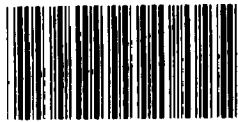


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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT OF
HENRY ESCHWEGE, DIRECTOR
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE
SUBCOMMITTEE ON TRADE
HOUSE COMMITTEE ON WAYS AND MEANS
ON
SUGAR PROGRAMS

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I WELCOME THE OPPORTUNITY TO DISCUSS OUR WORK IN THE SUGAR AREA AND CERTAIN SECTIONS OF THE PROPOSED SUGAR STABILIZATION ACT OF 1979 (H.R. 2172). WE RECENTLY ISSUED A REPORT TO THE CONGRESS ON FEBRUARY 26, 1979, ENTITLED "SUGAR AND OTHER SWEETENERS: AN INDUSTRY ASSESSMENT." WE WILL ISSUE SHORTLY ANOTHER REPORT ON THE DEPARTMENT OF AGRICULTURE'S SUGAR SUPPORT PAYMENT AND LOAN PROGRAMS. MY TESTIMONY TODAY WILL HIGHLIGHT THE CONCLUSIONS AND RECOMMENDATIONS RESULTING FROM OUR WORK.

THE DOMESTIC SUGAR INDUSTRY

MANY DOMESTIC SUGAR PROCESSORS AND FARMERS HAVE REPORTED LOSING MONEY ON THE 1977 CROP BECAUSE OF LOW SUGAR PRICES. WITH GOVERNMENT SUPPORT PAYMENTS ADDED, HOWEVER, THIS WAS NOT ALWAYS THE CASE. THE 1978 CROP IS STILL BEING

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testimony

PROCESSED IN PARTS OF THE COUNTRY AND SUGAR FROM THIS CROP WILL CONTINUE TO BE MARKETED THROUGH MOST OF CALENDAR YEAR 1979.

BEET SUGAR PROCESSORS LOST MORE THAN A NICKEL A POUND
BASED ON OUR ESTIMATE OF AVERAGE PRODUCTION AND SELLING
COSTS AS COMPARED TO THE AVERAGE SELLING PRICE DATA FOR
ALMOST HALF THE 1977 CROP. PART OF THE LOSS WAS OFFSET BY
GOVERNMENT PAYMENTS. SOME SUGAR BEET GROWERS ALSO LOST
MONEY, EVEN WITH GOVERNMENT PAYMENTS.

WITHOUT GOVERNMENT PAYMENTS, ON THE AVERAGE, FLORIDA, HAWAII, LOUISIANA, TEXAS, AND PUERTO RICO SUGAR CANE PROCESSORS WERE NOT PROFITABLE ON THE 1977 CROP. WITH GOVERNMENT PAYMENTS, PROCESSORS IN FLORIDA AND HAWAII SHOWED A PROFIT; IN FLORIDA BASED ON AGRICULTURE DEPARTMENT PRODUCTION COST ESTIMATES AND IN HAWAII BASED ON INDUSTRY PRODUCTION COST DATA. IN FLORIDA AND LOUISIANA THE MAJORITY OF THE SUGAR CANE IS GROWN BY THE SUGAR PROCESSORS. IN HAWAII THE PROCESSORS ARE THE PRINCIPAL GROWERS.

HIGH FRUCTOSE CORN SYRUP IS
BECOMING MORE IMPORTANT

HIGH FRUCTOSE CORN SYRUP HAS BECOME AN ALTERNATIVE
FOR SUGAR IN SOME CASES AND CAN BE PRODUCED AT A COST
GENERALLY BELIEVED TO BE LESS THAN THAT FOR REFINED SUGAR.
HIGH FRUCTOSE ACCOUNTED FOR MORE THAN 8 PERCENT OF U.S.
SWEETENER CONSUMPTION IN 1978 COMPARED WITH LESS THAN
1 PERCENT 6 YEARS EARLIER. THE SECRETARY OF AGRICULTURE

HAS PREDICTED THAT CORN SWEETENERS MAY ACCOUNT FOR 40 PERCENT OF THE U.S. SWEETENER MARKET WITHIN 20 YEARS.

WHILE HIGH FRUCTOSE SALES ARE CURRENTLY DEPRESSED DUE TO LOWER SUGAR PRICES, THIS INDUSTRY CAN POTENTIALLY INCREASE ITS SHARE OF THE SWEETENER MARKET, AT SUGAR'S EXPENSE, AND PROVIDE A COUNTER WEIGHT TO HIGH SUGAR PRICES. IF SUGAR PRICES GET TOO HIGH, MORE INDUSTRIAL SUGAR USERS MAY SWITCH TO FRUCTOSE. ACCORDING TO OUR CONVERSATIONS WITH INDUSTRY REPRESENTATIVES, BECAUSE OF LOW SUGAR PRICES AND INDUSTRY OVERCAPACITY, FRUCTOSE MANUFACTURERS WERE NOT BELIEVED TO BE PRODUCING HIGH FRUCTOSE PROFITABLY IN 1978.

THE UNITED STATES IS AN IMPORTANT TRADING PARTNER TO SOME COUNTRIES

THE UNITED STATES IS AMONG THE WORLD'S LARGEST SUGAR CONSUMERS AND IMPORTS ALMOST HALF ITS NEEDS. AS A MAJOR SUGAR IMPORTER, THE U.S. IS IMPORTANT TO THE WORLD SUGAR MARKET. U.S. IMPORTS REPRESENT A MAJOR MARKET FOR SOME COUNTRIES. FOR EXAMPLE, IN 1977, THE U.S. WAS THE MARKET FOR 82 PERCENT OF THE DOMINICAN REPUBLIC'S SUGAR EXPORTS AND 50 PERCENT OF THE PHILLIPINES' SUGAR EXPORTS. AS THE DOMINICAN REPUBLIC'S PRINCIPAL SUGAR MARKET, A DROP IN EXPORTS TO THE U.S. COULD, IN OUR OPINION, HAVE A SEVERE EFFECT ON THE DOMINICAN INDUSTRY.

REDUCING U.S. SUGAR IMPORTS COULD HAVE FOREIGN POLICY IMPLICATIONS WHICH INCLUDE:

- LOSS OF VITAL FOREIGN EXCHANGE EARNINGS ON THE PART OF SUGAR SUPPLIERS, MANY OF WHOM ARE DEVELOPING COUNTRIES.
- THE POSSIBILITY THAT THE UNITED STATES WILL BE ASKED TO INCREASE FOREIGN AID TO OFFSET REDUCED SUGAR EARNINGS.
- FURTHER DEPRESSION OF WORLD PRICES AS A RESULT OF A SMALLER WORLD MARKET.
- POSSIBLE DEMANDS FROM OTHER U.S. INDUSTRIES FOR SIMILAR PROTECTION.
- THE NEGATIVE IMPACT OF RESTRICTING SUGAR IMPORTS ON BROADER U.S. TRADE POLICY, SUCH AS AGRICULTURAL SALES, AND U.S. EFFORTS TO REDUCE TRADE BARRIERS.

RECOMMENDATIONS TO THE CONGRESS

WE RECOMMENDED THAT THE CONGRESS ENACT COMPREHENSIVE LEGISLATION SETTING FORTH A NATIONAL SWEETENER POLICY THAT PROVIDES NECESSARY ASSISTANCE FOR AN EFFICIENT DOMESTIC SUGAR INDUSTRY, RECOGNIZES THE EFFECT OF SUGAR LEGISLATION ON THE INCREASINGLY IMPORTANT HIGH FRUCTOSE INDUSTRY, AND GIVES APPROPRIATE CONSIDERATION TO THE ECONOMIC AFFECT ON U.S. FOREIGN TRADING PARTNERS.

ALSO, IN VIEW OF THE GROWTH OF HIGH FRUCTOSE, IT'S PRICE ADVANTAGE RELATIVE TO SUGAR, AND THE WIDE VARIATIONS IN ESTIMATED PRODUCTION COSTS, WE RECOMMENDED THAT THE CONGRESS DIRECT THE SECRETARY OF AGRICULTURE TO IDENTIFY THOSE PARTS OF THE SUGAR INDUSTRY MOST LIKELY TO BE ADVERSELY AFFECTED BY SHIFTS BETWEEN SUGAR AND HIGH FRUCTOSE, ASSESS THE ALTERNATIVES AVAILABLE, AND REPORT THE RESULTS TO THE CONGRESS ONE YEAR FROM THE ENACTMENT OF SUGAR LEGISLATION. THE DEPARTMENT OF AGRICULTURE NOTED THAT IT HAD THE CAPABILITY TO MAKE SUCH AN ASSESSMENT AND COULD REPORT THE RESULTS WITHIN A REASONABLE TIME PERIOD.

AT WHAT LEVEL SHOULD PRICES BE SUPPORTED?

H.R. 2172 WOULD ESTABLISH A SUPPORT PRICE OF 15.75 CENTS PER POUND RAW VALUE, FOR THE 1978 SUGAR SUPPLY YEAR. THERE WOULD BE TWO ELEMENTS--(1) A PRICE OBJECTIVE OF 15.25 CENTS PER POUND TO BE ACHIEVED BY RAISING THE PRICE OF IMPORTED SUGAR AND THUS THE DOMESTIC PRICE AND (2) SUPPLEMENTAL PAYMENTS OF UP TO ONE-HALF CENT PER POUND TO PROCESSORS AND/OR PRODUCERS. THE WORLD SUGAR PRICE WAS 8.4 CENTS PER POUND ON MARCH 13, 1979.

THE ESTABLISHMENT OF A PRICE LEVEL SUFFICIENT TO ASSIST THE DOMESTIC INDUSTRY IS HAMPERED BY THE LACK OF CURRENT COST DATA. AVAILABLE 1978 SUGAR PRODUCTION COST DATA IS A PROJECTION OF STUDIES DONE AS MUCH AS 10 YEARS

AGO. ESTIMATES FROM DIFFERENT SOURCES ON THE COST OF PRODUCING SUGAR VARY FOR THE SAME YEAR. SOME SUGAR INDUSTRY ELEMENTS HAVE REBUFFED RECENT DEPARTMENT OF AGRICULTURE EFFORTS TO STUDY SUGAR PRODUCTION COSTS. MOST HIGH FRUCTOSE PRODUCERS HAVE CONSISTENTLY RESISTED EFFORTS TO PROVIDE THEIR PRODUCTION COSTS. SUCH DATA IS NEEDED, HOWEVER, TO HELP UNITED STATES DETERMINE THE APPROPRIATE SUPPORT FOR THE SUGAR INDUSTRY.

WE RECOMMENDED THAT THE CONGRESS (1) INSTRUCT THE SECRETARY OF AGRICULTURE TO OBTAIN REPRESENTATIVE PRODUCTION COST DATA FOR ALL SWEETENER INDUSTRY ELEMENTS, (2) REQUIRE THAT ALL PERSONS IN THE SWEETENER INDUSTRY PROVIDE THE SECRETARY WITH INFORMATION HE DEEMS NECESSARY, AND (3) REQUIRE THAT ANY DATA COLLECTED BE MADE AVAILABLE IN A WAY THAT DOES NOT PUBLICLY REVEAL INFORMATION PROVIDED BY ANY ONE PERSON.

IN THE INTERIM THE CONGRESS SHOULD ESTABLISH A TEMPORARY SUPPORT LEVEL BASED ON EXISTING ESTIMATES. ONCE THE SECRETARY OBTAINS CURRENT PRODUCTION COST DATA, THE INTERIM SUPPORT LEVEL SHOULD BE ADJUSTED, AS APPROPRIATE. THERE ARE SEVERAL MEANS OF ACHIEVING THE SUPPORT LEVEL

THE PRICE SUPPORT LEVEL CAN BE ACHIEVED THROUGH SEVERAL METHODS INCLUDING:

- IMPORT DUTIES;
- QUOTAS;
- GOVERNMENT SUPPORT PAYMENTS; AND
- GOVERNMENT LOANS.

THE PROPOSED SUGAR STABILIZATION ACT OF 1979 WOULD ACHIEVE THE PRICE SUPPORT LEVEL THROUGH IMPORT DUTIES AND, IF NECESSARY, QUOTAS. THE PROPOSED ACT WOULD ALSO USE, AS PREVIOUSLY NOTED, SUPPLEMENTAL PAYMENTS. FURTHERMORE, IT WOULD NOT AFFECT THE SECRETARY OF AGRICULTURE'S AUTHORITY TO OPERATE A LOAN PROGRAM.

LET ME BRIEFLY DISCUSS THE POTENTIAL EFFECT OF THESE OPTIONS.

IMPORT DUTIES AND QUOTAS

IMPORT DUTIES, THE METHOD USED IN 1978, WOULD PROVIDE REVENUES TO THE TREASURY, ALLOWS MORE INDUSTRY COMPETITION, AND RAISES CONSUMER PRICES ABOVE THE WORLD PRICE. ITS EFFECTIVENESS COULD BE LIMITED BECAUSE IT CONTAINS THE POTENTIAL TO UNDERCUT THE U.S. SUPPORT PRICE IF WORLD PRICES ARE DECLINING. THIS COULD ENCOURAGE INCREASED IMPORTS UNLESS IMPORT FEES ARE CONTINUALLY ADJUSTED SO THAT THE COMBINED FOREIGN TRANSACTION PRICE PLUS U.S. DUTIES AND FEES WOULD BE ABOVE THE SUPPORT PRICE LEVEL. THE JANUARY 1, 1979, PRESIDENTIAL PROCLAMATION ALLOWS FOR ADJUSTMENTS IN SUGAR IMPORT FEES AS SUGAR PRICES CHANGE.

THE PRICE SUPPORT LEVEL CAN ALSO BE ACHIEVED BY IMPORT QUOTAS, WHICH COULD RESULT IN A GRADUAL DECLINE IN IMPORTS AND HAVE FOREIGN POLICY IMPLICATIONS FOR THE UNITED STATES AS WE PREVIOUSLY NOTED. QUOTAS ON DOMESTIC PRODUCTION OF BOTH SUGAR AND CORN SWEETENERS AS WELL AS IMPORTS WOULD PROVIDE GREATER PROTECTION FOR THE LESS EFFICIENT PORTIONS OF THE SUGAR INDUSTRY AND RETARD COMPETING SWEETENERS' GROWTH.

GOVERNMENT SUPPORT PAYMENTS AND LOANS

GOVERNMENT SUPPORT PAYMENTS TO THE INDUSTRY, ANOTHER METHOD, WOULD ENTAIL TREASURY OUTLAYS, NOT RAISE DOMESTIC PRICES, PLACE COMPETING SWEETENERS AT A DISADVANTAGE, AND REQUIRE THE CONCURRENT USE OF IMPORT PROTECTION TO LIMIT GOVERNMENT EXPENDITURES.

GOVERNMENT LOAN PROGRAMS, ANOTHER OPTION AND THE ONE NOW IN USE ON THE 1977 AND 1978 CROPS, WOULD DEPEND ON THE WORLD SUGAR PRICE AND IMPORT DUTIES TO KEEP PRICES HIGH ENOUGH TO DISCOURAGE LOAN DEFAULTS. LOAN PROGRAMS REQUIRE IMPORT POLICIES WHICH RESULT IN A CONSUMER PRICE ABOVE THE LOAN RATE, AGAIN TO DISCOURAGE DEFAULTS. THEY ALSO PROVIDE LOW COST WORKING CAPITAL TO SUGAR PRODUCERS, PUTTING COMPETING SWEETENERS AT A DISADVANTAGE.

GAO FINDINGS ON THE PAYMENT PROGRAM

AT THIS POINT IT WOULD BE USEFUL TO DISCUSS THE RESULTS OF OUR REVIEW OF THE AGRICULTURE DEPARTMENT'S PAYMENT PROGRAM ON THE 1977 SUGAR CROP.

OUR REVIEW RAISES QUESTIONS REGARDING MILLIONS OF DOLLARS IN PAYMENTS THAT THE DEPARTMENT OF AGRICULTURE MADE UNDER THE SUGAR PRICE SUPPORT PAYMENT PROGRAM.

THERE IS NO REASON, HOWEVER, WHY A TIGHTLY ADMINISTERED PRICE SUPPORT PROGRAM CANNOT BE MADE TO WORK EFFECTIVELY IF CONGRESS ADOPTS SUCH A PROGRAM IN THE FUTURE.

ABOUT \$20 MILLION RELATES TO PAYMENTS RESULTING IN PROCEEDS IN EXCESS OF THE SUPPORT LEVEL. ALL ELIGIBLE PROGRAM PARTICIPANTS RECEIVED A FIXED PAYMENT PER POUND, REGARDLESS OF THE PRICE AT WHICH ANY ONE PARTICIPANT ACTUALLY SOLD SUGAR. THE FIXED PAYMENT IS THE AMOUNT BY WHICH THE SUPPORT LEVEL (13.5 CENTS FOR THE 1977 CROP) EXCEEDED THE AVERAGE MARKET PRICE COMPUTED FOR ELIGIBLE SUGAR. CONSEQUENTLY, THROUGH MAY 31, 1978, CERTAIN PROGRAM PARTICIPANTS, WHOSE MARKET PRICES EXCEEDED THE AVERAGE, RECEIVED PROCEEDS IN EXCESS OF THE SUPPORT LEVEL.

THERE IS NO PROHIBITION ON RECEIVING PROCEEDS EXCEEDING THE SUPPORT LEVEL. HOWEVER, WE BELIEVE THE GOVERNMENT PAYMENTS SHOULD HAVE BEEN RESTRICTED SO THAT THE SUM OF PAYMENTS AND SELLING PRICE DO NOT EXCEED THE SUPPORT LEVEL SET BY THE DEPARTMENT, AS THE PRICE SUPPORT PROGRAM SHOULD SUPPORT THE PRICE UP TO SOME PREDETERMINED LEVEL AND NOT ABOVE THAT LEVEL.

THE DEPARTMENT BELIEVES LIMITING SUPPORT PAYMENTS TO ANY ONE PROCESSOR SO THAT THE SUM OF GOVERNMENT PAYMENTS

AND SELLING PRICES DO NOT EXCEED THE SUPPORT LEVEL WOULD REMOVE THE INCENTIVE FOR OBTAINING A HIGHER MARKET PRICE. WE DO NOT BELIEVE THAT THIS TYPE OF PAYMENT IS NECESSARY IN ORDER TO RETAIN INCENTIVE TO MARKET SUGAR AT THE HIGHEST POSSIBLE PRICE. THIS IS BECAUSE (1) SOME FIRMS SOLD SUGAR FOR MORE THAN THE SUPPORT PRICE, YIELDING THEM MORE PROCEEDS THAN THEY WOULD RECEIVE IN THE EVENT PAYMENTS WERE LIMITED; (2) FIRMS DO NOT KNOW WHERE THEY STAND IN RELATION TO THE AVERAGE PRICE UNTIL SOME TIME AFTER SALES ARE CONSUMMATED AND SO CANNOT DEPEND ON A CERTAIN PAYMENT TO COMPENSATE FOR A LOWER MARKET PRICE; AND (3) MARKETING CANNOT BE TURNED ON AND OFF DEPENDING ON WHETHER THERE IS A PAYMENT PROGRAM, REQUIRING A CONTINUOUS STRONG MARKETING EFFORT.

WE ARE RECOMMENDING THAT THE CONGRESS DECIDE WHETHER PAYMENTS TO ANY PROCESSOR SHOULD BE LIMITED SO THAT THE SELLING PRICE RECEIVED PLUS THE GOVERNMENT PAYMENT DOES NOT EXCEED THE SUPPORT LEVEL.

SECTION 202B5 OF H.R. 2172 STATES THAT IF PAYMENTS TO ANY PERSON ARE LIMITED BY ANY LAW ENACTED AFTER THIS ACT, THE AUTHORITY TO MAKE PAYMENTS SHALL TERMINATE. WE SUGGEST THAT THIS LANGUAGE BE MODIFIED SO IF THE CONGRESS CHOOSES TO LIMIT PAYMENTS TO ANY ONE PROCESSOR IN THE MANNER WE HAVE JUST DESCRIBED, THE PAYMENT MECHANISM WOULD NOT BE TERMINATED.

THE DEPARTMENT ALSO APPROVED AND PAID ABOUT \$6 MILLION IN PRICE-SUPPORT FOR SUGAR THAT WE BELIEVE MAY HAVE BEEN INELIGIBLE FOR PAYMENTS. THE SPECIFIC ELEMENTS OF THESE PAYMENTS ARE AS FOLLOWS:

- THREE INTEGRATED RAW SUGAR PROCESSOR/REFINERS RECEIVED INCREASED PRICE--SUPPORT PAYMENTS OF ABOUT \$4.8 MILLION BECAUSE OF THE METHODS OF DETERMINING ELIGIBILITY AND MARKETING PERIODS.
- USDA PAID AT LEAST THREE BEET SUGAR PROCESSORS MORE THAN \$800,000 IN PRICE-SUPPORT PAYMENTS FOR SUGAR DELIVERED AFTER THE DELIVERY PERIOD SPECIFIED IN THE CONTRACT HAD EXPIRED.
- A BEET PROCESSOR MAY BE PAID ABOUT \$500,000, WITH USDA'S APPROVAL, FOR SUGAR PRODUCED FROM THE '1976 CROP,' ALTHOUGH PROGRAM REGULATIONS APPEAR TO LIMIT PAYMENTS TO SUGAR PRODUCED FROM THE '1977 CROP.'

WE HAVE ASKED THE SECRETARY TO (1) REVIEW PAYMENTS TO THE THREE RAW SUGAR PROCESSOR/REFINERS AND IF NECESSARY ADJUST PAYMENTS ACCORDINGLY AND (2) REVIEW ALL CONTRACTS TO IDENTIFY THOSE NOT COMPLYING WITH CUTOFF DATE REQUIREMENTS AND IF APPROPRIATE ADJUST PAYMENTS. WE UNDERSTAND THAT THE ISSUE OF PAYMENTS TO THE THREE PROCESSOR/REFINERS IS CURRENTLY UNDER REVIEW BY USDA'S OFFICE OF GENERAL COUNSEL AND A DECISION IS EXPECTED IN THE NEAR FUTURE.

A RECENT USDA LEGAL OPINION HAS TAKEN THE POSITION THAT SUGAR DELIVERY OCCURRING AFTER THE DELIVERY PERIOD SPECIFIED IN THE CONTRACT SHOULD NOT BE CONSIDERED ELIGIBLE MARKETINGS. ALSO, THE QUESTION OF PAYMENTS APPROVED ON '1976 CROP' SUGAR HAS BEEN REFERRED BY THE SECRETARY OF AGRICULTURE TO US FOR OUR LEGAL OPINION.

ADDITIONAL WEAKNESSES WE FOUND RELATE TO

- THE METHOD USED TO CALCULATE THE AVERAGE MARKET PRICE FOR HAWAIIAN SUGAR TO BE USED IN THE PAYMENT PROGRAM, WHICH WE BELIEVE UNNECESSARILY DEPRESSES THE NATIONAL AVERAGE MARKET PRICE; AND
- THE LACK OF SUFFICIENTLY EXPLICIT DIRECTIONS ON HOW PRODUCERS PAYMENTS WERE TO BE COMPUTED, WHICH COULD LEAD TO SOME SUGAR PROCESSORS PAYING ABOUT \$3.5 MILLION LESS THAN WOULD HAVE OTHERWISE BEEN PAID TO THEIR PRODUCERS.

DEPARTMENT OFFICIALS HAVE ADVISED US THAT THEY ARE TAKING STEPS CONSISTENT WITH OUR PROPOSALS TO OVERCOME THESE WEAKNESSES.

AGRICULTURAL WORKERS DID NOT SHARE
BENEFITS UNDER THE PAYMENT PROGRAM

BOTH THE SUGAR LOAN PROGRAM AND THE NOW DEFUNCT SUGAR ACT MANDATED MINIMUM WAGES FOR SUGAR AGRICULTURAL WORKERS. H.R. 2172 ALSO MANDATES MINIMUM WAGES. HOWEVER, THE PAYMENT PROGRAM FOR THE 1977 CROP CONTAINED NO WAGE PROVISIONS

BECAUSE THE LEGISLATION DID NOT PROVIDE AUTHORITY TO REQUIRE MINIMUM WAGES FOR SUGAR AGRICULTURAL WORKERS.

TO ASSURE MORE EQUITABLE TREATMENT OF SUGAR AGRICULTURAL WORKERS IN FUTURE SUGAR PAYMENT PROGRAMS, WE SUPPORT THE MINIMUM WAGE PROVISION INCLUDED IN H.R. 2172.

GAO FINDINGS ON LOAN PROGRAM

OUR REVIEW OF THE LOAN PROGRAM HAS REVEALED THAT:

--THE DEPARTMENT DID NOT VERIFY OR ENFORCE MINIMUM WAGE REQUIREMENTS FOR SUGAR AGRICULTURAL WORKERS AND THAT THERE IS THE POTENTIAL FOR UNDERPAYMENTS TO GROWERS. DEPARTMENT OFFICIALS HAVE ADVISED US THAT THEY ARE TAKING CORRECTIVE ACTION.

--AS OF JANUARY 31, 1979, ALMOST 374 MILLION POUNDS OF SUGAR VALUED AT MORE THAN \$50 MILLION HAS BEEN FORFEITED TO THE GOVERNMENT CONTRARY TO LEGISLATIVE EXPECTATIONS. THE DEPARTMENT OF AGRICULTURE HAS MADE NO FINAL PLANS TO DISPOSE OF FORFEITED SUGAR.

THE SECRETARY SHOULD ADOPT A PLAN FOR THE DISPOSITION OF FORFEITED SUGAR. THE DEPARTMENT HAS ADVISED US THAT OPTIONS ARE LIMITED, BUT THAT IT IS EXPLORING THE PROSPECT OF DONATING SUGAR TO DOMESTIC FOOD ASSISTANCE PROGRAMS.

ROLE OF THE INTERNATIONAL SUGAR AGREEMENT IN U.S. POLICY

ACCORDING TO ADMINISTRATION SPOKESMEN, THE INTERNATIONAL SUGAR AGREEMENT IS THE FOUNDATION OF THE U.S. SUGAR POLICY. THERE IS UNCERTAINTY, PARTLY DUE TO THE

UNSETTLED QUESTION OF U.S. SENATE RATIFICATION, AS TO WHETHER THE AGREEMENT CAN FULLY ACHIEVE ITS OBJECTIVES. THE SENATE WILL BE ASKED TO RATIFY THE AGREEMENT IN 1979. RATIFICATION WILL INCREASE THE AGREEMENT'S ABILITY TO SUCCEED SINCE THE UNITED STATES IS A MAJOR IMPORTER AND A NUMBER OF COUNTRIES VIEW U.S. PARTICIPATION AS CRITICAL TO SUCCESS.

THE AGREEMENT'S SUCCESS WOULD PROBABLY RESULT IN HIGHER WORLD PRICES, WHICH IF ACCOMPANIED BY REDUCTIONS IN THE IMPORT FEE ON SUGAR WOULD NOT RAISE DOMESTIC CONSUMER PRICES. SUCCESS OF THE AGREEMENT WOULD ALSO ASSIST THE DOMESTIC INDUSTRY, AND THEREBY REDUCE OR ELIMINATE THE NEED FOR DIRECT FEDERAL SUPPORT. THE FOOD AND AGRICULTURE ACT OF 1977 RECOGNIZES THIS. THE ACT STATES THAT THE SUGAR LOAN PROGRAM LEGISLATED FOR CROP YEARS 1977 AND 1978 MAY BE SUSPENDED WHEN THE SECRETARY OF AGRICULTURE DETERMINES THAT AN INTERNATIONAL SUGAR AGREEMENT IS IN EFFECT WHICH ASSURES A CERTAIN MINIMUM PRICE. THE AGREEMENT'S SUCCESS, IN TERMS OF ENCOURAGING MORE ORDERLY PRODUCTION GROWTH TO KEEP PACE WITH INCREASED CONSUMPTION, CAN PLAY AN IMPORTANT ROLE IN BALANCING WORLD PRODUCTION AND CONSUMPTION, AND SO REDUCE THE POSSIBILITY OF SHARP PRICE SWINGS. CONSUMERS WOULD BE PROTECTED AGAINST A RECURRENCE OF PRICES SIMILAR TO THE RECORD HIGHS OF LATE 1974 WHILE PRODUCERS WOULD BE GIVEN SOME ASSURANCE AGAINST UNPROFITABLY LOW PRICES. TO THE

EXTENT U.S. PARTICIPATION BOLSTERS CONFIDENCE IN THE AGREEMENT AND AIDS ITS SUCCESS, IT OFFERS GAINS FOR SUGAR PRODUCERS AND CONSUMERS.

SHOULD THE AGREEMENT FAIL, WORLD PRICES MAY FALL DUE TO THE SURPLUS OF SUGAR AND THE LIKELIHOOD EXISTS THAT THE SUGAR IT TOOK OFF THE MARKET THROUGH THE END OF 1978 WOULD BE PUT BACK ON THE MARKET. LOWER PRICES WILL INTENSIFY PRESSURE ON THE CONGRESS TO ASSIST THE DOMESTIC INDUSTRY AND ON THE PRESIDENT TO FURTHER RAISE IMPORT FEES TO COMPENSATE FOR A LOWER WORLD PRICE.

THIS CONCLUDES MY STATEMENT. WE WILL BE PLEASED TO RESPOND TO YOUR QUESTIONS.