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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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APR 30 1973

The Honorable William R. Cotter
House of Representatives

Dear Mr. Cotter:

Your December 18, 1972, letter expressed concern about the effect of the grain sale to Russia on U.S. consumer prices. You asked us to examine into certain economic aspects of the availability of feed grains and the effects of increased prices for feed grains on dairy and poultry farmers, particularly in New England.

During subsequent meetings, we furnished your office with the information we had obtained, including a folder containing primarily Department of Agriculture data on feed grains and wheat, classified into various sections. As agreed with your office, this letter summarizes the more significant data in the folder, by section, and the other information that we furnished. 42

SECTION 1--SUPPLIES OF GRAIN

At December 31, 1972, the Commodity Credit Corporation (CCC) had 140 million bushels of corn and 267 million bushels of wheat in its inventory--mostly in the Midwest and none in New England. National stocks of corn at that date totaled 4.7 billion bushels and wheat totaled 1.4 billion bushels. 250

SECTION 2--FREIGHT RATES

Rail rates for shipping corn from a producing area are much higher for shipments to the Northeast than to the Southeast. For example, the multiple-car rate for shipping corn from Cincinnati, Ohio, to Albany, New York--a distance of 707 miles--is 50-1/2 cents a hundredweight compared with 28 cents a hundredweight for a similar distance to Valdosta, Georgia.

SECTION 3--PRICES OF FEED

Prices paid by dairy and poultry farmers for feed, particularly soybean meal, increased substantially after the grain sale to Russia in July and August 1972. For example, on a national basis from

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June 1972 to January 1973, the price of poultry (laying) feed increased 29 percent--from $86 to $111 a ton, and the price of soybean meal increased 65 percent--from $6.32 to $10.40 a hundredweight. In New England price increases for these items were 36 percent and 69 percent, respectively.

SECTION 4--GRAIN STORAGE FACILITIES

At September 30, 1972, 7,624 commercial warehouses were approved for grain storage under CCC's price-support programs. These warehouses had a capacity of 4.8 billion bushels. Two of the warehouses with a total capacity of 647,000 bushels were located in New England (Maine).

SECTION 5--FEED GRAIN REQUIREMENTS

Annual production of feed grains in New England (primarily Maine) is estimated at 1 million bushels compared with total requirements in New England of about 81 million bushels. Consequently, about 80 million bushels are transported into New England annually from other areas.

SECTION 6--EMERGENCY LIVESTOCK FEED PROGRAM

Practically all counties in the Northeast area--New England, New York, and Pennsylvania--have been designated by the Secretary of Agriculture for inclusion in the Department's current emergency livestock feed program. Under this program livestock owners are entitled to buy CCC feed grain at beneficial prices when the Secretary determines that there is a local shortage of feed because of flood, drought, storm, or other catastrophes.

SECTION 7--BACKGROUND INFORMATION

This section includes articles from a trade publication commenting on historical changes in poultry and dairy feed formulas. The articles state that two of the major feed ingredients in the formulas are corn and soybean meal.

SECTION 8--TESTIMONY ON RAILCAR SHORTAGE BEFORE THE SENATE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION, MARKETING AND STABILIZATION OF PRICES, COMMITTEE ON AGRICULTURE AND FORESTRY

The national shortage of railcars is a major cause of the feed grain shortage in New England. The Department attributed the railcar shortage to such factors as (1) greatly increased exports, with records set for wheat, corn, and soybeans, (2) demand of other industries for railcars, and (3) a shortage of diesel fuel for railroads, resulting in disrupted operations for some lines.

SECTION 9--FUTURES MARKETS

This section includes information on operations of the commodity futures markets. To our knowledge, the effect of the futures markets on current cash prices of grain has not been conclusively determined. As you know, we are examining into what actions the Commodity Exchange Authority has taken to implement recommendations we made in 1965 to strengthen regulatory practices and to study certain trading activities relating to futures markets.

In accordance with your March 16, 1973, letter and subsequent discussion with your office, we will review any studies that the Authority or others may have made to assess the impact of futures markets on food prices.

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In addition to furnishing the information summarized above, we furnished your office with Department of Agriculture data on the availability and use of grains for recent crop years. The following table, prepared from such data, shows the total quantities of corn, wheat, and soybeans available for use in 1972; the estimated use of these grains; and the projected carryover to 1973.

	Corn	Wheat	Soybeans
		(million bushels)	
Availability:			
Carryover from 1971 crop year	1,126	863	72
Production in 1972	5,474	1,545	1,276
Miscellaneous additions	1	1	-
Total	6,601	2,409	1,348
Estimated use:			
Domestic consumption	4,701	818	813
Exports	1,000	1,150	475
Total	5,701	1,968	1,288
Projected carryover to 1973 crop year	900	441	60
Average annual domestic consumption, 1970-72	4,355	814	808
Ratio of 1973 carryover to average domestic consumption	21%	54%	7%

Regarding the capability of feed mills in New England to handle and store grain received by rail from producing areas, your office asked us to ascertain the validity of a statement by a certain feed manufacturer that his facility in Connecticut was capable of receiving 40 railcars of grain commodities a week but that railcars were not always available to transport grain to that area.

We visited the facility on March 5, 1973, and observed that it had (1) rail tracks beside the facility with a cable-switch mechanism for shifting railcars for unloading, (2) automated receiving equipment, and (3) large storage structures. A railroad yard with a switching locomotive was located nearby. It appeared to us that the facility could handle at least 40 cars a week, and the local rail agent told us that the facility could handle about 10 cars a day, or 50 a week. The national railcar shortage discussed in section 8 has, however, caused supply problems for this facility as well as for the entire New England area.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States