14.4	21.2	29.4	24.1	28.7	40.0	42.9
Mar	11.7	16.1	18.7	20.1	18.4	24.0	37.5	29.5	36.0	49.1	57.0
Apr	13.6	16.7	17.9	19.6	19.4	27.1	36.0	40.0	43.3	53.7	61.6
May	14.7	17.8	18.9	20.2	21.9	27.6	34.6	32.9	41.3	51.8	
Jun	13.7	18.9	21.0	21.7	22.6	26.5	36.4	35.7	47.8	55.0	
Jul	13.1	16.9	17.7	18.0	19.5	27.2	35.2	37.1	45.6	48.5	
Aug	13.7	17.9	21.1	22.4	24.7	30.5	38.1	38.4	50.0	52.1	
Sep	14.2	19.0	21.4	20.0	24.2	29.9	40.1	41.4	54.0	49.1	
Oct	15.6	18.2	20.5	19.3	24.3	33.5	43.4	40.8	50.8	54.4	
Nov	11.8	14.3	17.9	17.4	21.0	27.6	32.7	30.5	39.9	50.7	
Dec	10.0	11.6	13.8	12.9	17.9	24.0	27.2	27.0	34.4	38.0	
Total:	150.8	191.3	216.5	217.3	240.4	318.0	421.7	401.2	496.6	575.9	

Source: U. S. Department of Commerce, B. D. C., *Construction Review*, Jan. 1972, Table B-7. Bureau of Census, C-20 Construction Reports.

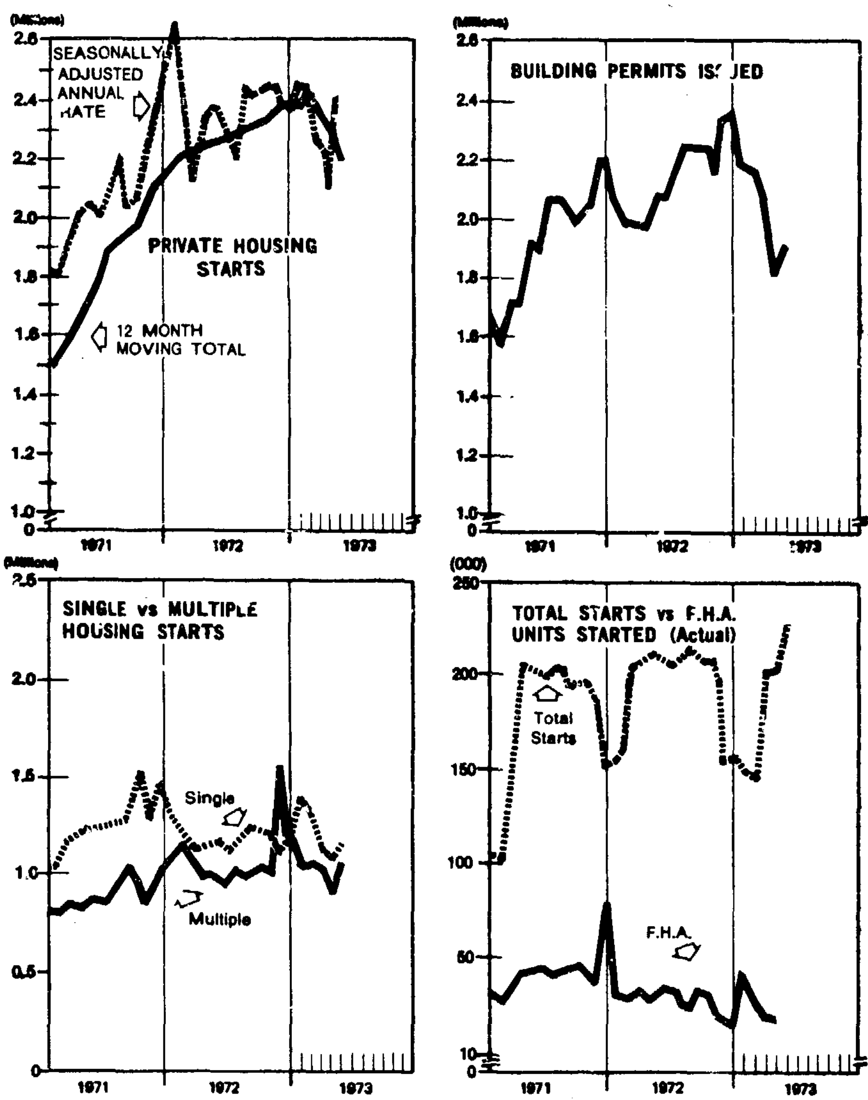
1–FHA Home Starts include rehabilitated units.
2–FHA Project Starts exclude rehabilitated units after 1967.
3–Farmers Home Administration Starts for the last month reported have been revised downward 25% by the NAHB Economics Department to adjust for rehabilitated units and existing unit purchases. All other figures reflect actual starts.
4–Public Housing as defined by the Department of Housing and Urban Development includes conventional, public, leased and turnkey. Effective January 1971, units are shown by month reported, not month started.
Source–Bureau of the Census, U. S. Department of Commerce, *Housing Starts 1959 to 1971*, C-20 Supplement; Census, *Housing Starts*, series C-20, November 1972; Census C-20 monthly news release; Federal Housing Administration, Farmers Home Administration, Veterans Administration.

NEW HOUSING ACTIVITY
(Thousands of Units)

					ACTUAL STARTS					Seasonally Adjusted Annual Rate	
					Government Programs						
Year	Total Private & Public Housing Starts	Total Private Housing Starts	Private One Family Housing Starts	Private Multi-Family Housing Starts	FHA Home Units Started[1]	FHA Project Units Started[2]	FmHA Housing Units Started[3]	VA Housing Units Started	Public Housing Units Started[4]	Total Private Housing Starts	Total Building Permits Issued
1973											
Jan	**147.4**	**146.6**	**77.1**	**69.5**	**6.3**	**8.7**	**7.2**	**8.6**	**2.4**	**2487**	**2218**
Feb	**139.5**	**138.0**	**73.6**	**64.4**	**7.2**	**6.5**	**3.7**	**6.8**	**2.0**	**2456**	**2191**
Mar	**201.0**	**200.0**	**106.1**	**94.9**	**—**	**—**	**—**	**8.3**	**—**	**2260**	**2071**
Apr	**203.4**	**203.1**	**120.0**	**83.1**	**6.8**	**11.2**	**6.3**	**8.6**	**—**	**2104**	**1834**
May	**235.3**	**235.2**	**131.4**	**103.8**	**NA**	**NA**	**NA**	**10.4**	**2.4**	**2430**	**1867**
Jun											
Jul											
Aug											
Sep											
Oct			**Remaining space to be developed in monthly progression.**								
Nov											
Dec											
1972											
Jan	150.9	149.1	67.2	72.9	24.1	11.5	6.1	7.5	2.5	2487	2204
Feb	153.6	152.2	76.3	75.9	19.5	8.3	5.8	8.0	2.6	2682	2056
Mar	205.8	203.9	111.4	94.4	23.6	14.1	7.9	10.5	7.7	2369	2007
Apr	213.2	211.6	119.8	93.4	19.2	9.9	7.3	8.5	2.1	2109	1991
May	227.9	225.8	135.2	90.7	18.8	13.6	8.6	9.4	3.6	2350	1955
Jun	226.3	223.1	131.9	91.2	17.1	14.8	11.9	9.6	10.9	2330	2121
Jul	207.5	206.5	119.1	86.3	14.5	11.7	6.2	9.4	0.5	2218	2108
Aug	231.0	228.6	131.3	97.4	16.9	13.3	8.5	[illegible]	3.3	2484	2237
Sep	204.4	203.0	120.5	82.5	14.1	14.1	7.7	[illegible]	3.3	2399	2265
Oct	215.5	213.8	116.0	97.8	12.8	11.8	7.8	8.5	1.7	2462	2216
Nov	187.1	185.7	97.4	88.4	10.3	10.9	8.0	8.0	1.4	2388	2139
Dec	152.6	150.5	73.2	77.3	7.6	34.7	5.7	5.8	1.4	2369	2377
1971											
Jan	114.8	110.6	54.9	55.7	23.7	9.1	4.1	4.6	10.9	1810	1668
Feb	104.6	102.2	58.3	43.9	18.5	9.2	4.3	4.7	8.6	1794	1572
Mar	169.3	167.9	91.6	76.3	23.9	10.3	6.0	6.9	5.2	1938	1722
Apr	203.6	201.1	116.0	85.0	27.1	17.5	6.1	8.4	3.7	1951	1721
May	203.5	198.5	115.6	82.9	24.5	16.2	6.5	8.3	8.2	2046	1971
Jun	196.8	193.8	116.9	76.9	28.0	18.2	13.3	9.0	10.0	2008	1913
Jul	197.0	194.3	107.7	86.6	25.4	17.5	1.6	9.2	2.8	2091	2079
Aug	206.9	204.5	111.7	92.8	29.3	16.5	[illegible]	9.4	3.4	2219	2046
Sep	175.6	173.8	102.1	71.7	25.1	23.2	7.3	8.7	5.5	2029	1987
Oct	181.7	179.7	102.9	76.9	24.6	13.9	6.6	8.1	2.4	2038	2027
Nov	176.4	173.7	92.9	80.9	24.1	23.2	7.0	9.1	6.9	2228	2092
Dec	155.3	152.1	80.4	71.8	27.1	58.3	4.8	7.4	7.5	2457	2191
1970											
Jan	69.2	66.4	33.4	33.0	10.3	5.9	2.0	3.4	7.1	1109	1062
Feb	77.2	74.3	41.4	32.9	12.1	5.3	2.4	3.9	3.8	1322	1118
Mar	117.8	114.7	61.9	52.8	15.9	9.4	3.8	4.8	5.9	1364	1132
Apr	130.6	128.4	73.8	54.6	20.2	11.7	4.9	5.4	8.0	1230	1224
May	127.3	125.0	74.8	50.2	18.8	17.8	5.2	5.2	6.0	1280	1328
Jun	141.9	135.2	83.0	52.2	21.1	18.9	5.0	5.1	7.9	1396	1322
Jul	143.5	140.8	75.5	65.3	22.6	20.1	3.1	5.2	5.7	1506	[illegible]
Aug	131.5	128.7	77.3	51.4	20.8	13.0	7.1	5.6	6.7	1401	1394
Sep	133.8	130.9	76.0	54.9	21.2	13.2	5.8	5.3	8.6	1531	1426
Oct	143.8	140.9	79.4	61.5	23.9	16.5	7.0	6.8	6.3	1589	1564
Nov	128.3	126.9	67.4	59.5	21.2	12.4	5.5	5.5	5.5	[illegible]	1502
Dec	124.1	121.4	69.0	52.4	25.3	37.8	6.0	5.7	5.6	1944	1767
1969											
Jan	105.8	101.5	51.3	50.2	8.8	4.4	4.8	3.8	[illegible]	1769	1459
Feb	94.6	90.1	47.9	42.1	9.2	3.5	2.5	3.5	3.3	1705	1495
Mar	135.6	[illegible]	71.9	59.9	12.7	5.9	1.4	3.9	3.8	1561	1438
Apr	159.9	159.9	85.0	74.0	16.0	6.7	3.3	4.4	2.6	1524	1441
May	157.7	155.5	91.3	64.3	13.4	7.3	4.0	4.3	3.1	1583	1328
Jun	150.5	147.3	82.7	64.6	13.9	7.2	1.5	4.6	5.8	1528	1349
Jul	126.5	125.2	73.5	51.7	13.1	7.2	1.1	4.7	4.9	1368	1278
Aug	127.5	124.9	69.5	55.4	12.6	9.3	5.8	4.2	5.5	1358	1317
Sep	132.9	129.3	71.5	57.9	13.1	4.9	6.1	4.8	5.8	1507	1263
Oct	125.8	123.4	[illegible]	55.3	15.1	9.3	4.4	5.0	6.1	1381	1216
Nov	97.4	94.6	55.1	39.5	12.2	5.8	3.1	3.9	8.1	1229	1191
Dec	85.3	84.1	42.8	41.3	13.4	8.3	2.7	4.2	6.9	1327	1155

HOUSING TRENDS

SEASONALLY ADJUSTED ANNUAL RATES



SOURCE: U.S. Dept. of Commerce, Bureau of Census and FHA

NAHB Economics Department

Senator STEVENSON. Senator Packwood?

Senator PACKWOOD. Dr. Muench, let me ask you about your table "Lumber Industry Capacity." Your first column, what is that? Where did you get those figures in that column?

[The table is printed at p. 82.]

Dr. MUENCH. Senator, the National Forest Products Association publishes each month data on seasonally adjusted annual rates of production, and in estimating capacity of the lumber industry I took the three highest monthly figures for seasonally adjusted annual rates of production for each of those regions shown in the chart on the table.

I averaged those three and called that figure 100 percent.

Senator PACKWOOD. That is your estimate of the most that lumber mills in the country could produce?

Dr. MUENCH. Short of a better way of doing it, that was my assumption. This is not comparable to the kind of estimates or capacity that we have with the steel industry or the paper industry, where we have an engineered measure of capacity.

In the lumber industry we find that capacity is more related to price than to anything else.

Senator PACKWOOD. To price?

Dr. MUENCH. To price, that is right. For instance, we know that there are always some mills which are submarginal, have recently gone out of production when a sufficient spread develops between the cost of production and market price, and if there is raw material available, those submarginal mills become marginal and come back into production. We know that there is great flexibility within the industry to add another shift or another half shift per day, another day per week, or to operate with high manpower input for relatively short periods of time.

In 1972, we found a new phenomenon, new to me at least. Many of the firms in the hardwood lumber industry found that they were caught during phase II with very low ceiling prices for hardwood lumber items, but under the regulations if they produced something else, they could call that a new product and go to the market price reporters who established a ceiling price.

So they shifted production out of hardwood into softwood. So again, a price relationship here bore on capacity. In making these estimates, I assumed that taking an average of the three highest monthly rates would give me a reasonable estimate of what 100 percent capacity is by region.

Senator PACKWOOD. But your figures don't mean that there were no mills in Oregon or Washington that could not have produced more?

Dr. MUENCH. No, my figures don't mean that, but if you assume that during those 3-month periods anybody who had a mill and could get some logs to jam through it would operate, then I think you will have to agree that my estimate of capacity is probably not too far off.

Also looking at the average production figures during the 5-year period, you see that those operating rates were pretty closely in line with the normal operating rates for U.S. industry, which normally operate in the range of 80 to 85 percent.

Senator PACKWOOD. Your assumption was that the mills could get the logs to push through?

Dr. MUENCH. During that 5-year period, I think there was sufficient price inducement for almost any company.

Senator PACKWOOD. I am talking about the 1972.

Dr. MUENCH. In 1972, yes.

Senator PACKWOOD. You assumed they could get the logs?

Dr. MUENCH. Yes, and if you accept my estimate of capacity, then you have to also reach a conclusion that during 1972 there were few mills that had insurmountable difficulty getting logs. Probably the price incentive was great enough that mills were able to take some measure—to perhaps use up their timber inventory at faster rates than they would have otherwise.

That meant in the short term they had no difficulty getting logs.

Senator PACKWOOD. Let me make sure I understand your last column, the 1972 utilization rate. Take your total of softwoods. You have 34,319 million board feet peak production capacity, and you show the 1972 production at 92 percent. That means by your figures that roughly 8 percent or more could have been pushed through the mills?

Dr. MUENCH. Throughout the entire United States, had the mills been able to operate for the whole year at 100 percent, which is an unlikely situation.

Senator PACKWOOD. You mean they could operate at what you call capacity?

Dr. MUENCH. Yes; 100 percent of capacity.

Senator PACKWOOD. Not 24 hours a day at 100 percent.

Dr. MUENCH. Yes; this is not an engineering concept of capacity. Hardly any mill can operate 24 hours a day. There has to be down time for maintenance and so forth.

Senator PACKWOOD. You say the committee report on S. 1033 is in error in its statement that the Secretary of Commerce still maintains the power that he has under the Export Administration Act of 1969, to restrict the export of logs. You say that we have repealed that provision.

Mr. McGRATH. No; that is not so. That is incorrect—the Secretary of Commerce has whatever authority he has now.

Senator PACKWOOD. You mean your statement is wrong?

Mr. McGRATH. I think the committee report is in error, Senator. What the committee report says is that if S. 1033 passes, the Secretary of Commerce is then given authority under a process which is outlined in the bill to repeal, eliminate, for the fiscal year, the control on lumber or logs, or to raise it.

The committee report then goes on to say that under existing law the Commerce Secretary could do this without any review by the Congress, which is also correct.

What I am saying is, once you pass that bill, you, I think have usurped the existing law by writing in a special title on lumber and logs in the Export Administration Act, so that from that point on the authority of the Secretary of Commerce over logs and lumber is embodied in your title.

Senator PACKWOOD. The bill limits his authority in terms of increasing export limitations unless he will follow the provisions of S. 1033. There is nothing in S. 1033, either as I introduced it or as Senator Stevenson amended it, which precludes him from reducing the export limitation.

Mr. McGrath. There is nothing in there to authorize him, either.

Senator Packwood. Existing law authorized him to do that.

Mr. McGrath. But you are amending existing law.

Senator Packwood. Where, in S. 1033, have we repealed his authority to lower the restrictions?

Mr. McGrath. I think you did it. There is no reference in the bill to the existing authority. There is only a reference in the committee report to the Secretary to lower the ceilings. What I am saying is that when that bill, if it passes, becomes law, you have written into the Export Administration Act, title II, and other exports, and any judge, I think, would conclude that the Congress, knowing the existing situation, would say, as a matter of legal construction, that what you have done is to authorize the Secretary to raise or repeal ceilings, but the setting of the ceilings is done by the Congress.

Senator Packwood. We told the legislative counsel what we wanted, Mr. Chairman, and it was to restrict his power to increase export limitations.

Mr. McGrath. As I point out here in the note, and I wrote it, you could easily do that by now including in S. 1033 the simple words, to lower. Lower, increase or repeal.

Senator Packwood. I have no other questions.

Senator Stevenson. Isn't it true that in 1972 mills were buying logs and exporting them and were doing so because the export prices of the logs were uncontrolled and the lumber prices were controlled and they could make more money by exporting logs than by selling lumber?

Dr. Muench. I think that is probably true, Senator. The question remains, though, were those logs surplus to their own needs or not?

Senator Stevenson. They were surplus to their own needs because they could make more money by selling them abroad.

Dr. Muench. Senator, cedar is a good example. If a mill buys a timber sale that has a species it does not normally cut, it could look around for the best market for those logs, the logs that it has surplus to its own needs, that it didn't desire to manufacture, and looking to the highest buyer, the most rational move for the company to make would be to sell in export if that is where the highest price was.

Mr. Hodges. Senator, under the controls in 1972, there was quite an incentive for operators to ship logs to Canada and sell them into Canada, and cedar was an excellent example. They could be manufactured into shingles, shakes, or other products and shipped back into the United States, free of controls on the first instance at a considerable incentive.

There was nothing illegal about it.

Senator Stevenson. Nothing what?

Mr. Hodges. There was nothing illegal about it.

Senator Stevenson. I did not mean to suggest there was anything illegal. You have rightly pointed out that in S. 1033 we failed to exempt Alaskan lumber from the export controls and I believe we will have to do something about Alaska. If we were to exempt exports of Alaskan lumber and then make corresponding reductions either on logs, or on the lumber ceilings, where would you like to see the reductions made? Or where would you least like to see them made?

Mr. HODGES. You would, I guess, if you were trying to adjust to 1972 levels, you would amend the bill to take off the 365 million that was exported from Alaska, and leave the 1972 levels for the 48 States, 1.2 billion minus 365 million.

I presume that would be the idea if you were staying with your original intent. There are all kinds of problems with that. You would try to use export quotas based on an exporter's past history over some period, and I think that the difficulties are that the current market is going up and down for different products, and the kind of products that were exported in 1972 in lumber fro . the 48 States were very unique.

You know we had peak prices in 1972, so the kinds of things that were exported were not the normal homebuilding type of mat rials. They were long lengths, and odd items.

Now supposing the market continues to go down, and we are going to be looking for other markets for the kind of things that go into housing--lumber and plywood in order to keep our mills healthy during the slump. The exports will come from different areas of the country, possibly, and they should expand.

This is our difficulty with S. 1033. It scares us. We see the market in the world, in Europe, Australia, in Japan, possibly for lumber and plywood increasing, and we think that in the slump periods it will be to the benefit of the homebuilder, to the U.S. consumer, certainly, to the benefit of the timber grower, and it will help to keep the mills in operation if we can enjoy that export market.

Senator STEVENSON. Why do we bring in no logs or lumber from Alaska? Is it because of the Jones act?

Mr. HODGES. Yes. The Jones act requires that shipments between U.S. ports be in U.S. bottoms and with U.S. crews and so forth. That makes it uneconomic to use our own merchant marine fleet. Secondly, over the time period now that we have been operating in Alaska, the Japanese have, I am sure, helped finance, and made arrangements with the mills in Alaska so that there is a historic pattern there. Regulations governing the operation of the National Forest in Alaska require primary manufacture of Alaskan timber.

Senator STEVENSON. The purpose of the Jones Act is to encourage transportation in U.S. bottoms. The effect, then, is to eliminate the transportation of timber between Alaska and the lower 48 in any bottoms. If the Jones act were not applicable, would timber come into the lower 48 from Alaska?

Mr. HODGES. I am sure it would. There might be disagreement over this. It would take some while. Right now it is contracted to Japan for some while, but it is going to go to the most economic market, and I would assume that, and I am sure, that it could come into the United States, the lower 48.

Senator STEVENSON. Are the Japanese now moving into the production of timber in Alaska?

Mr. HODGES. Oh, they moved in from the very beginning. Now I don't know the degree of the arrangement, whether the Japanese own the mills—they perhaps do—but I don't know. But they do buy the lumber products.

Senator JOHNSTON. How big is the potential market in Japan for timber?

Mr. HODGES. That question, I think, can be answered by our supplying you with a fairly good answer for the record rather than the horseback way I would go at it right now.

Senator JOHNSTON. Is the potential market a multiple of what it is now, in general terms?

Mr. HODGES. Japan has started a homebuilding program, unprecedented, around 2 million starts. If you compare that with ours, you know that Japan has half the population and our starts are 2.4 million for 1972.

Japan is in a period with some violent fluctuations, of course, but in a period of peak demand. You can say that that is probably the extent of the market, and go from there.

Senator JOHNSTON. That can be sustained over a long period of time by Japan?

Mr. HODGES. They have a 10-year housing plan, and you have to make your estimates of what they will do after that 10 years based on their family formations and that sort of thing. They start from a much lower base of adequacy of housing than we do, and you have to look at their growing standard of living.

Senator JOHNSTON. Where can they purchase their lumber, rather than Alaska, Canada, and the United States?

Mr. HODGES. The potential sources of wood for Japan are the United States, Canada, Alaska, and Russia, for softwood.

Dr. MUENCH. Japan's consumption of wood products is based approximately 50 percent on its own resources. About 25 percent is from the South Seas, that is, the Philippines, Indonesia, et cetera.

Roughly 15 percent is from North America, and the remaining 10 percent from Siberia and a little bit from New Zealand.

Senator JOHNSTON. They have that much domestic timber in Japan?

Dr. MUENCH. Yes, about 50 percent comes from their own forests, which are managed on a pretty good order. They embarrass us with their efficiency.

Senator STEVENSON. Do the Japanese produce lumber from their own national forests?

Dr. MUENCH. About 50 percent of their total wood supply comes from Japanese forests, forests on the islands of Japan.

Senator STEVENSON. I mean national forests.

Dr. MUENCH. Yes, they do. They also have a situation very similar to our own problem of the small nonindustrial private woodland, they have that problem, too.

Senator STEVENSON. Well, it is a difficult problem. The next action on this problem may come in connection with S. 1033 and on the markup of the export control legislation. It has been postponed. I don't know when S. 1033 will be brought up.

Thank you very much, gentlemen.

Senator STEVENSON. We are ready to go with the panel. I think the witnesses have been advised, Carl Coan, Jr., Arnold Ewing and Ron Ahern.

STATEMENTS OF CARL A. S. COAN, JR., STAFF VICE PRESIDENT, AND LEGISLATIVE COUNSEL, NATIONAL ASSOCIATION OF HOMEBUILDERS; ACCOMPANIED BY JOHN COUTURE, ASSOCIATE LEGISLATIVE COUNSEL, NAHB

Mr. COAN. Mr. Chairman, my name is Carl Coan, Jr. and I am legislative counsel and a staff vice president of the National Association of Home Builders. Our association has more than 70,000 members in 559 State and local associations.

I have with me Mr. John Couture, our associate legislative counsel.

We welcome this opportunity to discuss once again with this committee the extremely serious lumber and plywood price and supply problem. This problem has persisted for nearly 2 years and it has been and continues to be, aggravated by an ever-increasing level of softwood log and lumber exports.

We asked to appear here today because we understand that serious consideration is being given to attaching S. 1033, reported by this committee last month, to S. 2053.

While we have no specific policy regarding the broad export controls that would be authorized by S. 2053, we do support the imposition of controls on the export of softwood logs and lumber until our domestic supply situation can be brought into a condition that would permit us to meet both our domestic needs and the needs of foreign purchasers.

This, S. 1033 would do. Therefore, we would support such action as the committee would take with respect to S. 2053, if S. 1033 is added to it.

As we have stated to you before, it has been our firm belief that the present provisions of the Export Administration Act are adequate to permit the type of log and lumber export curtailment that we have been urging for many months now. However, in view of the continued refusal of the Secretary of Commerce to exercise this existing authority, we believe S. 1033 is necessary.

Since it would amend the Export Administration Act, we believe that amendments to the Export Administration Act as S. 2053 proposes, rather than as an amendment to the Economic Stabilization Act of 1970, as S. 2002 would have done is the better approach.

We have spelled out in great detail for you in the past the problems the home building industry has experienced as a result of the skyrocketing price of lumber and plywood. I don't think it is necessary to take up the committee's time with a further detailing of the particulars of this problem. Suffice it to say that the problem is still with us and shows no real tendency to be corrected, without some significant control on the export of softwood logs and lumber as S. 1033 would provide.

While it is true that prices, at least at the mill level, have moderated somewhat in the last 2 months, they are still generally at historic highs. We have no real anticipation that mill prices will come down significantly from their present levels, especially in view of continued high stumpage prices.

Furthermore, at the retail level there has yet to have been felt any real decrease in price levels commensurate with the slight moderation in mill price levels.

During the past year and a half, there has been a significant increase in the export of both softwood logs and lumber. This has paralleled the outrageous price increases in these products at the domestic level.

Until some control is placed on these exports, we will be unable to return to more reasonable prices for the softwood products which are so essential to the construction of housing.

To give you some idea of why we are still so concerned about exports, I would like to call your attention to the continued escalation of exports that has occurred during 1973.

During 1972, we exported approximately 3.05 billion board feet of softwood logs and approximately 1.2 billion board feet of softwood lumber. These levels were both the highest in our history. Yet, we find that these export levels are continuing to increase.

During the first 4 months of this year, softwood log exports have increased 18 percent over the same period last year, and softwood lumber exports during the first 4 months of this year have increased 57.6 percent over the same period last year.

Ironically, at the same time that our exports have increased, our imports of softwood lumber during the first 4 months of this year have also increased 14 percent over the same period last year.

Exhibits A, B and C detail these continued increases (see pp. 98, 99, 100).

The demand for softwood products for homebuilding and other construction purposes shows no real sign of abating significantly in the coming years. While there is some indication that the present tight money and high interest rate situation will tend to slow housing construction in the next several months, it is our hope and expectation that this slowdown, if it does occur, will be of relatively short duration.

As I am sure you are aware, housing starts had been on a downward trend since January. However, starts for the month of May bounced back up to 2.43 million unit annual level.

Senator PACKWOOD. [presiding]. Does that mean if we continue at the May 1973 rate we will start 2.4 million houses?

Mr. COAN. If we continued at that rate of production with the built-in factor that applies to each month, depending on the time of the year and so on, we would produce that number of units over the next 12 months.

Whether this rate will continue is anybody's guess at this time. Nevertheless, there is a strong demand for housing. This is evidenced by the fact that, even with the high levels of production during the past 3 years, vacancy rates in both single-family and multifamily housing are still significantly below what is considered normal.

We also have an extremely large amount of housing in construction right now. Even if starts were to drop drastically in the next several months, the demand for lumber would not really be affected that much because what is in the pipeline and what has been started is very high.

Given this demand for softwood lumber and plywood for housing construction, it is imperative that we not allow export levels to continue to rise over the next several years, unless and until our own timber resources are demonstrated as adequate to meet our domestic needs.

To allow exports to go on unhindered would only lead to serious domestic supply shortages and continued high price levels bordering on the unreasonable.

We, therefore, urge the committee to act promptly for the passage of S. 1033, either separately or in conjunction with S. 2053. Thus action is essential to assure that we have an adequate supply of softwood lumber and plywood for our domestic housing and other construction purposes at reasonable price levels.

This is especially true now that the President has imposed a freeze on all prices. This freeze will keep the price of softwood lumber and plywood from rising during the freeze period, but will not affect the price paid for products to be exported. There is, therefore, even a greater incentive for the producers of softwood lumber to further escalate their exports in order to avoid the price freeze.

Additionally, there is no freeze on the price of imported lumber. Thus, there is no means of controlling the initial price paid for the large amount of lumber which we import from Canada, which as I pointed out earlier, has also been going up.

We are, therefore, liable to see an even further skewing of our domestic supply and price situation. The export controls which would be imposed by S. 1033 would help to prevent this skewing. We urge quick action on it.

Thank you for this opportunity to appear today.

[Exhibits A, B, and C follow:]

EXHIBIT A

U.S. EXPORTS OF SOFTWOOD LOGS, 1962 - 72
(In Million Board Feet, Log Scale)

YEAR	TOTAL EXPORTS
1962	452.7
1963	879.6
1964	1022.6
1965	1111.4
1966	1317.5
1967	1873.6
1968	2473.2
1969	2316.8
1970	2684.1
1971	2233.4
1972	3048.0

U.S. EXPORTS OF SOFTWOOD LOGS, 1972-73
(In Thousand Board Feet, Log Scale)

MONTH	TOTAL EXPORTS 1972	TOTAL EXPORTS 1973
January	205,929	260,490
February	151,339	276,204
March	337,964	360,931
April	265,914	236,926
TOTAL	961,146	1,134,551

SOURCE: U.S. Forest Service, The Demand and Price Situation For Forest Products, 1971-72, Table 13. 1972 Data: U.S. Bureau of Census. 1973 Data: U.S. Department of Commerce.

EXHIBIT B

U.S. EXPORTS OF SOFTWOOD LUMBER
(Billions of Board Feet)

Year	Exports
1960	0.7
1961	0.6
1962	0.6
1963	0.7
1964	0.8
1965	0.8
1966	0.9
1967	1.0
1968	1.0
1969	1.0
1970	1.2
1971	0.9
1972	1.2

U.S. EXPORTS OF SOFTWOOD LUMBER
(Thousands of Board Feet)

Month	1972	1973
January	72854	113183
February	76710	114094
March	117514	161074
April	93823	180363
	360901	568713

Source: U.S. Department of Agriculture Forest Service, The Demand and Price Situation for Forest Products, 1971-72.
1973 Data: U.S. Department of Commerce.

EXHIBIT C

IMPORTS OF SOFTWOOD LUMBER
(Billions of Board Feet)

YEAR	IMPORTS
1960	3.6
1961	4.0
1962	4.6
1963	5.0
1964	4.9
1965	4.9
1966	4.8
1967	4.8
1968	5.8
1969	5.9
1970	5.8
1971	7.2
1972	8.9

IMPORTS OF SOFTWOOD LUMBER
(Thousands of Board Feet)

MONTH	1972	1973
January	711,271	880,058
February	663,992	716,467
March	718,465	824,970
April	707,885	787,970
TOTAL	2,801,613	3,209,465

SOURCE: U.S. Department of Agriculture Forest Service, The Demand and Price Situation for Forest Products, 1971-72.
1973 Data: U.S. Department of Commerce.

Senator PACKWOOD. Let me ask you a couple of questions, and then we will go on to the other witnesses.

Mr. McGrath emphasized a shift from single-family units to multiple-unit dwellings. Is that true in your experience?

Mr. COAN. That shift occurred in 1968 and 1969, and has remained approximately 41 or 42 percent of the starts in multifamily. It goes up and down in monthly figures, of course, but on an annual basis it has ranged in the lower 40 percent of starts.

Senator PACKWOOD. When Dr. Dunlop testified here last March, his projection for housing starts in the next 10 years ranged from a low of 2 million to a high of 2.4 million units.

Would that correspond with your predictions?

Mr. COAN. Our projections are that we need approximately 2.2 million starts a year in the next 10 years, and this is based on rehabilitating approximately 500,000 units in each of those years.

Frankly, I have doubts that we will be able to rehabilitate that many houses, because of the difficulties in rehabilitation. That would indicate we need a higher level than the 2.2 million annual level.

Senator PACKWOOD. How many are we rehabilitating today?

Mr. COAN. I can give that for the record, but I would say it borders around 100,000 or 150,000 units.

[The following was received for the record:]

INFORMATION SUPPLIED FOR THE RECORD BY THE NATIONAL ASSOCIATION OF HOME BUILDERS

There are no reliable data on the extent of residential rehabilitation that takes place annually. The Census Bureau and HUD are now in the process of exploring the feasibility of surveying the number of rehabilitation starts in conjunction with their survey of housing starts but no definite decision has been made.

The only firm data available at this time is that kept by HUD on substantial rehabilitations carried out under its various programs. In calendar year 1972 there were 39,839 such starts. These involved various FHA programs, as well as those carried out under public housing and the urban renewal program. The total starts during the past five years under the HUD programs were 147,129. In view of this HUD data which indicates an annual rehab starts level of a little less than 30,000 units started a year, and the known difficulty in conducting rehabilitation, it is unlikely that total rehabilitations have exceeded 100,000 a year in the recent past, which would be almost three and one-half times the HUD level.

Senator PACKWOOD. I have no other questions.

Thank you.

STATEMENT OF ARNOLD EWING, EXECUTIVE VICE PRESIDENT, NORTH WEST TIMBER ASSOCIATION

Mr. EWING. I am Arnold Ewing, executive vice president of North West Timber Association, Eugene, Oreg.

Our membership is composed of small and medium-sized independent operators throughout western Oregon. We produce approximately 1.5 billion board feet of lumber and plywood annually. We are nearly 100 percent dependent upon Federal timber for our log supply.

I am not going to take up your valuable time reviewing volumes of statistics on the continuing spiral of log exports, the unprecedented peak prices of lumber and plywood both in 1969, and again this year, nor the demonstrated needs for lumber and plywood to fulfill our domestic housing requirements. Every hearing held on these subjects in the past few years have these well documented.

There are a few points that need to be clarified or placed in their proper perspective.

The Metropolitan Homebuilders Association of Portland, Oreg., made a comprehensive survey of mills in Washington, Oregon, and northern California. This survey showed that even during these unprecedented lumber and plywood prices many mills were not operating at their maximum production.

It further showed that the availability of a continuous supply of logs was the key reason for not operating at maximum production.

A survey of our membership in March of this year demonstrated the same results.

I want to expand on that for a moment. Our membership did increase production about 18 percent in the last year and a half. I made a recent survey, and I will include it in the record, of my membership.

I asked what they could do to increase production if they had available logs?

It was indicated they could increase production by another 20 percent.

Senator PACKWOOD. They increased their production 18 percent in the past year, and could increase it another 20 percent on top of that. Is this from existing capacity?

Mr. EWING. This is from existing capacity, adding more hours or an additional day and in some cases, more men, but not a change in our milling facilities.

Senator PACKWOOD. From your experience, could these mills operate at a sustained length of time at that capacity?

Mr. EWING. Only if they had additional logs available.

Let me clarify that.

The mill needs to have a year's supply. Some of our mills are down to 7 months. So when people say you have the logs, you have them there, but you are not going to increase your production in April of this year because prices are peaked and expect some shutdown next December because you don't have any logs.

We could have done it right here. Those prices are very enticing, but if you look at your total run and fixed costs, you wouldn't do that.

Senator PACKWOOD. I am assuming an adequate supply of logs, and you are saying the mills could produce 38 percent more lumber if they had the logs?

Mr. EWING. That is right.

I think you will find the same results reflected in other studies, and I think you will see the same thing from metropolitan home builders.

Statistics from the Pacific Northwest Forest and Range Experiment Station, Portland, Oreg., show that there was a deficit balance of trade of some $425 million for calendar year 1972.

This is derived by applying the rate of $135 per thousand log scale for the 2.8 billion board feet of logs exported and comparing to $185 per thousand lumber tally for lumber required to be imported to replace the equivalent of logs exported.

Controls such as those proposed in S. 1033 are essential to assure that the raw material and finished products are first available for our domestic housing needs and only export the surplus.

The elimination of all log exports from Federal lands and limiting log exports from other sources to 2¼ billion board feet are positive steps towards fulfilling our domestic needs.

Two other sections are equally important, but the necessity or significance may not be well understood.

I refer to those sections pertaining to substitution regulations and limitations on lumber exports.

Directing the respective Secretaries of Agriculture and Interior to issue rules and regulations to prevent timber owners from exporting their private timber and then replacing it with Federal timber to operate their mills is essential.

It is hard to understand any objections to this section by the timberholders if they are practicing sustained yield as they claim they are. If they are overcutting their lands because of the lucrative export market they should not be able to purchase Federal timber to replace this deficit for their mills, a deficit caused by their own actions.

That section of S. 1033 limiting the export of lumber to 1.2 billion board feet unless declared surplus is excellent legislation. It assures that those logs will be manufactured for our domestic use yet provides for increased export during times of low domestic demand. Then it truly fits into the purpose of retaining lumber for domestic consumption.

This provision also effectively prevents foreign countries from circumventing the intent of the law by captivating local mills with no timber of their own and requiring them to semi-manufacture lumber for export purpose from Federal timber purchased by foreign capital.

My information is that there is at least one mill in western Oregon in this position at this time. Others are very susceptible to the same pressure if log exports are curtailed with no limitations on lumber.

Our segment of the forest industry supports export limitations on logs and lumber unless declared surplus.

Our association supports Senator Packwood's bill.

I do have one other thing I would like to bring to your attention. This was strictly by accident. They were in my briefcase. But we began to talk about the price of stumpage, and they were in my briefcase for another purpose.

I have the results of two timber sales from the Williamette National Forest in Eugene, Oreg. One is April 6, 1973, and the other is April 9, 1973.

The appraised price of the one sale was $91.77 and had five bidders. It was sold for $132.25 per thousand board feet, standing timber.

The next one is $85.68 appraised price on the Douglas Fir. It sold for $231.00 a thousand. There were nine bidders on that.

And you have to remember that we live and breathe on public timber supply. I cannot say that there were any exporters bidding on these sales.

It is an indication of what the export market does to us.

Mr. COAN. Senator, I happen to have some of these same figures, and in my statement I refer to high stumpage prices.

In our testimony before the committee back in March, we submitted a table on monthly stumpage prices, and the last figures we have available for April indicated that the advertised average price was $56.30 per thousand board feet.

It sold for $116.35, or a $60.05 increase over what it was appraised at. This was almost 300 million board feet of stumpage.

Senator PACKWOOD. One thing we are talking about here is when the National Forest Products Association testified, they talked about logs being surplus to the exporters' needs.

That may be true of certain exporters, but they are not surplus to our Nation's needs, or to a number of mills that don't have the logs.

Ron?

STATEMENT OF RON AHERN, WESTERN FOREST INDUSTRIES ASSOCIATION

Mr. AHERN. Thank you, Mr. Chairman.

I am Ron Ahern, representing Western Forest Industries Association, Portland, Oreg., a trade association of lumber and plywood manufacturers.

I regret Joe McCracken was delayed, and I ask that his statement be made part of the record.

We feel the authority in S. 2053 now pending before your committee, if granted, would not be used to relieve the severe supply and price problems that are disrupting the U.S. lumber and plywood markets.

The history of this issue has led us to the conclusion that nothing short of a specific directive by the Congress will give forest products consumers a fair break in competing against demands of other nations. Your approval of S. 1033 several weeks ago was a landmark, because for the first time a congressional committee met the real issue squarely, the question of private timber exports.

The executive branch has not met that issue squarely. It has had ample authority under the Export Administration Act to take the necessary action to control the outflow of forest products, but on every occasion that export controls have been needed to prevent disruption of our industry, they have not been imposed, apparently for foreign policy reasons.

It is puzzling to us that our foreign policy requires unrestricted outflow of a commodity in short supply worldwide when no other nation's foreign policy does so.

We strongly urge that your committee take action to assure that the provisions of S. 1033 are promptly considered and passed by the Senate.

One way to assure this would be to incorporate the provisions of S. 1033 in the emergency legislation now being considered by your committee.

As you know, the House Committee on Banking and Currency has included log and lumber export language in H.R. 8547, the companion measure to S. 2053.

Unfortunately, however, the House bill's language on forest products export is not an effective solution, making it even more important that the stronger provisions of S. 1033 be the basis for conference action when the emergency export control measures pass the respective houses.

Very briefly, Mr. Chairman, in response to a question that was asked an earlier witness, I would like to comment that the Japanese have recently published a revised forecast of their timber import requirements, and that forecast anticipates a much higher dependence upon foreign timber than their earlier projections, and imports are not expected to peak until the year 1991.

Our Forest Service recently made available the forecast for U.S. domestic requirements to the year 2000. It shows that we also are becoming increasingly dependent on foreign sources for wood and fiber.

Fortunately, your committee recognized this when it approved S. 1033, and we strongly urge that you make its provisions a part of S. 2053.

Thank you, Mr. Chairman.

[Complete statements of Joseph W. McCracken and Arnold Ewing follow:]

STATEMENT OF JOSEPH W. MCCRACKEN, EXECUTIVE VICE PRESIDENT, WESTERN FOREST INDUSTRIES ASSOCIATION

Mr. Chairman, I am Joseph McCracken, Executive Vice President of Western Forest Industries Association, Portland, Oregon—a trade association of lumber and plywood manufacturers with members in eleven western States.

We appreciate the opportunity to express our views on S. 2053 authorizing the President to curtail or prohibit the export of commodities in short supply for the purpose of stabilizing domestic prices.

To summarize our position briefly, we feel that the authority requested by the President, if granted, would likely not be used to relieve the severe supply and price problems that have disrupted the U.S. lumber and plywood markets. The history of this issue has led us to the conclusion that nothing short of a specific directive by the Congress will give domestic forest products consumers a fair break in competing against the demands of other timber deficient nations.

Several weeks ago your Committee wisely took independent action to control the unrestricted exports of logs and lumber from this country. Your approval of S. 1033 was a landmark, because for the first time a Congressional Committee met the real issue squarely—the question of private timber exports.

I can assure you that the Executive Branch has not met that issue squarely, because it has had ample authority under the Export Administration Act to take the necessary action to control the outflow of forest raw materials and finished products needed to meet our own homebuilding and construction requirements. On every occasion that export controls have been needed to prevent disruption of our industry, they have not been imposed, apparently for "foreign policy" reasons. It is puzzling to us that our foreign policy requires the unrestricted outflow of a commodity that is in short supply worldwide when no other nation's foreign policy does so.

Because we have no reason to believe that the authority you are now considering would be used by the Executive Branch to relieve supply pressures on forest products, we strongly urge that the Committee take action to assure that the provisions of S. 1033 are promptly considered and passed by the Senate.

One way to assure this would be to incorporate the provisions of S. 1033 in the emergency legislation now being considered by your Committee.

As you know, the House Committee on Banking and Currency has included log and lumber export language in H.R. 8547, the companion measure to S. 2053.

Unfortunately, the House bill's language on forest products exports is not an effective solution. That makes it even more important that the stronger provisions of S. 1033 be the basis for conference action when the emergency export control measures pass the respective Houses.

It is not necessary that I repeat to your Committee the long history of this issue and of the failure of general export control provisions to alleviate the extraordinary impact of forest raw material exports on timber prices in the Pacific Northwest and on lumber and plywood prices nationwide. But some of the most recent history bears strongly on our reasons for urging that you incorporate specific controls in S. 2053.

Last year, when prices were reaching record levels because of the combined impact of accelerated exports and increased homebuilding starts, spokesmen for the Japanese reassured us that their purchases would level off or decline. This is a standard operating procedure to avert Congressional action on the log export issue. however, at the same time, President Nixon was meeting with Premier Tanaka in Honolulu, and part of the executive agreement coming out of that meeting called for substantial increases in exports of agricultural and forest products. In the first quarter of this year, log exports from the four Pacific Coast States reached an all-time high of 771.5 million board feet, a 38 percent increase over the same period a year ago. But again, when this Committee was recently considering legislation to restrict log exports, joint action by our own government and the Japanese was taken to try to assure us that exports were really going to decline. At the same time back in Japan a revised forecast of timber import requirements was published. The new forecast anticipates a much higher dependence upon foreign timber than their earlier projections, and imports are not expected to peak until 1991. When our Forest Service recently made available its forecast on U.S. domestic requirements, it shows that we, also, are becoming increasingly dependent upon foreign sources for wood and fiber.

What more evidence is needed to demonstrate that we can no longer afford to sacrifice this nation's interest in maintaining an adequate supply of forest raw materials?

Fortunately, your Committee recognized this when it approved S. 1033, and we strongly urge that you make its provisions a part of S. 2053.

Statement of Arnold Ewing, Executive Vice President, North West Timber Association

I am Arnold Ewing, Executive Vice President of North West Timber Association, Eugene, Oregon.

Our membership is composed of small and medium sized independent operators throughout Western Oregon. We produce approximately 1½ billion board feet of lumber and plywood annually. We are nearly 100% dependent upon Federal timber for our log supply.

I am not going to take up your valuable time reviewing volumes of statistics on the continuing spiral of log exports, the unprecedented peak prices of lumber and plywood both in 1969 and again this year, nor the demonstrated needs for lumber and plywood to fulfill our domestic housing requirements. Every hearing held on these subjects the past few years have these well documented.

There are a few points that need to be clarified or placed in their proper perspective.

The Metropolitan Homebuilders Association of Portland, Oregon, made a comprehensive survey of mills in Washington, Oregon and Northern California. This survey showed that even during these unprecedented lumber and plywood prices many mills were not operating at their maximum production.

It further showed that the availability of a continuous supply of logs was the key reason for not operating at maximum production.

A survey of our membership in March of this year demonstrated the same results.

Statistics from the North West Range and Experiment Station, Portland, Oregon, show that there was a deficit balance of trade of some $425,000,000 for CY 1972.

This is derived by applying the rate of $135/M log scale for the 2.8 billion board feet of logs exported and comparing to $185/M lumber tally for lumber required to be imported to replace the equivalent of logs exported.

Controls such as those proposed in S1033 are essential to assure that the raw material and finished products are first available for our domestic housing needs and only export the surplus.

The elimination of all log exports from Federal lands and limiting log exports from other sources to 2¼ billion board feet are positive steps towards fulfilling our domestic needs.

Two other sections are equally important but the necessity or significance may not be well understood.

I refer to those sections pertaining to substitution regulations and limitations on lumber exports.

Directing the respective Secretaries of Agriculture and Interior to issue rules and regulations to prevent timber owners from exporting their private timber and then replacing it with Federal timber to operate their mills is essential. It is hard to understand any objections to this section by the timber holders if they are practicing sustained yield as they claim they are. If they are overcutting their lands because of the lucrative export market they should not be able to purchase Federal timber to replace this deficit for their mills. A deficit caused by their own actions.

That section of S. 1033 limiting the export of lumber to 1.2 billion board feet unless declared surplus is excellent legislation. It assures these logs will be manufactured for our domestic use yet provides for increased export during times of low domestic demand. Then it truly fits into the purpose of retaining lumber for domestic consumption.

This provision also effectively prevents foreign countries from circumventing the intent of the law by captivating local mills with no timber of their own and requiring them to semimanufacture lumber for export purpose from Federal timber purchased by foreign capital.

My information is that there is at least one mill in Western Oregon in this position at this time. Others are very susceptible to the pressure. If log exports are curtailed with no limitations on lumber.

I trust the above points added to the mass of input already available will result in a better understanding for the needs for export controls for a continuation of a healthy and thriving home building program.

North West Timber Association

SURVEY OF MEMBERSHIP
MILLING CAPACITY—LOG USAGE

On March 22, 1973, North West Timber Association polled its 36 member mills to determine if they were operating at capacity. If not, how much they could increase capacity and the sources of raw material. A total of 20 of the 36 mills responded. A recap of those responses is summarized below:

1. *Production Capacity.*—If you were assured of a continued long-term increase in raw material supply could you increase your annual production?

a. Under current mode of operation (with only an increase in hours or days), the survey indicated a possible increase of 4.8% (48 MMBF lumber tally).

b. By adding one shift, a possible increase of 16.8% (168 MMBF lumber tally).

c. By creating an additional facility, a possible increase of 10.8% (108 MMBF lumber tally).

Note.—The sum of (a) and (b) above corroborates earlier estimates of West Coast Lumber Inspection Bureau, Western Timber Association and Home Builders Association of Metropolitan Portland.

2. *Source of raw material.*—Considering buying patterns over the last few years, the following is an estimate of the average annual volume used from each source:

Source	MMBF volume (log scale)	Percent
Private-Industrial	[1] 121.4	18.3
Private-Nonindustrial	22.2	3.3
State	1.8	0.3
B.L.M	140.5	21.2
U.S.F.S	378.0	56.9
Other (county, city)	---	---
Total	[2] 663.9	100.0

[1] Of purchases in this class, some logs were initially generated from public lands.
[2] 663.9 million board feet Log Scale converted to Lumber Tally using a 1.5 conversion factor equals 996 million board feet.

Survey of Operating Capacity at West Coast Lumber and Plywood Plants

SUMMARY

A survey of lumber and plywood plants in Oregon, Washington and California in late February and early March 1973 revealed that production could be increased by a substantial margin if sufficient logs were available.

Returns from 102 sawmills had been received by March 16 out of a total of 347 mills surveyed. Out of this total, 54 plants indicated that they were running one shift or not operating at all. Close to 75 percent of the mills surveyed indicated that they could increase production by means of 9-hour shifts of 6-day weeks if logs were available. The 54 plants running at less than two shifts indicated that sufficient labor was available in their areas to add shifts if raw materials were available.

The sawmills replying to the survey indicated they could increase their production by about 40 percent, or close to 148 million board feet per month, with an adequate log supply. The mills reporting had a current production of slightly over 367 million board feet per month. By combinations of extra shifts and longer work days and work weeks, the mills indicated they could produce 515 million board feet per month.

Translated to a yearly basis, the reporting mills were producing at a yearly rate of 4.39 billion board feet. With an adequate supply of logs they could increase this total to approximately 6.18 billion board feet per year. The gain of an estimated 1.7 billion board feet per year would significantly relieve shortages of lumber in the area.

Plywood mills reporting to the survey were operating at closer to rated capacity, or a three shift-five day basis. The 30 mills replying, however, indicated that they could increase production by about 15 percent by combinations of 6-day weeks, 9-hour days and additional shifts. The reporting mills had monthly production of close to 288 million square feet, ⅜-inch basis. With an adequate log supply they could increase production by 45 million square feet, bringing total monthly production to 333 million square feet per month.

On a yearly basis, the reporting plywood mills could add production of approximately 535 million square feet, ⅜-inch basis, if sufficient logs were available.

PURPOSE

The survey was conducted to determine whether log exports from the West Coast were causing domestic mills to operate at less than peak capacity. An estimated 2.78 billion board feet of logs were exported from the Pacific Coast in 1972, mostly to Japan. These exports originated largely in Washington, Oregon and California. Existing state laws in Alaska prohibit log exports except for minor species such as Alaska Cedar.

There are no industry statistics available to our knowledge to indicate the operating capacity of West Coast sawmills on a weekly, monthly or even a yearly basis. In the case of plywood, however, the American Plywood Association publishes weekly statistics indicating the operating capacity of the plywood industry, and the ratio of production. The American Plywood Association defines capacity as three shifts, five days per week.

The purpose of the survey, then, was to determine facts on lumber operations not available from any source, and to determine whether plywood production could be increased beyond the capacity figures reported by American Plywood Association.

SCOPE OF SURVEY

The mill capacity survey was mailed to 347 lumber operations and 107 plywood operations in the three-state area, using as a source the directory "Crow's Buyers and Sellers Guide". This publication has been in existence for close to 50 years and is regarded as a reliable directory in its field.

The questionnaires were mailed to operations in the area most likely to be affected by the sales of export logs. This included the manufacturers of lumber and plywood in the areas West of the Cascades, and to certain areas on the east slope of the Cascades where there was a proximity to ports where logs were being exported. The questionnaires were not sent to manufacturers of Cedar shingles and shakes, or to veneer manufacturers.

The first questionnaire was mailed to mills on February 12, and a follow-up was mailed on March 6th.

QUESTIONNAIRE

The questionnaire was worded to determine present production rate in terms of operating days, weeks and shifts; to determine actual monthly production at this time; and to determine what could be produced if an adequate supply of logs were available at prices compatible with the domestic market.

The mills were also asked whether they could continue to operate under present log supply conditions.

The questionnaire was worded to determine if production could be increased with the present work force by additional hours of production, or additional work days. The question was also asked whether there was sufficient labor available to add production shifts where mills were not operating at full capacity.

It was recognized that the price of logs was as much a determining factor as their availability in some areas. Prices paid by log exporters in recent months have in many areas been well above the levels which domestic sawmills and plywood plants could pay and still operate at a profit. Hence the questionnaire was worded to determine what the operations could produce if logs were available at prices compatible with the domestic market for their finished products.

TYPE OF RESPONSE

Replies from lumber operations were received from companies with monthly production ranging from 400,000 board feet to 12.6 million board feet. Plywood plants replying to the survey had production from two million feet per month to 17 million feet, and included some of the largest integrated operations.

RESULTS: LUMBER

Replies from lumber operations indicated that production could be increased substantially by additional shifts as well as added work days and hours. Less than half of the respondents were operating at capacity, which is generally regarded as two shifts, five days per week, in the lumber segment.

Working shifts.—Out of the 102 replies in the lumber category, 54 plants were running one shift or less. All 54 of these companies said they could add production by additional shifts if logs were available. The balance of the respondents were running mostly on a two-shift, five day basis.

Additional days and hours.—On the subject of additional production by 9-hour days and 6-day work weeks, about three-fourths of the companies replied that production could be increased in this manner. Our of the 102 returns, 73 said they could increase production by a 6-day week, and 74 indicated they could operate on a 9-hour work day if logs were available. The gain in production by added days and work hours was not as pronounced as the gain from additional shifts, but a gain of about 15 percent was attainable in this manner.

Footage.—The 102 mills replying had monthly production of 366.5 million board feet at the present time. By all methods of increased production, including additional shifts and work schedules, the mills indicated they could produce an additional 147.4 million board feet per month. This amounts to a net gain of 40.2 percent for the mills replying to the survey.

It is recognized that this 40.2 percent gain could not be applied to mills not replying to the survey, hence no effort has been made to expand these results to an industry-wide basis. The footage gain from the 102 mills replying is substantial, however, and indicates a substantial degree of unused capacity. Out of the 54 plants not running two shifts, 30 were in Oregon, 15 in Washington and 9 in California. One of the plants, Seattle Cedar Lumber Manufacturing Co., revealed through the survey that it was closing indefinitely for lack of logs.

RESULTS: PLYWOOD

Plywood plants replying to the survey were running at close to capacity, but through a combination of methods the 30 mills could increase production by 15.5 percent if sufficient logs were available.

Added shifts.—Because some departments in any given plywood operation may be operating two shifts while others operate three shifts, the results of this part of the survey are not as easily defined. Most of the 30 plants were running three shifts in at least a part of their operations, but a total of 6 shifts could be added with available logs. A gain in production of 5 percent could be achieved in this method.

Additional days and hours.—On the question of the six-day work week, 17 of the 30 plywood plants said they could add production in this method if logs were available. Only 4 indicated that they could add production by a 9-hour day.

The survey, as it applies to plywood, appears to substantiate the American Plywood Association statistics which show production at close to 100 percent of the rated capacity on a three-shift, five-day basis. If production is to be substantially increased, the six-day work week would be required, and at least 17 plants indicate that this could be done.

CONCLUSION

The survey indicates that there is a substantial amount of capacity in the lumber industry on the West Coast not being utilized because of log shortages. In plywood, the survey shows that a substantial gain in production could be achieved only through the six-day work week.

The respondents have indicated that they could produce an additional 147 million board feet of lumber and 44 million square feet of plywood on a monthly basis if the logs were available. Expanded to a yearly basis, this amounts to some 1.7 billion board feet of lumber and 535 million square feet of plywood.

The total volume of logs being exported, or approximately 2.78 billion board feet per year, could not immediately be utilized by the lumber and plywood plants replying to this survey. Allowing for conversion of log scale to lumber and plywood footage, it appears that approximately one-half of the total exports could be utilized by existing operations. Assuming that mills not replying to the survey are operating at close to rated capacity, some additional capacity would need to be built to completely utilize logs not being exported.

The approximate total of 1.7 billion board feet of lumber which could be processed by the mills replying to this survey is substantial, however, in terms of production in the area. Western Wood Products Association has estimated 1973 production for the Coast region as 8.6 billion board feet. A gain of 1.7 billion board feet, if it could be achieved by increased log supply, would represent better than a 20 percent increase in the supply from this area.

MILL CAPACITY SURVEY: LUMBER

	Washington	Oregon	California	Total
Mills reporting	28	45	29	102
Mills operating one shift or less	15	30	9	54
Current monthly production (million board feet)	75.8	161.2	129.5	366.5
Could work 6-day week	20	32	21	73
Could work 9-hour shifts	19	31	24	74
Monthly production which could be added by above means (million board feet)	10.4	24.5	21.8	56.7
Percent increase	13.7	15.2	16.8	15.4
Could add another shift	14	28	12	54
Production which could be added by additional shifts (million board feet)	16.9	52.6	26.6	96.1
Percent increase	22.3	32.6	20.5	26.2
Production which could be added by all available methods (million board feet)	27.0	73.4	47.0	147.4
Percent increase	35.6	45.5	36.3	40.2

Approximate gain possible per year: 147.4×12–1,769,000,000.

MILL CAPACITY SURVEY: PLYWOOD

	Washington	Oregon	California	Total
No. of mills reporting	8	17	5	30
Current monthly production (million board feet)	71.0	191.2	25.3	287.5
Could work 6-day week	5	8	4	17
Could work 9-hour day	2	2	0	4
Monthly production which could be added by above means (million board feet)	10.9	18.0	3.1	32.0
Percent increase	15.4	9.4	12.3	11.1
Monthly production which could be added by extra shifts (million board feet)	3.5	3.3	8.8	15.6
Percent increase	4.9	1.7	3.5	5.4
Production which could be added by all abailable methods (million board feet)	11.4	21.3	11.9	44.6
Percent increase	16.1	11.1	47.0	15.5

Approximate yearly gain possible: 44.6MM×12—535,200,000 square feet.

Senator PACKWOOD. Thank you.
I have no questions.
This completes the hearings.
[Whereupon, at 12 noon, the committee was adjourned, subject to call of the Chair.]

APPENDIX

Additional Statements and Data

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., June 22, 1973.

Hon. JOHN SPARKMAN,
Chairman,
Committee on Banking, Housing and Urban Affairs,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: The Senate Committee on Banking, Housing and Urban Affairs has under consideration S. 2053 introduced by Senator Tower, and other bills and proposals which would grant the President authority to curtail or embargo exports of agricultural commodities.

An expanding export program is essential to a dynamic and prosperous agriculture. Any attempt to limit our agricultural exports would not be in the interest of American agriculture. It also would greatly intensify our serious balance of payments problem. Therefore, we oppose any proposal that would give the President additional authority to restrain our agricultural exports.

We respectfully request that this letter be made a part of the hearing record on this legislation.

Sincerely yours,

CLIFFORD G. MCINTYRE,
Legislative Director.

STATEMENT OF JOHN KENNETH GALBRAITH, PAUL W. WARBERG PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

There is an Alice-in-Wonderland aspect about a liberal feeling called upon to oppose this legislation. It should be opposed by every principled conservative in the country. And it should never have been proposed by a conservative Administration. It involves an interference with market forces at one of the precise points where these work to the advantage of the United States in particular and people in general.

The request for this authority also reflects a grievous misapprehension of the reasons for the present high level of living costs. These are not the result of high exports. These are caused by the past and continuing failure of the Administration to control domestic inflation. In abandoning the Phase II controls the Administration showed itself unwilling to use regulations where it is indispensable. This shook public confidence and unleased a wave of consumer and business spending. This was followed by continued rejection of sensible fiscal action—the greatest need being for increases in personal and corporate income taxes. As a result, an excess of demand has put continued pressure on markets. This is the reason for high living costs. The solution it follows lies with a firm and sensible domestic policy not evasive action that seeks however to place the blame on foreigners.

Emergency power now exists for the control of exports. Where there is a great danger of domestic deprivation these powers could be used. The additional grant of power here requested will serve only as another dangerous impediment in the international trade system where it is peculiarly in our interest to protect. And it will put other countries on notice that we are an unreliable source of essential supplies. And in consequence it will be a powerful argument in importing countries for those who urge policies designed to reduce dependence on all American farm products. It is an argument that farm groups in Europe will certainly use. And control will worsen our balance of payments in precisely the area, agriculture, where our position is strongest.

Finally, the action shows an unpleasant willingness to solve our domestic problems—more persuasively to make gestures toward a solution—by exporting

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our problems to other countries. For us it is inflation. For others it may be starvation.

Our agricultural exports have been strong in recent years. But at least until recent months they have not departed radically from trend. The Administration was slow in recognizing the recent increase in world demand for bread and feed grain. This justifies the most energetic efforts to encourage expansion. It does not justify ill-considered action to limit outflow.

This Administration has built up a remarkable record of error in economic policy as its own economists now partially concede. Accordingly, the Congress should have no hesitation in acting to prevent further error of which this legislation is a prime example.

GROCERY MANUFACTURERS OF AMERICA, INC.,
Washington, D.C., August 14, 1973.

Senator ALDAI E. STEVENSON III,
Chairman, Subcommittee on International Finance,
Committee on Banking, Housing and Urban Affairs,
Washington, D.C.

DEAR MR. CHAIRMAN: Please be advised that the Executive Committee of the Grocery Manufacturers of America has approved the following position on export controls.

The President should be given temporary statutory authority to impose selective export controls on an emergency basis so that basic commodities, controlled at lower domestic prices, will not be diverted to foreign buyers willing to pay higher prices at uncontrolled world market levels.

Such authority must terminate with the expiration of the Economic Stabilization Act on April 30, 1974.

We respectfully request that this letter be included in the record of the hearings on S. 2053 held by your Subcommittee.

Thank you for your consideration of this matter.

Sincerely,

GEORGE W. KOCH,
President/Chief Executive Officer.

STATEMENT BY CLARENCE G. ADAMY, PRESIDENT, NATIONAL ASSOCIATION OF FOOD CHAINS

We appreciate the opportunity to make this statement in support of the President's request for new authority in the export area.

I am President of the National Association of Food Chains, which represents the corporate food chains in the United States. NAFC has approximately 200 member companies, which operate more than 20,000 supermarkets with a combined annual volume of about $35 billion—about one-third of the nation's food store business.

Economic control programs will and must distort the market. Separate communications to every member of Congress will provide a continuing report on their distortion during the control period. An example is that one midwest company this week was forced to discontinue buying (and therefore having for the consumer) turkey and 39 produce items.

As our communications to members of Congress will show, this is general throughout the country. Control programs may have some shock value—but little else. In the current inflationary food price crisis, there is no way to ignore that lack of supply is the major causative factor. Supply is particularly critical between now and the fall harvest.

Today we ask you to review our nation's food needs to be very alert as to how we allocate a very short supply between foreign and domestic needs.

The Department of Agriculture on June 20 reported that soybean stocks in the United States would decline to 40 million bushels (a two-week supply) by September 1 (this obviously includes normal exports—25% of our production is exported annually).

Nothing could so drastically underline the need and the wisdom of granting the President completely flexible authority to control agricultural exports during this critical period before the fall.

Our current available supplies of feed grains are all in tight supply, and the long term answer to this problem is the fall harvest. Obviously, conservation of these short supplies is essential.

Current prices of feed grains place producers—beef, hogs and poultry—in the undesirable position of costing more to raise than can be received for them on the market. If one buys grain at today's prices, the cost of the market-ready animal is in excess of the ceilings permitted by the freeze on meat established in March of this year.

At the same time, one must hasten to note that exports, particularly agriculture exports, are vital to stabilizing the American economy. The unfavorable balance of payments of the past several years has had a direct and positive input into the inflationary drive in our domestic economy. Exports are essential, and agricultural exports are one of the possible and desirable areas to meet this need.

Also, we care about farm income: Only more production will provide us with adequate supplies for domestic use at rational prices while also providing a constantly increasing supply to export. Production will come if the farmer is rationally rewarded by adequate prices.

However, using soybeans as an example, we find that the price a year ago was $3.45 a bushel, and current prices are between $10 and $12 a bushel. We all recognize that production costs have increased during this year—fuel, fertilizer, equipment, and labor are esasily recognized factores in the increased cost of production. So, obviously if we are to have more meat at lower prices on the American table, and provide a competitive posture on world markets, we must pay more than last year. However, current feed grain prices are self defeating. Thus, the goal we should seek is prices low enough to insure meat production, but high enough to induce grain production.

We need inducement to increase production by giant steps—ability to exert downward pressure on current prices without getting so low as to provide a deterrent to production—and at the same time continue our efforts to build an expanding foreign market.

The fall harvest shows every promise of bumper dimensions. However, current supplies are frightening in their low levels. Foreign purchases show some evidence of hysterics: buying for storage (hoarding) in response to irresponsible talk of long term shortages.

The situation as we see it is—hopeful in the long run—distressing in the short run—and needing some very careful handling to be sure current stocks last until new stocks arrive, to be sure that users of grain increase the setting of eggs, feeding of cattle, and farrowing of pigs at the earliest economically justified date, and finally to be sure that short term diversion of feed grains from international markets is not misinterpreted in a long term sense.

We sincerely believe that control of agricultural exports for the next few months is essential; that failure to provide intelligent control policy at this time will attack the American consumer (higher prices for a longer period), harm the American farmer by providing disastrously low prices as a sequel to these irrationaly high prices and finally, will jeopardize our foreign markets with great peril to our future.

So, a flexible program—one that can give a little here, take a little there—is the only answer that promises viability, progress, and in the end, success.

We sympathize with the Congress' reluctance to grant arbitrary power to any executive—in fact, in normal circumstances—in fact, almost always we support that attitude, but unusual times; unusual problems; require unusual answers. At this time, we petition the Congress to grant such unusual authority to the President to control exports as proposed in his message, with the caveat that such authority be granted for a fixed term, long enough to assure that the harvest is in the market and being utilized by our animal agricultural enterprises, but short enough to assure that such authority is granted only for specific purpose for a specific time.

Your favorable consideration of this request will be deeply appreciated by the American consumer who will as a result receive more, better and lower costing food at a much earlier date.

Statement of National Broiler Council

The National Broiler Council represents producers and processors of chicken throughout the nation who make poultry production the nation's most efficient source of meat protein. This efficiency of the broiler industry is being threatened today by the unprecedented cost of poultry feed and feed ingredients. It is impossible for many producers to sell broilers at prices which will cover their costs of production. The price of broiler chickens is restrained because retail store and distributor prices are frozen at their June 1-8 levels. Broiler producers are caught in a squeeze between the high feed costs and low retail store ceiling prices. The result is that growers are cutting back their flocks because it is unprofitable to continue to operate.

Export controls can help to lower the cost of feed and feed ingredients. The broiler industry needs lower cost feed; the American consumer needs lower cost feed. To achieve this objective the National Broiler Council favors legislation, such as S. 2053 introduced by Sen. Tower and Sen. Sparkman, which will provide flexible authority for the imposition of export controls. We think this can be done without compromising the long-term national goal of increased agricultural exports.

At the present time this nation's meat supply is threatened by immediate and unprecedented shortages of feed. The price behavior of important feedstuffs has anticipated these shortages. For example the price of corn has been as much as 92% over year earlier levels and the price of soybean meal has risen as much as 350% during the same period. These are the two most important ingredients in poultry feed.

USDA estimates, released on June 19, confirm what the market was already anticipating, that carryover soybean stocks on September 1 may amount to as little as 40 million bushels. And these could well be exhausted entirely, if the new crop harvest is delayed.

Since the current price freeze began on June 13, the Commerce Department has collected new reports which show export commitments substantially exceeding what had previously been estimated. These reports show the protein feed situation is so precarious that the Commerce Department has already imposed restraints on the export of soybeans, soybean meal, cottonseed and cottonseed meal. This was done under the present law which requires that such action may only be taken "to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand." The National Broiler Council supports both the restraints that have been imposed and the more flexible authority for this type of restraint which is contained in S. 2053.

Unless there is action to assure adequate domestic supplies of feed, there will be further cutbacks in the production of poultry, red meats, milk and eggs. This can only have an inflationary effect.

Export controls can help to protect the nation's food supply until we can be sure that the new crops of grains and soybeans are adequate to meet both domestic and foreign needs. Export controls should not be used on a long-term basis. Controls are appropriate now when inflation and speculation have increased old crop prices of corn and soybeans by as much as 92% and 350% respectively. But such controls are not appropriate when full crop supplies are adequate to supply both domestic and foreign demand, and they should not be used to create long-term artificial domestic prices.

It is the view of the National Broiler Council that export controls are needed now and in the critical months just ahead and the Broiler Council therefore supports S. 2053 which will provide flexible authority to implement such controls. In the long-run we look to adequate supplies of feed and poultry and fair producer returns to provide an end to both export restraints and domestic controls.

Statement of James F. Fleming, Director of Governmental Relations, United Egg Producers

Mr. Chairman; members of the Committee. My name is James F. Fleming. I am Director of Governmental Relations for United Egg Producers, a national federation of egg marketing cooperatives which represent commercial, table egg producers in every state of the United States except Alaska and Hawaii. There are five regional egg marketing cooperatives affiliated with United Egg Producers, whose members are grass-root egg producers. Our purpose, since we were organized in 1968, has been to work on problems of the table egg producer as they relate to production, pricing, and marketing of table eggs in every state in the United States, except Alaska and Hawaii. Our headquarters offices are located in Atlanta, Georgia, and we maintain a governmental liaison office here in Washington, D.C. Our member cooperative offices are located in

Norcross, Georgia; Durham, New Hampshire; Davenport, Iowa; Bellevue, Washington; and Sacramento, California.

On behalf of our members, we would like to express support for the President's request for special authority to deal with problems which arise from the export of certain articles, commodities or products from the United States. We also wish to emphasize the urgency with which the Congress needs to act on this request. The problems currently being created by world demand for essential feed grains and protein feed ingredients produced in the United States are forcing many domestic egg producers to cut-back production, restrict replacement flocks, or cease operations entirely. Ultimately, the American consumer will bear the brunt, through higher prices, of decreased market supplies which will be created by production decisions now being made throughout the nation.

As related above, one of the primary purposes of United Egg Producers is to assist the individual egg producer located in every section of the United States with the problems of marketing his eggs in the nation's complex economic marketplaces. The announcement by President Nixon on June 13 has created even greater complex economic problems for the individual egg producer.

On one hand the egg producers of the United States have seen retail prices frozen which, in turn, places a "freeze" on their raw agricultural product, even though it is unfrozen by the stabilization program. On the other hand, egg producers see feed prices remaining unchecked. Thus egg production costs can still rise but the individual producer has no hope of regaining any of this added cost from the traditional marketplace. One midwestern eggman ably described the situation as: "The President locked the chicken-house with the fox inside."

The world demand for livestock feed, particularly soybeans and soybean meal, has skyrocketed feed prices during the past year. Because processed feeds are frozen by the stabilization program while whole grains are not, many feed processors are currently putting livestock producers on notice that they will cease operations rather than continue to produce feeds below their costs. Therefore, not only is high feed prices a big problem today, but the actual availability of feed is threatened by both the Economic Stabilization program and the export of essential feeds, particularly soybeans.

The American egg producer—and any other user of soybean meal—is placed at other, equally distressing, disadvantages resulting from our government's policies toward exports. While we are forced to pay more than 300 percent more this year for soybean meal than last, livestock producers in some European countries are getting American soybeans and meal at one-third our price. Some countries, such as Spain, subsidize the purchase of feed for their domestic livestock industries. The subsidy price drives up the world market which, in turn, affects the domestic market prices paid by livestock feeders in the United States. An example of the adverse effect can be easily seen by viewing market prices. Spain is reported to have recently increased the subsidy on soybean meal some $63 per ton, to a total of $234 per ton on the world market. At the time the increase was made, the world average price for soybean meal was $359 per ton. In practice, therefore, livestock producers in Spain are getting their soybean meal for only $125 per ton.

In the United States, we have witnessed a continuing spiral in soybean prices since last year and most particularly since April 1973. I call your attention to "Attachment A" which graphically portrays domestic soybean meal prices for the past three years. It is unbelievable!

It is grossly unfair to the egg producers in this country to permit the price of our supply of essential feeds to be influenced so drastically by foreign, subsidized purchases to the point that there is a question of whether our supply is now sufficient to meet domestic needs. Even with this apparent disregard for the welfare of American livestock producers, our government has frozen, at retail, the prices of our food products so that there is no possibility of capturing some of the added cost from the domestic market.

Gentlemen, it is obvious that the American egg producer—in fact, the American livestock producer—can not survive under the current circumstances. The President needs authority, if he does not already have it, to deal with this crisis and the time is long overdue for action. Let me point out some of the actions the egg industry had already taken because of high grain prices prior to the announced freeze. According to figures released by the U.S. Department of Agriculture, June 19, the number of layers on farms June 1, 1973 were reported to be 287.5 million—the lowest number since 1963. The Department also reported that the total shell eggs produced during May 1973 was 5,768,000,000—some three percent lower than the number of eggs produced in May, 1972, and the lowest production since 1968. The USDA fowl slaughter report for the week ending June 6, 1973, revealed that fowl slaughter for the week, which totaled 3,006,000 hens, was 13.6 percent greater than for the same week in 1972. For the week ending June 13, slaughter totalled 3,076,000—four percent higher than the same week in 1972. For the year of 1973 through the week of June 13, according to USDA, the slaughter of light fowl totaled 81.9 million—an increase of 5.8 percent over last year, or 4,507,000 more birds than last year. Other statistics show substantial increases in population and demand for food. Therefore, our industry should be increasing, not decreasing, food production.

It is quite evident from statistics issued by the U.S. Department of Agriculture that the egg industry had taken drastic action to reduce the production of shell eggs in the months ahead, even prior to the freeze being announced. We project that the "freeze" will escalate the exodus of small and marginal egg producers from the industry, and will severely affect the already strained financial position of those remaining. Many are cutting production in order to reduce losses. Unless some immediate action is taken to correct the situation, the supply of eggs to consumers will be drastically reduced in the months ahead. It must be understood that it takes at least six months to raise a baby chick into a laying hen. Therefore, when a hen goes to slaughter, it will take at least six months to replace that production.

The egg industry is not alone in its sufferings from high grain prices. All livestock feeding industries are hit by the high prices, though some feel the effect less by their lesser dependence upon soybean meal as a feed ingredient. Attachment B illustrates reported production indications for broilers, layers, turkeys, swine, and livestock industries. Indications are that during the third quarter of 1973, cattle numbers will only be up three percent over the serious low of last year and swine production may only reach a plus five percent. Considering the cries of the American consumer, over high meat prices last year, and even greater early this year, these anticipated production figures are not encouraging. Even less encouraging are recent reports that even these figures are high and producers are sending breeder stock to slaughter.

According to USDA, there is enough grain for domestic use with an anticipated carry-over when new-crop feeds are harvested, but the figures are running critically close. The Department estimates a carry-over on August 31, 1973, of 40 million bushels of soybeans and 850 million bushels of corn. Department economists, however, privately report that actual figures are unknown. Even with reported figures, the carry-over stocks are considerably less than last year (minus 32 million bushels of soybeans and minus 326 million bushels of corn). Some industry economists have predicted the supply of soybean meal will be exhausted before the new crop is harvested. All of these uncertainties add fuel to the already overheated inflationary prices of feed grains.

In the past year, soybean meal prices have increased over 300 percent. Soybean meal could be purchased by livestock producers during the first week of May, 1972, for $94 per ton (F.O.B. Decatur, Ill.). On May 3, 1973, the price was $305 per ton. On Wednesday, May 30, soybean meal prices were quoted at $390 per ton * * * an increase of over 300 percent. Attached Exhibit A, illustrates the historical price patterns of soybean meal. It is quite evident that this year's price patterns are unlike any in recent history.

As pointed out on the attached charts, other feeds have escalated in price in what appears to be a reaction to soybean meal prices. For instance, corn was quoted at $2.32 per bushel on May 30 (F.O.B. Chicago, #2 Corn), compared to $1.28 on the same day of 1972. Because of marketing practices of the grain industry, the available supply of critical products is controlled by a relatively few major grain companies. We believe these companies have taken advantage of the artificial fear in the grain market which has been created by a combination of world protein demand, shortage of substitute products, the devalued U.S. dollar, bad weather in the feedgrain area of the United States, and the desire of the U.S. government to use agricultural exports help reduce our foreign trade deficits. The concentration of available supply in such few hands obviously raises serious question as to the validity of the unreasonable prices experienced by livestock feeders during the past year and more particularly in the past six months. The enormous price increases have not benefited the grain farmer since the largest portion of the inflated price has come after most farmers had sold their production. Instead of an increase in farm incomes, current feed prices in the United States represents inflationary profiteering made possible by the shortage of critical crops and by the subsidized foreign purchases.

An examination of what the high feed prices are doing to the cost of producing a dozen eggs will reveal why the egg industry is so concerned over the current feed price situation. Our industry, like other food producing industries, has been under increasing criticism from consumer groups and others because of high egg prices last year and, more particularly, since January of 1973. Exhibit C graphically portrays a comparison of egg production cost for the first three months of each year since 1970. It is easy to see that higher wholesale egg prices for the January-March 1973 period did not match the rise in production cost during the period and the egg industry suffered a net loss of approximately 0.7¢ per dozen eggs produced. There may be consolation in the fact that the loss was not as great as in the same time period of 1971 and 1972, but a loss is unheard of on a 50¢ average New York wholesale egg market.

Our statistical department estimated the egg industry needed a 60.8¢ New York, wholesale, large egg market in the April-June quarter just to break even. The highest price realized in the wholesale market, prior to the freeze, however, was 60¢ on June 13. Because of industry pricing practices, the highest wholesale market during the June 1-8 base period of 59¢ can not be used for pricing eggs during the freeze, because most producers price current week deliveries on the previous week's quotation. This is done because major food stores need at least a week to plan their specials, etc., and must know what their costs will be prior to planning sales. Therefore, in reality the freeze base price for many egg producers is the highest price of the week prior to the June 1-8 base period. The highest price that week was 55¢ (New York).

No matter what combination of wholesale prices one might use, it is obvious that the producer's cost of making eggs available for the consumer market presently exceeds the frozen market price. And, even though shell egg prices are not frozen until after the first sale, everyone knows there is a technical "frozen price" somewhat back of the "real" frozen price at retail levels.

Looking into the July-September quarter, we project the egg producer must realize a 66.8¢ wholesale market in order to meet his cost of production. Again. It is obvious that such a market can not be reached since the freeze affects the market price for shell eggs, but allows feed grain prices to continue their climb to new highs. Under such a set of circumstances, it is easy to understand why many producers are cutting back or ceasing production entirely. It is questionable whether a producer who quits will ever return to such a highly marginal economic risk as the egg industry has proven to be for the past three years.

Exhibit C, referred to previously, indicates the average cost of producing a dozen eggs during the January-March period of 1973 rose 10.6¢ per dozen in feed costs alone over the previous year. If projections are accurate, feed costs will add 26.6¢ per dozen over last year to the cost of egg production in the July-September quarter. It is interesting to note that the total costs of producing eggs during the January-March period of 1972 was only 26.8¢ per dozen.

Feed costs in previous years represented 60 percent of the total cost of producing a dozen eggs. Since December 1972, the proportion of production costs due to feed has risen steadily to about 73 percent today, and that percentage is increasing every day the grain commodity market is allowed to stampede to new heights.

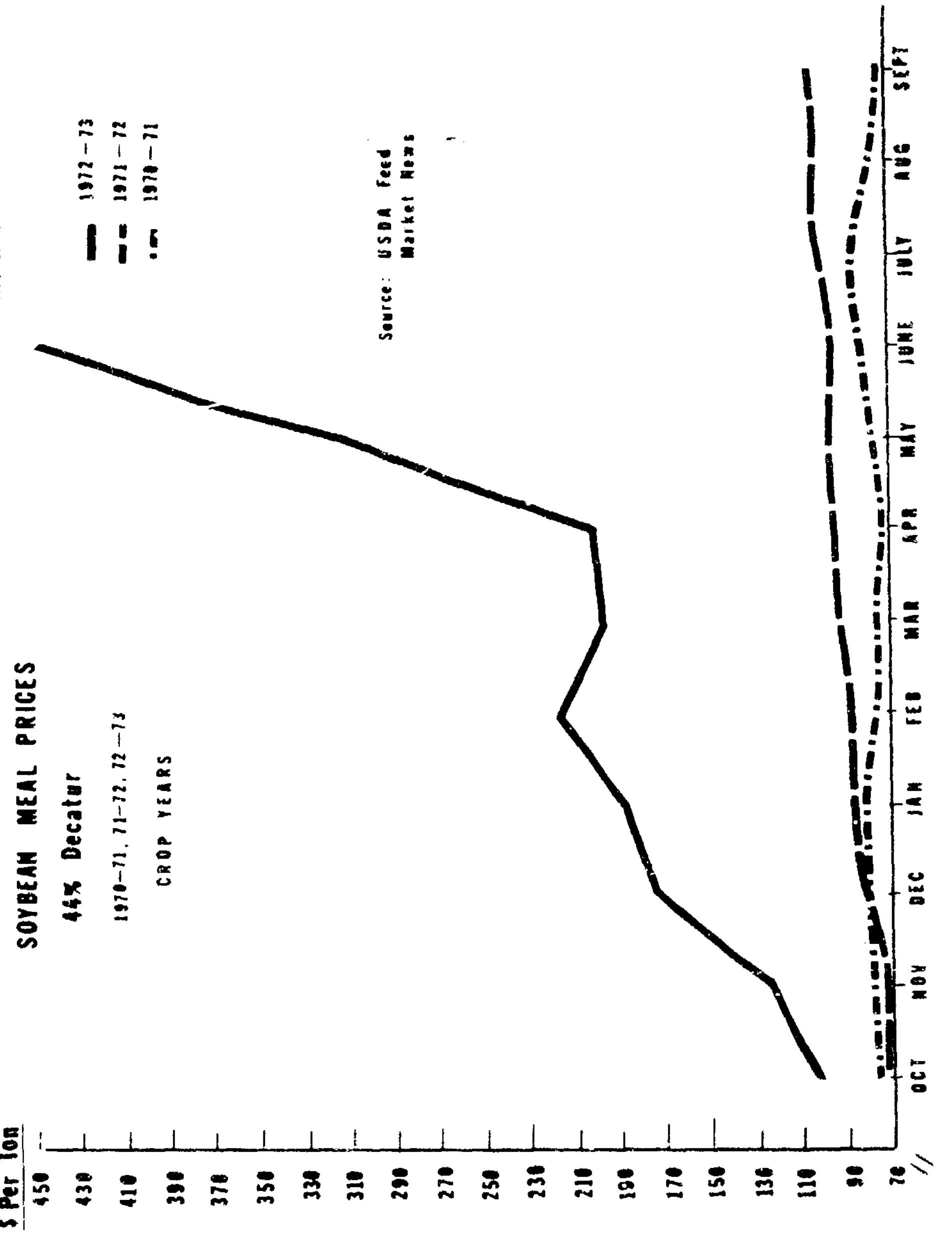
Exhibit D illustrates the tremendous rise in 1973 in prices of soybean meal, fish meal, corn, and milo during the January-March quarters of 1970, 1971, and 1972. Except for the corn blight scare of 1971, none of these products have reached such high prices in recent years. The escalation of these prices has continued since March.

We are aware that the United States must take major steps to reduce our trade deficit, but the exportation of soybeans, soybean meal, and other grains, is having a disastrous affect on the American Economy. We believe the effect is more critical than the problem—to re-coin an old phrase—"The cure is worse than the illness." The American consumer will soon be faced with a new problem, unless something is done very soon—the problem of a new luxury—that of putting food on their tables.

The information contained herein, all of which is based upon U.S. government, or other highly reputable sources, indicate that not only is foreign sales of feed grains accelerating the price of feedgrains in America to the point that eggs and other livestock products are being priced higher, but raises a more serious question: How long will there be a supply? Only the current freeze program is keeping eggs on the American table at reasonable prices. Without the freeze, eggs today could be 10¢ to 20¢ higher in the supermarkets. Fowl slaughter statistics vividly point to shorter egg supplies in the future.

There is but a single factor that will cause egg producers to produce eggs in the future—economic incentive. The lack of control on exports of vital supplies of feed grains, the failure of the current economic stabilization program to deal with the disastrous feed grain prices, and the freeze of retail egg prices so there is no hope of recovering any additional costs from the marketplace have all combined to virtually destroy the economic incentive egg producers look for in their marketplaces.

ATTACHMENT A

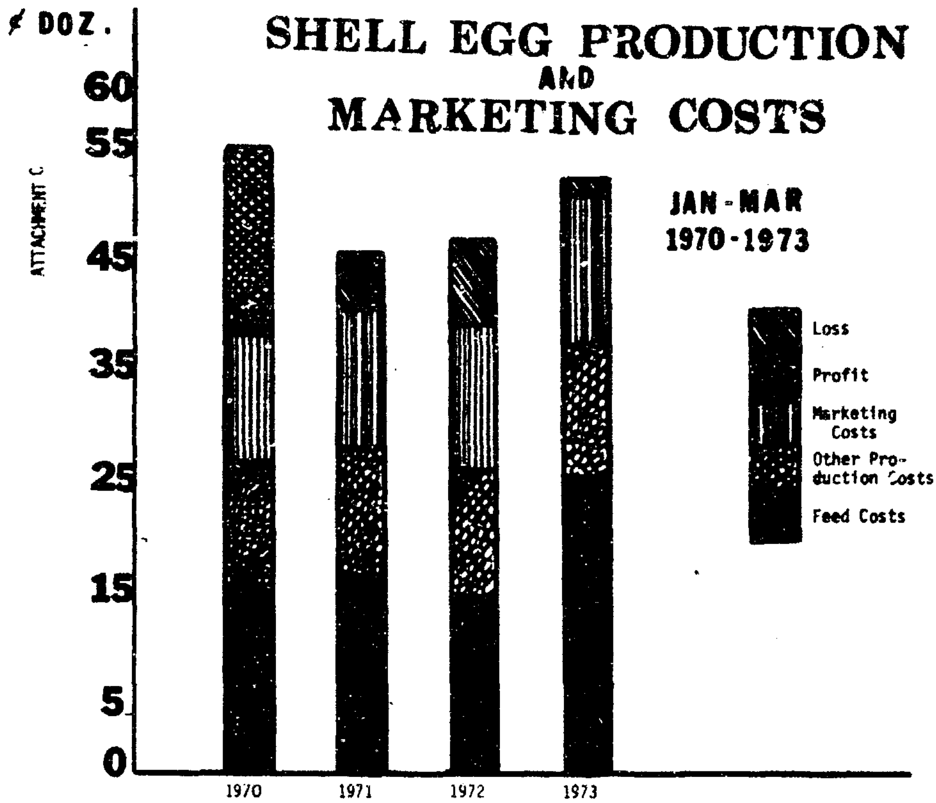


ATTACHMENT B

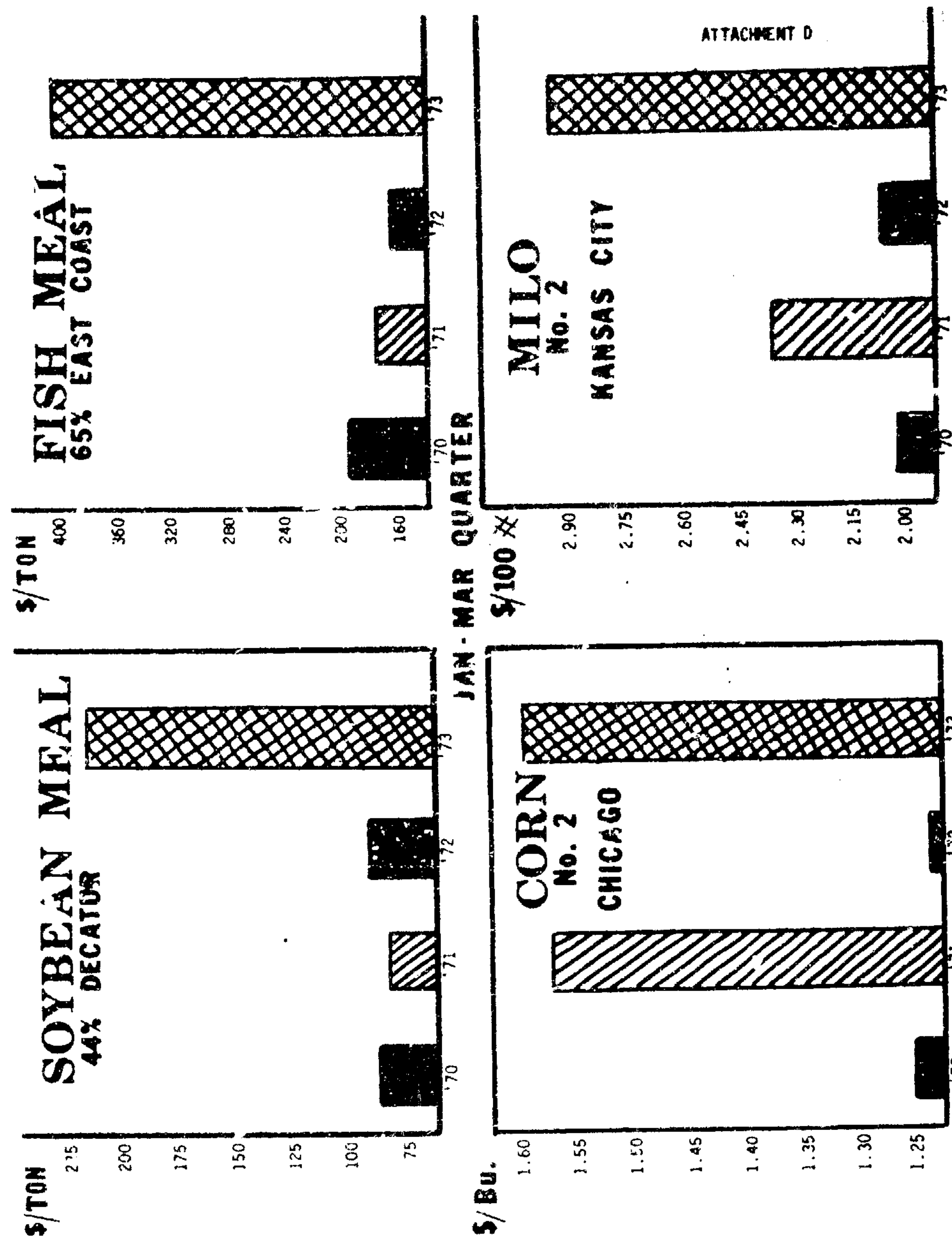
FEED CONSUMING ANIMAL UNITS

1971-72, 1972-73

	Oct-Dec	Jan-Mar	April-June	July-Sept
	------------% *Of The Previous Year*	-----------		
Cattle				
1971-72	-2	+1	+3	-0-
1972-73	+4	+3	+1	+3
Hogs				
1971-72	-6	-8	-10	-12
1972-73	-6	-1	+3	+5
Broilers				
1971-72	+5	+3	+7	+3
1972-73	2	-2	-5	-2
Turkeys				
1971-72	-6	+10	-0-	+9
1972-73	+8	+13	+20	-4
Layers				
1971-72	-1	-1	-2	-3
1972-73	-5	-6	-4	-3



	Production Costs For All Eggs Sold From Farm: Feed Costs	Other Costs	Total	Marketing Cost From Farm To Wholesale Mkt.	USDA Wholesale Large Shell Egg Prices - N.Y.	Producer Profit Or Loss
			Cents Per Dozen			
1970	16.3	10.9	27.2	11.0	54.1	+16.1
1971	17.5	11.1	28.6	12.0	36.1	- 4.5
1972	15.4	11.4	26.8	12.5	31.9	- 7.4
1973	26.0	11.8	37.8	13.0	50.1	- 0.7
Estimated:						
Apr./June	36.0	11.8	47.8	13.0	60.8	- 0.0
July/Sep.	42.0	11.8	53.8	13.0	66.8	- 0.0


ATTACHMENT D
JAN - MAR QUARTER
FISH MEAL
65% EAST COAST
$/TON
400
360
320
280
240
200
160
'70
'71
'72
'73
MILO
No. 2
KANSAS CITY
$/100 #
2.90
2.75
2.60
2.45
2.30
2.15
2.00
'70
'71
'72
'73
SOYBEAN MEAL
44% DECATUR
$/TON
225
200
175
150
125
100
75
'70
'71
'72
'73
CORN
No. 2
CHICAGO
$/Bu.
1.60
1.55
1.50
1.45
1.40
1.35
1.30
1.25
'70
'71
'72
'73

STATEMENT OF NATIONAL COUNCIL OF FARMER COOPERATIVES

I am Robert N. Hampton, Director of Marketing and International Trade of the National Council of Farmer Cooperatives. The National Council is a nationwide federation of farmer-owned businesses engaged in the marketing of agricultural commodities or the purchasing of farm production supplies, and of 32 state cooperative councils. The cooperatives making up the Council are owned and controlled by farmers as their off-farm business operations.

We want to express our special concern over the potentially serious damage to our opportunity for successful trade negotiations leading to expanded market opportunities for many U.S. farm products if export control measures are interpreted abroad as an indication the U.S. is no longer the reliable supplier that we traditionally have been. And, we should give primary consideration to the impact of our actions on long-standing, dependable foreign customers.

We are also quite concerned that no steps be taken which reduce in any way the important role of the Secretary of Agriculture in any export control measures affecting agricultural products—reporting, control, licensing, or other. Public Law 92-412, the Equal Export Opportunity Act of 1972 (amending the Export Administration Act of 1969) says that authority with respect to export controls over agricultural commodities "shall not be exercised . . . without the approval of the Secretary of Agriculture." We vigorously oppose any reduction of the Secretary's responsibilities and discretions in this regard.

Although we understand the need for appropriate remedies in situations of national emergency, we believe that sufficient authority already exists to deal with such situations. Refinements in export control measures dealing with reporting, licensing, and such matters may be handled without severe damage to our foreign trade stance. But, in view of the unnecessary disruption to upcoming trade negotiations, we oppose extension of the existing Presidential authority to impose embargoes or other export control measures on farm products. Such action would give our long-standing trading partners cause for undue apprehension over our capacity to supply them or damage our efforts to open up other new and dependable markets.

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