The original documents are located in Box C14, folder "Presidential Handwriting, 3/5/1975 (1)" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

PHW for match
(P. did not see)

THE WHITE HOUSE

WASHINGTON

March 5, 1975

MEMORANDUM FOR THE PRESIDENT

THROUGH: DONALD RUMSFELD

FROM: JERRY H. JONES

Recently you have given us three instructions regarding commodity problems. The first instruction at Tab A indicated that we should totally remove limitations or the monitoring system. Your instruction at Tab B indicated that a paper on commodity problems should be a joint Treasury/State project for your options. The third instruction at Tab C contained your decisions on Seidman's option paper of March 4.

Do you feel your decisions on the Seidman March 4th paper conclude the question or do you consider the other two instructions germane?

A

THE WHITE HOUSE
WASHINGTON

Don R

I think we should "totally" remove limitations - or monitoring system

Earl B. last week indicated they had modified but not removed in toto.

I suggested they should.

Status?

Rott
sep 2, gop
M

KEITH G. SEBELIUS
1ST DISTRICT, KANSAS

COUNTIES:
BARBER
BARTON
CHEYENNE
CLARK
CLAY
CLOUD
COMANCHE
DECATUR
EDWARDS
ELLIS
ELLSWORTH
FINNEY
FORD
GOVE
GRAHAM
GRANT
GRAY
GREELEY
HAMILTON
HASKELL
HODGEMAN
JEWELL
KEARNY
KIOWA
LANE
LINCOLN
LOGAN
MEADE
MITCHELL
MORTON
NESS
NORTON
OSBORNE
OTTAWA
PAWNEE
PHILLIPS
PRATT
RAWLINS
REPUBLIC
RICE
ROOKS
RUSH
RUSSELL
SALINE
SCOTT
SEWARD
SHERIDAN
SHERMAN
SMITH
STAFFORD
STANTON
STEVENS
THOMAS
TREGO
WALLACE
WASHINGTON
WICHITA

Congress of the United States
House of Representatives
Washington, D.C. 20515

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C. PATRICK ROBERTS
ADMINISTRATIVE ASSISTANT

MELVIN E. THOMPSON
LEGISLATIVE ASSISTANT

AGRICULTURE COMMITTEE
SUBCOMMITTEES:
FAMILY FARMS AND RURAL DEVELOPMENT
LIVESTOCK AND GRAINS
DEPARTMENTAL OPERATIONS

INTERIOR AND INSULAR AFFAIRS COMMITTEE
SUBCOMMITTEES:
ENVIRONMENT
NATIONAL PARKS AND RECREATION
TERRITORIAL AND INSULAR AFFAIRS

February 24, 1975

Honorable William E. Simon
Secretary
Department of Treasury
Washington, D. C. 20220

Dear Mr. Secretary:

We are at a critical point regarding US farm production. To achieve the level of production that our nation needs for economic stability and a more favorable balance of payments, I strongly recommend complete elimination of the USDA's "voluntary" approval requirement on farm-export sales.

This requirement is a form of export controls. The grain market states these controls are not necessary. The farmer, rightly or wrongly, is blaming this requirement for the grain market's recent collapse. Suspension of this monitoring procedure would show the government supports the farmer's free access to markets and is willing to take the steps necessary to justify the farmer's commitment to full production.

With the present market-oriented farm policy, farmers rely on market signals to determine this spring's planted acreage. The February 19 quotation for Hard Red Winter Wheat - #1 Ordinary Protein - in Kansas City was $3.89½; down over 30 per cent from the November 4 high of $5.09. At the elevator, of course, the price is much lower. Similar declines have occurred in all grain commodity prices.

The farmer looks at this unrelenting decline and unprecedented production costs and then makes his spring planting decisions. There is growing talk in the farm belt that producers will try to maximize profits per unit rather than risking losses on marginal acres which were cropped the last two years after acreage controls were relaxed and the price signals were bullish.

The latest planting intentions survey was taken very early in this market decline and corn acreage showed a decline of four tenths of one per cent.

Farmers are more militant in my district today than at any time since I have had the privilege of representing them in the Congress. I share their concern and frustration. I believe it is in our national interest to have a positive market recovery prior to the application of fertilizer, field preparation and production commitments in farm country.

Politically, President Ford said in Topeka that farm export controls had been terminated. They have not and every farmer knows it.

Your prompt and favorable response would be most appreciated and I would hope this proposal would also receive serious and immediate consideration by others who have the responsibility of making this decision.

Sincerely yours,

Keith G. Sebelius

Keith G. Sebelius

KGS/ceo

cc: Honorable Earl L. Butz
Secretary
Department of Agriculture
Washington, D. C. 20250

Mr. Alan Greenspan, Chairman
Council of Economic Advisers
Executive Office Building
Washington, D. C. 20506

Mr. William Seidman
Economic Adviser to the President
The White House
Washington, D. C.

Mr. John Harper, Spec. Asst. to the Secretary
Department of Treasury
Room 1414, Main Treasury
15th and Pennsylvania
Washington, D. C. 20220

B

TJ:
Action
DR

THE WHITE HOUSE
WASHINGTON

Don R

Commodity problems.
Paper should be a
joint Treasury/State
project for my
options.
Commodity in this
context is broad.

C

THE WHITE HOUSE

WASHINGTON

March 3, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: GRAIN EXPORT MONITORING SYSTEM

In recent weeks prices of wheat, feed grains, and soybeans have fallen substantially in response to weakening demand and prospects for an excellent winter wheat crop. Export demand for wheat and soybeans has declined. Although export demand for corn remains strong, domestic demand has diminished because of curtailments in livestock feeding due to last fall's high feed costs and declines in livestock prices.

The farm community believes that the grain export monitoring system instituted last fall is a major cause of declining prices. The criticism is directed primarily at the prior-approval requirements on new sales. In view of the improved supply-demand situation, the Department of Agriculture has proposed a major relaxation of the monitoring system.

All agencies agree that:

(1) Prior-approval should be terminated for wheat, soybeans, and soybean meal.

(2) The mandatory daily reporting requirements for large sales should be maintained as a safeguard against exceptionally heavy purchases by countries above their needs this year.

(3) Bilateral consultations should continue with particular countries, especially on the volume of corn imports.

(4) The agreement with the USSR should be maintained to limit their purchases.

Agencies are divided about three interrelated issues:

(1) The desirability of raising corn export availability from 975 to 1100 million bushels.

(2) Termination of the prior-approval requirements on corn exports.

(3) Approval of an additional 20 million bushels (500,000 tons) of corn sales to the USSR.

Background

A grain export monitoring system was established in the wake of 1974 crop harvests much below earlier expectations. There were fears at that time that large exports might drain supplies away from the domestic livestock industry and reduce meat and poultry supplies. This could disrupt the livestock industry and raise consumer food prices in 1975 and 1976.

The adjustments in the livestock industry have occurred more quickly than had been expected. Despite reduced feeding, USDA projects virtually no change in 1975 red meat production and a 1 1/2 percent reduction in total meat production, reflecting some decline in poultry meat.

With the recent adjustments in feeding, the supply-demand situation is not nearly as tight as had been feared last fall. Nevertheless, the feed grain situation is still sufficiently tight that a price surge could be triggered by new export demand and this would be harmful to the needed recovery in livestock operations.

Issue: Raise the export availability of 1974 crop corn from 975 to 1100 million bushels.

The export estimate for corn has been raised from 800 million bushels (last fall) to 900 million bushels and then to 975 million bushels (January 27). The latest revision was due to higher exports to the EC, Mexico, Portugal and Eastern Europe. Through the prior-approval system and bilateral consultations, the estimates for these countries have been held below what they would otherwise import from the United States. Most private forecasts put exports at 1050 million bushels.

The Department of Agriculture believes that the reduction in domestic use of corn has been sufficiently large that the export availability can safely be raised to 1100 million bushels without causing any further reduction in livestock feeding. Moreover, at 975 the voluntary character of the monitoring system is under considerable strain.

Option 1: Hold export availability at 975 million bushels.

PROS

1. The corn situation remains tight and there are 7 months before the new crop will be harvested.

2. U.S. livestock producers already have borne nearly the full brunt of the world-wide reduction in feed grain consumption.

3. Would maximize prospects of a livestock recovery and aid the absorption of large grain crops expected this fall.

CONS

1. Would rule out termination of prior-approval on corn and an additional sale to the USSR.

2. Would create difficulties with several foreign customers that desire more corn.

3. Restricting exports to the 975 level might require formal export controls.

Option 2: Raise export availability to 1040 million bushels.

PROS

1. Would meet the requirements of countries that have been asked to delay purchases (mainly Portugal and Mexico).

2. Would maintain current understanding with the EC that they limit corn imports from the U.S. to 8 million tons, which we have argued is consistent with an equitable sharing of adjustment to reduced 1974 crops.

CONS

1. Would keep the U.S. in the business of restraining access to our markets, particularly by the EC.

2. The EC may refuse to control corn imports from the U.S. and thereby provide a new source of friction in US-EC relations.

Option 3: Raise export availability to 1100 million bushels.

PROS

1. Would remove the Government from any significant interference with exports, and should remove current criticism of the monitoring system by farm interests.

2. Would permit the U.S. to meet all currently anticipated foreign corn requirements, including the EC and the USSR.

CONS

1. Would raise grain prices and jeopardize the recovery of the livestock industry.

2. Would be perceived by some as giving first priority to the export market ahead of domestic requirements.

Decision

Option 1 ________ Hold corn export availability at 975 million bushels.

Option 2 ________ Raise export availability to 1040 million bushels.
Supported by CEA, CIEP, NSC, OMB, Treasury

Option 3 ________ Raise export availability to 1100 million bushels.
Supported by USDA, State

Issue: Termination of prior-approval on corn exports.

Farmers in the grain producing areas, rightly or wrongly, are blaming the prior-approval system for the fall in prices. Except for corn, the approvals have been essentially automatic and should not have affected prices. However, consultations with several foreign buyers associated with the prior-approval system for corn undoubtedly has slowed and restricted export sales and contributed to lower prices, but the main price factors have been adjustments in feeding and the turndown in the economy.

USDA recommends immediate termination of the prior-approval system. Although the need for termination is mainly symbolic and political, USDA believes that its continuation may have some negative influence on farmers' decisions for 1975 crop production. Farm organizations and farm-state members of Congress, whose cooperation is needed to carry out Administration policies, are expressing strong opposition to the prior-approval system.

Option 1: Terminate prior-approval on corn.

PROS

1. Removes a symbolic factor that is creating uncertainty among farmers and is being used as an argument to legislate excessive increases in target prices and loan rates.

2. Indicates Administration's position that monitoring exports is a temporary measure and that free-market trading should be permitted as soon as the supply-demand situation warrants.

3. Would have little, if any, impact on actual corn exports; bilateral consultation and daily monitoring can accomplish nearly the same result.

CONS

1. Would open the Administration to criticism from consumer interests and possibly some livestock interests, who believe prior-approval system is holding down exports or who oppose an open-market policy.

2. If there is a burst of new orders, grain prices could turn upward and delay needed recovery in livestock production.

3. Would necessitate an increase in corn export availability above the current 975 million bushels.

Option 2: Retain prior-approval system on corn.

PROS

1. Maintains system where supply-demand situation is still tight, while removing it on commodities for which situation has clearly improved.

2. Avoids potential criticism if corn prices should surge in coming months.

3. Continues a safeguard against excessive exports until supply-demand situation is clearer.

CONS

1. Without complete removal there will be continued criticism that the Government is depressing prices at the same time that the President has asked farmers for all-out production.

2. Discriminates against corn farmers. Congressman Findley and seven other members of Congress have introduced a bill that would prohibit any prior-approval requirements, partly to prevent retention on only corn.

Decision

Option 1 ______ Terminate prior-approval system on corn. (Supported by CEA, USDA, CIEP)

Option 2 ______ Retain prior-approval system on corn. (Supported by Treasury, State, NSC, OMB)

Issue: Approval of additional 500,000 tons (20 million bushels) of corn sales to the USSR during the 1974 crop year under bilateral agreement reached last October.

During the negotiations leading up to the October 1974 agreement, the Soviets fought hard for 1.5 million tons of corn rather than the 1 million tons they finally agreed to accept.

In recent trade talks, Soviet officials said they feel there is discrimination against the USSR under our prior-approval system. They are aware that "allocations" for other countries have been increased in recent months while theirs has remained unchanged.

The Soviets have taken an average of 3.5 million tons of U.S. corn, or 13 percent of all U.S. corn exports during the past 3 marketing years. Their share during the current year, based on current projections, will be less than 4 percent.

Agencies are strongly divided about the desirability of approving more USSR grain purchases at this time. Approval would have significant benefits in our relations with the Soviets and would strengthen grain prices. But USSR grain purchases are also politically sensitive domestically and could have adverse short-term domestic economic effects.

Proposal: Approve USSR purchase of 500,000 tons (20 million bushels) of corn by modifying the October agreement up to 1.5 million tons of corn.

PROS

1. Positive gesture to USSR during current period of strained trade relations due to limits on credits and denial of MFN.

2. Indicates to Soviets that the U.S. is not discriminating against them when supply-demand situation has eased sufficiently to permit increased exports to other countries.

3. Could improve prospects for continued substantial long-term Soviet purchases.

4. Would be viewed positively by U.S. grain farmers.

CONS

1. Would prompt renewal of criticisms that surrounded the 1972 USSR grain purchases.

2. Would have a direct price-raising impact on grain markets and could trigger temporary escalation of commodity prices, especially if combined with complete removal of prior-approval system.

3. Increases in grain prices would delay the recovery in livestock and poultry feeding.

4. Congress might view this as an administrative action to compensate for congressional limits on credits and denial of MFN.

Decision

MRF ________ Approve additional 500,000 ton corn sale to USSR. (Supported by State, NSC, USDA, CIEP)

________ Disapprove additional corn sale to USSR. (Supported by Treasury, CEA, OMB)