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Memo	~~McIntyre to Pres. Carter, 4 pp., re:DoD topics~~ opened per RAC NLC-126-15-27-1-5 ; 6/27/13	12/22/78	A
Letter	Landrum R. Bolling to Pres. Carter, w/attachments 11 pp., re:Mid-East	12/20/78	C

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THE WHITE HOUSE
WASHINGTON

12/22/78

Stu Eizenstat

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

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Rick Hutcheson

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THE WHITE HOUSE

WASHINGTON

December 20, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
LYNN DAFT

SUBJECT: 1979 Upland Cotton Program

Secretary Bergland will soon have to announce further details of the 1979 upland cotton program, including whether or not a set-aside is to be required. The loan rate, as determined by the formula in the authorizing legislation, has already been announced. For the 1979 crop, it will be 50.23 cents per pound. The remainder of this memorandum assesses the need for a cotton set-aside and identifies the principal options for your consideration.

The Upland Cotton Situation

The accumulation of cotton stocks that resulted from the large 1977 crop are being drawn down this season, mainly due to abnormally low yields -- the lowest since 1957. Domestic use will be a little lower this season but more U.S. cotton will be exported, so total use will be about the same. Stocks next August 1 are expected to be 4.0 million bales, as compared to the relatively high level of 5.3 million last August.

Cotton prices have increased substantially in recent months. Spot market prices are currently around 66 cents per pound. Farm prices for the 1978 crop year are expected to average around 61 cents, up from 51.4 cents last year.

Cotton stocks of about 4.5 billion bales are generally considered optimal. Stocks of 5.0 million bales or more would mean a farm price near the loan price, large deficiency payments and loan outlays, and low export earnings, but greater confidence in our competitive position with man-made fibers or other cotton exporters. Stocks of 4.0 million bales or less means a price that reduces the competitiveness of U.S. cotton at home and abroad, but favorable prices to producers, very low budget outlays and high export earnings.

The 1979-80 Outlook

Unless weather patterns are adverse, the high prices of this year will cause world production in 1979 to exceed world consumption, and global stocks will rise, the inverse of this year. Gross U.S. domestic use and exports in combination in 1979-80 are expected to total 11.7 million bales. The major unknown factor in arriving at this estimate is the level of foreign production and resulting U.S. exports.

In contrast to the relatively stable demand for U.S. cotton, there is much more uncertainty on the production side, as weather variabilities and insect problems cause wide fluctuations in U.S. yields. After averaging a near record high of 519 pounds per harvested acre in 1977, yields dropped 102 pounds in 1978, to the lowest level since 1957. The average for the last two years was 468 pounds, essentially the same as the 467 pound average for 1976 through 1978 or the 471 pound average for 1959 through 1978.

In the absence of a set-aside, planted acreage next year is expected to total 13.8 million acres, although private survey results indicate it could be more. With a 10 percent set-aside, we estimate 13.2 million acres would be planted -- up from 13.0 million this year -- as the price relationships between cotton and its major competing crops are expected to be more in favor of cotton than last year. Cotton prices were low relative to most competing crops in late 1977 and early 1978; now, and during the 1979 crop planting season, cotton prices will make cotton much more competitive.

Assuming demand for U.S. cotton in 1979-80 is at the midpoint of the range of estimates, the USDA estimates that without a set-aside program the odds favor stocks on August 1, 1980 of just over 5.1 million bales, while with a 10 percent set-aside, the odds favor stocks on that date of just over 4.5 million bales.

A 10 percent set-aside program, therefore, is more likely to prevent stocks from again becoming excessive. With a set-aside, the price received by farmers would be higher and, therefore, deficiency payments and price support loan outlays lower. Furthermore, export earnings would be higher. Even with a set-aside, the odds favor an increase in stocks, so cotton prices are expected to be slightly lower for the 1979 crop than for the 1978 crop.

Budget exposure for deficiency and disaster payments is higher with no set-aside because all producers are eligible for both and because market prices are lower. With a set-aside program, only participants are eligible for these benefits.

Current conditions favor above average cotton yields next year. Subsoil moisture supplies are ample in the Texas cotton growing region, the area with the greatest variability in yield. This is in marked contrast to last year when subsoil moisture supplies were inadequate. But weather patterns next summer and fall will be the key to the final outcome.

To provide an indication of the likely range of outcomes, assuming alternative weather conditions, USDA compared the effects of a high yield (518 pounds per acre) scenario with a low yield (436 pounds) scenario. These yields were calculated by averaging the 7 highest yield years out of the past 21 years and the 7 lowest yield years, respectively. The high yield assumption results in stocks of 6.5 million bales without a set-aside and 5.9 million bales with a 10 percent set-aside. Either level of stocks would probably necessitate a large set-aside program in 1980. Farm prices and export earnings would be low, budget outlays would be high.

Conversely, the low yield assumption results in a stock of 4.3 million bales without a set-aside and 3.8 million bales if a 10 percent set-aside were in effect. The later stocks level, although lower than desired, would be only slightly lower than the level expected at the end of the 1978 crop year and well above the 2.9 million bales stock that existed at the end of the 1976 season. Farm prices and export earnings would be high; government outlays would be low. Competition from lower priced synthetics would intensify.

Analysis of the Options

The Working Group on Food and Agricultural Policy narrowed the options to two: (1) no set-aside or (2) a 10 percent set-aside. Any larger set-aside program was felt to be unnecessary. The major arguments for and against a set-aside are as follows:

For Set-Aside:

o In the absence of a set-aside, stocks are likely to become excessive once again, thereby perpetuating the boom-to-bust cycle that has characterized the cotton industry for the past several years.

- o Even with a set-aside, cotton prices are expected to be lower in 1979 than in the current crop year under all conditions except a very poor crop.

- o With a 10 percent set-aside, export earnings would be an estimated $50 million higher than with no set-aside.

- o Budget outlays would be $150 to $175 million less, about $70 million due to lower payments. In comparison, the potential price savings to consumers for no set-aside is only $60 million. OMB notes that adoption of the no set-aside option would require an increase of $75 million in 1980 outlays above current CCC estimates.

- o Having a small set-aside program in 1979 reduces the chances that a large set-aside or a diversion program will be needed in 1980.

- o In large measure, a set-aside program is self-adjusting. If conditions lessen the need to reduce production, the incentive to participate in the program will automatically diminish.

- o Cotton producer interests feel that several major policy actions have gone against them over the past year -- the 1978 set-aside decision, cotton dust standards, and textile imports. Adoption of a 10 percent set-aside would be interpreted by producers as evidence of Administration concern for the well-being of the industry and a willingness to head-off the recurring boom-to-bust cotton cycle rather than waiting for the crisis to hit and reacting to it after the fact.

Against Set-Aside:

- o Present conditions indicate no need for a set-aside. Prices are strong. Stocks remain below desired levels.

- o Although early indications favor high yields for the 1979 crop, it is much too early to predict with any degree of confidence. A lot can happen between now and next year's harvest to alter that outcome. If, contrary to current expectations, yields are low in 1979 and prices remain high, cotton will come under increased competitive pressure from synthetics.

- o As normally occurs, the cotton industry is divided over this issue. The cotton shippers are opposed to a set-aside of any magnitude.

- A 10 percent set-aside will increase the cost of cotton about $60 million. Although this is less than the budgetary savings, as noted above, it is important to the overall anti-inflation program to take every opportunity to hold down consumer prices. Also, nearly $100 million of the estimated $166 million budget saving achieved by the set-aside is for loan outlays that are eventually repaid.

- If stocks accumulate excessively in the absence of a set-aside, a cotton reserve program similar to the programs now underway for wheat, feed grains, and rice could be established later in the year.

Interest Group Positions

The Producer Steering Committee of the National Cotton Council strongly favors a combination 10 percent set-aside and 10 percent voluntary paid diversion program for 1979. However, if given a choice between a 10 percent set-aside or a 10 percent diversion program (as in 1978), they prefer the set-aside. The National Cotton Council as a whole takes no position because the merchant segment opposes a set-aside. They, however, oppose a reserve program for cotton. So does the Producer Steering Committee.

Agency Positions

USDA and OMB recommend a 10 percent set-aside program for 1979. The potential cotton acreage and production in the absence of a set-aside and the resulting lower cotton prices, excessive stocks and higher government outlays are of concern.

Treasury, State, Commerce, COWPS, CEA, NSC, and Esther Peterson are opposed to a cotton set-aside, because of their concern about the uncertainty of U.S. and world production, and U.S. exports in 1979. Treasury foresees the possibility of a tighter supply/demand balance in the world and in the U.S. They question the assumption made in the USDA analysis that there will be an additional 800,000 acres planted to cotton in 1979 if there is no set-aside. They argue that the relatively attractive prices of two competing crops, soybeans and sorghum, could limit the expansion to 300,000 to 400,000 acres. Treasury also questions the assumption that exports will decline in 1979, given recent production trends in the USSR and PRC. Consequently, they feel the risk associated with higher prices is much greater with a set-aside than indicated. Commerce noted that a farmer-owned reserve program for cotton could be considered in 1979 in the event of an excess supply of cotton.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

DEC 15 1978

MEMORANDUM FOR THE PRESIDENT

SUBJECT: 1979 Upland Cotton Set-Aside

The Working Group on Food and Agricultural Policy has considered the pros and cons associated with an upland cotton set-aside program for 1979, and has given me their recommendations.

I announced that the 1979 upland cotton loan price would be 50.23 cents a pound, as determined by the formula in the statutes, on October 31. On December 15 two additional provisions of the 1979 upland cotton program were announced--a National Program Acreage of 10,634,181 acres, and a National Reduction Percentage of 15 percent.

The National Program Acreage is the quantity of land estimated to be needed to produce the upland cotton required for domestic mill use and for export during the 1979-80 marketing year, and to attain an upland cotton stock of 4.5 million bales on August 1, 1980.

The National Reduction Percentage tells the producer that to qualify for target price (deficiency payment) protection on all the acreage planted in 1979 he cannot plant more than an acreage equivalent to 85 percent of the acreage devoted to cotton in 1978 (including acres diverted under the 10 percent diversion program).

Since these provisions have already been announced, if there is to be a set-aside program in 1979 it should be announced soon. This memorandum, together with the attached report from the Working Group, provides information needed for a decision to have or not have a set-aside program in 1979.

The Upland Cotton Situation

The big buildup in cotton stocks that resulted from the large 1977 crop are being drawn down this season, mainly due to abnormally low yield--lowest since 1957. Domestic use will be a little lower this season but more U.S. cotton will be exported, so total use will be the same to up slightly. Stocks next August 1 are expected to be 4.0 million bales, as compared to the relatively high level of 5.3 million last August. Taking into account the uncertainties over the final 1978 crop production and domestic use and exports for the balance of the current marketing year, stocks on August 1, 1979 could be as low as 3.5 million or as high as 4.5 million bales.

Cotton prices have increased substantially in recent months. Spot market prices are currently around 66 cents per pound. Farm prices are expected to average around 61 cents, up from 51.4 cents last year.

Under the statutory mandate, if we announce a no set-aside decision now it would rule out instituting a set-aside later in the year when more is known about the 1978 crop, 1978-79 domestic and foreign demand, and when the first report on cotton planting intentions becomes available (late January). If it continues to appear that stocks next August will be around 4.0 million bales, and planting intentions and yield prospects continue to indicate a large cotton crop in 1979, pressure for a diversion program will become intense. If a cotton set-aside is ruled out now, a diversion program is the only remaining option. A diversion program would make all cotton producers eligible for deficiency payments, disaster payments and the loan program and would therefore result in higher government outlays compared to a 10 percent set-aside. A 10 percent paid diversion, with a 3 cents per pound payment rate, would cost about $196 million more than a 10 percent set-aside and $30 million more than no set-aside. About $100 million of this would be for diversion payments.

Although he does not recommend doing so, Secretary Bergland feels that the option of postponing the cotton set-aside decision should also be considered. He notes that a postponement would be unpopular with cotton producers who are now beginning to make preparations for planting the 1979 crop but would probably not be as unpopular as announcement of no set-aside. Delaying the announcement would keep our options open until further information on the crop situation is obtained.

Recommendation

This is a close call. The arguments do not lean strongly in one direction or another. All things considered, however, we concur with USDA and OMB in recommending a 10 percent set-aside. From an inflationary point-of-view, prices are expected to fall regardless of whether there is a set-aside. Although they would fall slightly more with no set-aside, the aggregate price savings would be more than cancelled by the additional budget outlays involved. The dollar value of export earnings will be slightly higher with a set-aside. If the supply situation should tighten significantly over the next 3 or 4 months, participation in the set-aside program will be low. In that sense, a set-aside program is largely self-correcting. Politically, there is a strong advantage in having a set-aside. Cotton producers have argued strongly for it.

We do not recommend that you postpone making the decision. Producers are anxious to know the details of next year's program for planning purposes. The delay in announcing the 1979 feed grain program was severely criticized within the farm community, perhaps more than the terms themselves.

DECISION

_____ 10 percent set-aside (USDA, OMB, DPS)

__✓__ No set-aside (Treasury, State, Commerce, COWPS, CEA, NSC, Esther Peterson)

_____ Postpone decision

J

Target Price

If a set-aside program for 1979 is agreed to, a further decision is needed on the target price adjustment. The 1978 target price was 52.00 cents per pound. For 1979, with no set-aside, it will be 57.67 cents per pound. With a 10 percent set-aside program, a target price of 59.64 cents per pound could be justified according to the Emergency Agricultural Act of 1978 which includes an adjustment to fully compensate producers for participating in the set-aside program. However, the large adjustment from 1978 to 1979 results from the increased cost of production, much of which was brought about by the abnormally low 1978 yields. With more normal yields in 1979, per pound production costs should decline. Thus, your advisers believe a smaller adjustment for set-aside participation would be justified. A target price of 58.00 cents provides a substantial increase from 1978 and at the same time reduces expected government payments by around $30 million, compared to a target price of 59.64 cents. While net returns to producers would be reduced by the same amount as government payments, they would still be approximately $170 million above 1978.

If a set-aside is instituted, therefore, your advisers recommend a target price of 58 cents per pound.

DECISION

__✓__ Agree

_____ Disagree

J

Alternative Upland Cotton Stock Targets

Cotton stocks of about 4.5 million bales are generally considered adequate. Stocks at this level should result in a 1979-80 season farm price around 56-58 cents a pound, slightly below the target price for 1979. This price level seems reasonable in view of the cost of production and potential government outlays, but does raise some concern over U.S. cotton's competitive position with man-made fibers and foreign produced cotton.

Stocks of 5.0 million bales or more would mean a farm price near the loan price (50.23 for 1979), large deficiency payments and loan outlays, and low export earnings, but greater confidence in our competitive position with man-made fibers or other cotton exporters.

Stocks of 4.0 million bales or less means a price that raises serious concerns over the competitiveness of U.S. cotton at home and abroad, but favorable prices to producers, very low budget outlays and high export earnings.

The 1979-80 Outlook

Unless weather patterns are adverse, world production in 1979 will exceed world consumption, and global stocks will rise, the inverse of this year. High prices this year will mean more acres used to grow cotton in 1979. (Our cotton specialists believe 80 percent of the projected increase of 2.4 million bales in foreign production will be due to an increase in area. The remaining 20 percent of the projected gain arises from a slightly higher foreign yield forecast.) An increase in foreign production of this magnitude would mean another year of "roller coaster" cotton prices--low in 1979-80, high in 1978-79, low in 1977-78, high in 1976-77.

Gross U.S. domestic use and exports in 1979-80 are expected to total 11.5 to 12.0 million bales (net disappearance of 11.3 to 11.8 million bales), with the main uncertainty over foreign production and resulting U.S. exports.

In contrast to the relatively stable demand for U.S. cotton, there is much more uncertainty on the production side, as weather variabilities and insect problems cause wide fluctuation in U.S. yields. For example, after averaging a near record high of 519 pounds per harvested acre in 1977, yields dropped 102 pounds in 1978, to the lowest level since 1957. The average for the last two years was 468 pounds, essentially the same as the 467 pound average for 1976 through 1978 or the 471 pound average for 1959 through 1978.

In the absence of a set-aside, planted acreage next year is expected to total 13.5 to 14.0 million acres, although private survey results indicate 13.8 to 14.5 million acres. In our analysis we used 13.8 million acres planted in the absence of a set-aside program, and 13.2 million with a 10 percent set-aside program--up from 13.0 million this year--as the price relationships between cotton and its major competing crops are and will be more in favor of cotton than last year. Cotton prices were low relative to most competing crops in late 1977 and early 1978; now, and during the 1979 crop planting season cotton prices will make cotton much more competitive.

With 13.8 or 13.2 million planted acres and average growing conditions, harvested acreage would be about 13.0 or 12.4 million. Using an average yield of 468 pounds per harvested acre, with no set-aside, about 12.67 million bales would be produced. And with a 10 percent set-aside 12.09 million bales would be produced.

Given a carryover next August 1 of 4.0 million bales and an expected net disappearance during 1979-80 of 11.3 to 11.8 million bales, U.S. production in 1979 would have to total 11.8 to 12.3 million in order to bring stocks at the end of the 1979-80 season (August 1, 1980) to 4.5 million bales.

Combining these estimates of requirements with the above acreage and yield estimates leads to the conclusion that no set-aside would be expected to result in stocks of 4.87 to 5.37 million bales on August 1, 1980, and that a 10 percent set-aside program would be expected to result in stocks of 4.29 to 4.79 million bales. Alternatively stated, assuming demand for U.S. cotton in 1979-80 is at the mid-point of the range, without a set-aside program the odds favor stocks on August 1, 1980 of just over 5.1 million bales, while with a 10 percent set-aside, the odds favor stocks on that date of just over 4.5 million bales.

A 10 percent set-aside program, therefore, is more likely to prevent stocks from again becoming excessive. With a set-aside the price received by farmers would be higher and, therefore, deficiency payments and price support loan outlays lower. Further, export earnings would be higher. Even with a set-aside the odds favor an increase in stocks, so cotton prices are expected to be lower for the 1979 crop than for the 1978 crop. This would improve our competitive position relative to synthetic fibers and in world markets. Our mills would pay less for cotton than in 1978.

Although our competitive position would be stronger without a set-aside, due to lower cotton prices, budget outlays for loans and payments would be appreciably higher and export earnings lower. Budget outlays for deficiency and disaster payments are maximized with no set-aside because all producers are eligible for both and market prices for any weather scenario will be lower. With a set-aside program, only participants are eligible.

Current conditions favor above average cotton yields next year. Sub-soil moisture supplies are ample in the Texas cotton growing region, the area with the greatest variability in yield. This is in marked contrast to last year when sub-soil moisture supplies were inadequate. But weather patterns next summer and fall will be the key to the final outcome.

Seven times over the past 21 years the yield has been 507 pounds per harvested acre or above. The average for these 7 years was 518 pounds, the high 527 pounds. If 1979 were a 518 pound yield year, ending stocks would be near 6.5 (+, - 0.5) million bales without a set-aside, and near 5.9 (+, - 0.5) million bales with a 10 percent set-aside. Stocks would then clearly be excessive in the fall of 1980, and a very large set-aside program for 1980 would be necessary. Farm prices would be low, budget outlays high and export earnings low. The price would be below the level needed to maintain competitiveness with synthetics.

Seven times over the past 21 years the upland cotton yield has been 446 pounds or below. The average for these 7 years was 436 pounds, with the low being the 417 pounds for 1978. While current conditions favor an above average yield in 1979 this could change. If the yield were 436 pounds per acre in 1979, ending stocks without a set-aside would be about 4.3 (+, - 0.5) million bales, still adequate. With a 10 percent set-aside stocks would be around 3.8 (+, - 0.5) million bales. Stocks would be relatively low, but still well above the 2.9 million at the end of the 1976-77 season, and only slightly lower than expected at the end of the current year. During 1976-77 the farm price averaged 63.8 cents a pound, with a within season range from 59.7 cents in August to 70.1 cents in March. This year we expect the farm price to average 61 cents a pound.

A low yield combined with a 10 percent set-aside in 1979 would, according to these estimates, lead to an outcome close to the one for 1978. Stocks would remain essentially unchanged, but the farm price would probably be up a little. There would be no deficiency payments but disaster payments would be made to program participants. Loan outlays would be low and export earnings high. Cotton prices would remain above man-made fiber prices but the gap being observed this year may be narrowed due to the expected increase in synthetic fiber prices by late 1979 and 1980. Domestic mills would pay slightly more for cotton.

The above comparisons lead to the conclusion that upland cotton stocks are likely to be excessive by the fall of 1980 if there is no set-aside in 1979. With a 10 percent set-aside, stocks are most likely to be increased from 4.0 to 4.5 million bales over the 1979-80 season, but they could be slightly below 4 million or as much as 5.9 million. The supply-demand estimates appear to make a persuasive case for a 10 percent set-aside program for 1979. Having a set-aside saves $150-$175 million in budget outlays, about $70 million due to lower payments, reduces the chances of a large set-aside or diversion program for 1980 and results in export earnings about $50 million more than no set-aside. And unless weather patterns are adverse, the price will be down about 4 cents a pound from 1978-79, so mills will pay about $120 million less for cotton and our cotton will be more competitive with man-made fibers.

Arguments against a set-aside include:

--The reduction in the size of the 1978 crop resulting from adverse weather conditions, coupled with the strong export demand, is reducing U.S. cotton stocks during the 1978-79 season from 5.3 million bales to 4.0 million. As a result, cotton prices have increased substantially. The present conditions indicate no need for a set-aside.

--No set-aside was invoked for 1978 when stocks were increasing and prices declining (but later a 10 percent voluntary paid diversion program was offered producers).

--If we were to have both a set-aside and bad weather, stocks could be further reduced. The higher prices could, in the long term, reduce both domestic use and exports, result in higher consumer costs, and contribute to further inflation.

--Even if stocks do increase, a cotton reserve program could be implemented to isolate the excess stocks from the market.

--Cost of cotton to mills would be about $60 million higher with a set-aside (but they would be about $120 million below 1978).

The Producer Steering Committee of the National Cotton Council strongly favors a combination 10 percent set-aside and 10 percent voluntary paid diversion program for 1979. However, if they were given a choice between a 10 percent set-aside or a 10 percent diversion program (as in 1978), they prefer the set-aside. The National Cotton Council as a whole takes no position because the merchant segment opposes a set-aside. They, however, oppose a reserve program for cotton. So does the Producer Steering Committee.

USDA and OMB recommend that a 10 percent set-aside program be instituted for 1979. The potential cotton acreage and production in the absence of a set-aside and the resulting lower cotton prices, excessive stocks and higher government outlays are of concern.

Treasury, State, Commerce, CWPS, CEA, NSC, and Esther Peterson are opposed to a cotton set-aside, because of their concern about the uncertainty of U.S. and world production, and U.S. exports in 1979. Treasury, in particular, foresees the possibility of a tighter supply/demand balance in the world and in the U.S. based on the data presented by USDA under all weather scenarios. Consequently, they feel the risk associated with higher prices is much greater with a set-aside than indicated. Commerce also indicated that a farmer-owned reserve program for cotton could be considered in 1979 in the event of an excess supply of cotton.

Since there is no statutory date for announcing a cotton set-aside, announcing no set-aside now would rule out instituting a set-aside later in the year when more is known about the 1978 crop, 1978-79 domestic and foreign demand, and when the first report on cotton planting intentions becomes available (late January). If it continues to appear that stocks next August will be around 4.0 million bales, and planting intentions and yield prospects continue to indicate a large cotton crop in 1979, then pressure for a diversion program will become intense. If a cotton set-aside is ruled out now, a diversion program is the only remaining option. A diversion program would make all cotton producers eligible for deficiency payments, disaster payments and the loan program and would therefore result in higher government outlays compared to a 10 percent set-aside. A 10 percent paid diversion, with a 3 cents per pound payment rate, would cost about $196 million more than a 10 percent set-aside and $30 million more than no set-aside. About $100 million of this would be diversion payments. Therefore, although I do not recommend doing so, the option of postponing the cotton set-aside decision should also be considered. A postponement would be unpopular with cotton producers who are now beginning to make preparations for planting the 1979 crop but would probably not be as unpopular as announcement of no set-aside. Delaying the announcement would keep our options open until further information on the crop situation is obtained.

Set-Aside Decision

________ 10 percent set-aside program
___✓___ No set-aside program
________ Postpone set-aside decision

J

If a set-aside program for 1979 is agreed to, a further decision is needed on the target price adjustment. The 1978 target price was 52.00 cents per pound. For 1979, with no set-aside, it will be 57.67 cents per pound. With a 10 percent set-aside program, a target price of 59.64 cents per pound could be justified according to the Emergency Agricultural Act of 1978 which includes an adjustment to fully compensate producers for participating in the set-aside program. The large adjustment from 1978 to 1979 results from the increased costs of production, much of which were brought about by the abnormally low 1978 yields. With the expected more normal yields in 1979, per pound production costs should decline. Therefore, a smaller adjustment for set-aside participation may be justified. A target price of 58.00 cents provides a substantial increase from 1978 and at the same time reduces expected government payments by around $30 million compared to a target price of 59.64 cents. While net returns to producers would be reduced by the same amount as government payments, they would still be approximately $170 million above 1978.

If a set-aside is instituted, all your advisors join USDA and OMB in recommending a target price of 58 cents per pound.

Target Price Decision

________ 58.00 cents per pound target price
________ 59.64 cents per pound target price

Bob Bergland

BOB BERGLAND
Secretary

Enclosure

ID 786307

THE WHITE HOUSE

WASHINGTON

DATE: 19 DEC 78

FOR ACTION: FRANK MOORE — JIM MCINTYRE

CHARLIE SCHULTZE — ESTHER PETERSON

ALFRED KAHN

INFO ONLY: THE VICE PRESIDENT — HAMILTON JORDAN

JODY POWELL — JERRY RAFSHOON

JACK WATSON — ANNE WEXLER

SUBJECT: BERGLAND MEMOS RE SUGAR IMPORT FEE PROCLAMATION; 1979 MEAT IMPORT PROGRAM; 1979 UPLAND COTTON SET-ASIDE

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\+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

\+ BY: 1200 PM THURSDAY 21 DEC 78 +

++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

ID 786307

THE WHITE HOUSE

WASHINGTON

DATE: 19 DEC 78

FOR ACTION: FRANK MOORE 'free-nc

CHARLIE SCHULTZE pm

ALFRED KAHN w/Denman

JIM MCINTYRE attached

ESTHER PETERSON attached

INFO ONLY: THE VICE PRESIDENT

JODY POWELL

JACK WATSON

HAMILTON JORDAN

JERRY RAFSHOON

ANNE WEXLER

SUBJECT: BERGLAND MEMOS RE SUGAR formality IMPORT FEE PROCLAMATION; 1979 MEAT IMPORT PROGRAM; 1979 UPLAND COTTON SET-ASIDE

w/ Jent 'least pressing

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: 1200 PM THURSDAY 21 DEC 78 +

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ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

THE WHITE HOUSE

WASHINGTON

December 18,1978

NOTE FOR: RICK HUTCHESON

FROM: LYNN DAFT

I have shared copies of the attachment~~s~~ed with OMB, CEA, COWPS, Kahn and Peterson. I am preparing summary memorandums to the President from Stu Eizenstat and myself now and intend to have them ready sometime today or tomorrow.

Attachments

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DEC 21 1978

MEMORANDUM FOR: The President

FROM: James T. McIntyre, Jr. [signature] for JTM

SUBJECT: 1979 Cotton Program

You will soon be receiving from Secretary Bergland a decision memo on the 1979 crop cotton program.

The Office of Management and Budget recommends a 10% set-aside and a 58 cents per pound adjusted target price for 1979 crop cotton for the following reasons:

1. Even with a set-aside, cotton prices will be lower than in the current year under all conditions except a very poor crop.

2. Under normal weather or good weather, prices can be reduced further without a set-aside, but the costs to the taxpayer are much greater than the savings to domestic cotton buyers.

   - Under normal yields, a 10% set-aside will cost cotton buyers $60M compared to no set-aside, but, through the budget, saves the taxpayer $135-160M. Under exceptionally good weather, a set-aside costs mills $65M but saves the Federal budget $155M.

   - Only under poor weather are budget savings from a set-aside less than the costs to mills--and current moisture conditions in cotton areas indicate a higher likelihood of normal or good yields than of poor yields.

3. Under all conditions, set-aside or not, gross income to farmers is projected as greater than this year because of higher production.

4. We recommend a 58 cents/pound target price because:

   - It will save \$29M in 1980 budget costs without significant adverse impact on farm income.

   - It is based on "normal" yields per acre whereas the 59.64 cents/pound target calculation is distorted by using the unusually low 1978 crop yields in the formula.

Our current 1980 Commodity Credit Corporation (CCC) estimates were made before the latest crop report and contain \$381M for cotton. Thus, going with:

- No set-aside requires an <u>increase</u> of \$75M.

- A 10% set-aside and 59.6 target allows a <u>reduction</u> of \$60M.

- Our recommended 10% set-aside and 58 cents target allows a <u>reduction</u> of \$89M.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

DEC 15 1978

TO: Secretary Bergland

FROM: Working Group on Food and Agricultural Policy

SUBJECT: 1979 Upland Cotton Program

The law requires that the Secretary of Agriculture announce the national program acreage and national reduction percentage for upland cotton for the 1979 crop by December 15, 1978. The remaining provisions, namely the target price, set-aside, diversion, and planting limitations, are not required to be announced by December 15 but it would be desirable to do so in order for farmers to have adequate lead time for planting. The 1979 loan rate was announced on October 31 at 50.23 cents per pound.

World Cotton Situation

World cotton production in 1978-79 is estimated at 59.6 million bales, 6 percent below the 63.5 million produced in 1977-78. Most of the decrease is due to the poor U.S. crop. Cotton area is estimated at 77.8 million acres, 3.4 percent less than last season's 80.6 million, as some producers switched to other crops. In addition, weather conditions have not been as favorable this season as in 1977-78. This is especially true in the U.S. (Table 1, 2, 3, 4).

World consumption in 1978-79 is projected at 61.9 million bales, up about 2 percent from the depressed level of 1977-78 but still well below trend. Relatively slow economic growth in many countries and strong competition from synthetic fibers are limiting expansion in cotton consumption. Most of this increase in consumption is expected in Asian countries where production costs, especially labor, are low. Mill consumption of cotton in Europe will probably decline in spite of efforts to limit textile imports.

Global stocks, estimated at 24.2 million bales August 1, increased about 3 million during 1977-78 after falling sharply the two previous years. The outlook for 1978-79 is for a reduction in stocks of around 2 million bales.

Cotton prices have strengthened in recent months. The Northern Europe Index "A" was 80.15 cents per pound on December 6 as compared to 59.05 cents on December 6, 1977, and 75.76 cents on December 6, 1976.

The world trade outlook in 1978-79 is for larger import requirements, especially from the PRC, Korea and Japan. Exports are forecast at 19.8 million bales, up from 18.9 million in 1977-78 and 17.5 million in 1976-77.

Domestic Cotton Situation

The December crop report estimates the 1978 U.S. upland cotton crop at 10.6 million bales, down 3.7 million from last year's exceptionally large crop. The decline is due to a 4 percent reduction in acreage and a 26 percent reduction in yields. Even so, total supplies are down only about 1.3 million bales from last year, as larger beginning stocks offset much of the production decline (Table 2).

U.S. mill use in 1978-79 is estimated at 6.2 million bales, down 0.2 million from 1977-78, reflecting continuing intense competition from synthetics, textile imports, and the concern over the OSHA cotton dust standards. On the other hand, exports of U.S. cotton are expected to total around 5.8 million bales, up from 5.5 million last year. So, total disappearance will be about the same as last season.

U.S. stocks are expected to be worked down from the relatively high beginning level of 5.3 million bales to about 4.0 million by next August 1. A U.S. stock level of about 4.5 million bales is generally considered adequate. Taking into account the uncertainties over the final crop estimate, domestic use and exports for the balance of the marketing year, stocks on August 1, 1979 could be as low as 3.5 million or as high as 4.5 million bales.

The smaller production and strong export demand have resulted in higher U.S. cotton prices. Spot market prices have risen about 18 cents a pound from the low levels of a year ago and are currently around 66 cents per pound. The season average farm price for 1978-79 is projected at 61 cents, up about 9.5 cents from last season, but still about 3 cents below 1976-77. Even with the higher prices, many cotton farmers are still caught in a cost-price squeeze, as the abnormally low 1978 yields have sharply escalated the total per pound cost of producing the 1978 crop.

Cotton is produced in four major regions in the U.S.: (1) Delta--Mississippi, Arkansas, Louisiana, Missouri, and Tennessee; (2) Southwest--Texas and Oklahoma; (3) Southeast--Alabama, Georgia, and the Carolinas; and (4) West--California, Arizona and New Mexico. Soybeans and rice compete with cotton in the Delta, soybeans and corn compete in the Southeast, sorghum is the major competitor in Texas and Oklahoma; and barley, to a limited extent, is the competitor in the West.

At the present time, the cotton-soybean competitive position is about balanced with soybeans at $6.75 and cotton at 63 cents. The comparative prices of cotton and soybeans or grains have, however, shifted to favor cotton since last season. As a result, an increase of about 300,000 cotton acres is projected for the Delta and Southeast combined, if there is no cotton set-aside in 1979. About 400,000 additional acres are expected in the Southwest if there is no cotton set-aside. A set-aside program for cotton would minimize the shift to cotton, particularly in the Southwest where many producers are expected to grow only cotton if there is no cotton set-aside (Table 5).

Set-Aside Analysis

Item	1977-78	1978-79	1979-80 No Set-Aside	1979-80 10% Set-Aside
Acreage (Mil. Acres)				
Planted	13.6	13.0	13.8	13.2
Set-Aside/Diverted	0.0	0.4	0.0	0.8
Supply-Use (Mil. Bales)				
Beginning Stocks	2.9	5.3	4.0	4.0
Production	14.3	10.6	12.9	12.5
Total Supply	17.2	15.9	16.9	16.5
Domestic Use	6.4	6.2	6.2	6.2
Exports	5.5	5.8	5.5	5.5
Total Disappearance	11.9	12.0	11.7	11.7
Ending Stocks	5.3	4.0	5.4	5.0
Prices (¢/Lb.)				
Target Price	47.80	52.00	57.67	58.00
Loan Rate	44.63	48.00	50.23	50.23
Farm Price	51.40	61.00	55.00	57.00
Farm Receipts (Mil. $)				
Value of Production	3,521	3,082	3,406	3,420
Government Payments	70	158	141	72
Gross Income	3,591	3,240	3,547	3,492
Net Returns Per Acre ($)	96.87	88.03	76.37	92.68
Government Outlays (Mil. $)				
Payments	70	158	141	72
Loan Outlays	201	+234	315	218
Total	271	+76	456	290
Value of Exports (Mil. $)	1,357	1,698	1,452	1,505
Cotton Cost to Mills (Mil. $)	1,886	2,113	1,934	1,994

- o U.S. acreage in 1979 estimated at 13.8 million (+, - 0.5) with no set-aside.
- o With a 10 percent set-aside, acreage could total 13.2 million (+, - 0.5).
- o With no set-aside production would increase 2.3 million bales (+, - 1.3).
- o A 10 percent set-aside would hold the increase to about 1.9 million bales (+, - 1.3).
- o With no set-aside, ending stocks would increase 1.4 million bales to 5.4 million (+, - 1.0).

- o A 10 percent set-aside would hold the increase to 1.0 million bales (+, - 1.0).
- o With no set-aside, farm prices would average around 55 cents, 6 cents below 1978.
- o With a set-aside, farm prices should average about 2 cents higher, and net returns $169 million more than with no set-aside.
- o With no set-aside, government outlays would be $166 million higher than with a set-aside.
- o With no set-aside, net returns per acre to farmers would be 13 percent below 1978 and 18 percent below returns with a set-aside.
- o With no set-aside, value of exports would be reduced $53 million below that with a set-aside.
- o Cotton cost to mills would be $60 million more with a set-aside than with no set-aside, but such costs would still be $120 million less than in 1978.

Weather remains the major source of variability in both U.S. and world cotton production. U.S. yields averaged 519 pounds per harvested acre in 1977, near the record 527 pounds of 1965. The December estimate for 1978 is 417 pounds, the lowest since 1957. Had 1978 yields equaled 1977, production would have exceeded 13 million bales, instead of 10.6 million, and stocks would have climbed to nearly 6.5 million bales.

High yields in 1979-80 would result in an additional buildup in stocks of about 700,000 bales. Under such conditions, farm prices would drop to about 52 cents with no set-aside and 54 cents with a set-aside, so deficiency payments would rise, export earnings and costs to mills decline. Conditions this fall favor substantially higher yields in 1979. The southwest currently has excellent subsoil moisture as compared to this time last year when subsoil moisture was very low.

Even so, the possibility of another low yield year cannot be overlooked. In such event, with no set-aside, ending stocks are projected at 4.0 million bales, the same as the beginning level. Prices should average around 62 cents per pound. With a set-aside, stocks could be reduced to about 3.7 million bales, in which case prices might average around 66 cents per pound.

Retail prices for the major fiber products are primarily a function of the wage rates in these industries. The impact of the increase in cotton prices resulting from the set-aside amounts to about $60 million in added costs to mills but such costs would still be about $120 million below 1978.

Per capita consumption of cotton primarily depends on the level of total fiber demand and cotton prices relative to manmade fiber prices. In the short term, cotton mill use is highly insensitive to changes in relative fiber prices--a 10 percent increase in the cotton to polyester price ratio could cause about a 2 percent reduction in cotton mill use over the course of a year. Mills are currently paying about 25 percent more for cotton staple than they are for polyester. A year ago cotton was priced lower. The lower expected cotton prices next season should improve cotton's competitive position with synthetic fibers.

The principal arguments for and against a set-aside are:

PRO

--Current favorable cotton prices are expected to result in a substantial increase in U.S. cotton acreage next year in the absence of a set-aside. Even with a 10 percent set-aside, acreage is likely to increase slightly.

--The announced feed grain set-aside for 1979, in the absence of a cotton set-aside, could result in a shift of some acreage from feed grain to cotton.

--Current conditions would indicate normal or above normal yields next year, especially in the Southwest where the largest increase in acreage is expected. This area is expected to account for about 55 percent of the total U.S. acreage in 1979.

--Foreign production is projected to increase by almost 2.5 million bales in 1979. This is expected to result in slightly smaller U.S. exports.

--Larger acreage and smaller exports would result in a sharp buildup in U.S. stocks, with or without a set-aside, unless weather conditions are very unfavorable. The buildup would be smaller with a set-aside in effect but stocks would still be above a desirable level unless the weather is bad.

--Why permit a low price and excess stock problem to occur when means are available to prevent it?

--A buildup in stocks would result in lower cotton prices. A set-aside would help to limit the price decline. Farm prices would be about 2 cents per pound higher with a set-aside but they would still be about 4 cents below 1978, assuming average yields. Once cotton prices reach a competitive level with synthetic fiber prices, any gain in cotton demand due to further price declines would be small, if any. About all that happens when cotton prices drop below synthetics is an increase in deficiency payments and a decrease in value of exports. Each one cent decline in the farm price increases deficiency payments $40-50 million and decreases export value by about $25 million.

--Many cotton producers and producer groups are pushing for not only a 10 percent set-aside but also for a 10 percent voluntary paid diversion. The Producer Steering Committee of the National Cotton Council--composed of cotton producers from every area of the Cotton Belt--voted unanimously for a 10-10 program.

--Returns per acre to farmers would be approximately 21 percent higher with a set-aside than without. With a set-aside, such returns would be about 20 percent above 1978, but with no set-aside, they would be about 13 percent below 1978.

--A set-aside would reduce government outlays by around $166 million under normal weather conditions. About $97 million of this, however, is lower loan outlays which is not a long-term cost.

--U.S. exports of cotton, measured in dollar value, would be about $53 million higher under a set-aside.

--No set-aside in 1979 could result in the necessity for a large acreage adjustment program in 1980.

CON

--The reduction in the size of the 1978 crop resulting from adverse weather conditions, coupled with the strong export demand, is reducing U.S. cotton stocks during the 1978-79 season from 5.3 million bales to 4.0 million. As a result, cotton prices have increased substantially. The present conditions indicate no need for a set-aside.

--No set-aside was invoked for 1978 when stocks were increasing and prices declining (but later a 10 percent voluntary paid diversion program was offered producers).

--If we were to have both a set-aside and bad weather, stocks would be further reduced. The higher prices could, in the long term, reduce both domestic use and exports, result in higher consumer costs, and contribute to further inflation.

--Even in the absence of a set-aside, stocks would not be much above the 5.3 million bales on August 1, 1978.

--Even if stocks do increase, a cotton reserve program could be implemented to isolate the excess stocks from the market.

--Cost of cotton to mills would be about $60 million higher with a set-aside, but they would be about $120 million below 1978.

Target Price Analysis

The 1978 target price was 52.00 cents per pound. For 1979, with no set-aside, it will be 57.67 cents per pound. With a 10 percent set-aside, the target price could be set as high as 59.64 cents per pound which would fully compensate producers for participating in the set-aside program. In the above set-aside analysis, a target price of 58.00 cents per pound was used.

The large adjustment from 1978 to 1979 results from the increased costs of production, much of which were brought about by the abnormally low 1978 yields. With the expected more normal yields in 1979, per pound production costs should decline. Therefore, a smaller adjustment for set-aside participation may be justified. A target price of 58.00 cents would still provide some adjustment for participation and at the same time, would reduce expected government payments by around $30 million. While net returns to producers would be reduced by the same amount as government payments, they would still be approximately $170 million above 1978.

Public Comments

Sixty-one public comments were received regarding the 1979 upland cotton program during the comment period which ended October 20. Thirty-one commented on set-aside. Six recommended no set-aside. Of the 25 recommending a set-aside, 8 recommended a 10 percent requirement, 4 a 15 percent requirement, 6 a 20 percent requirement, 5 a 25 percent requirement, and 2 did not specify a percentage.

The National Farmers Union recommended a 20 percent set-aside with payments. The American Farm Bureau recommended no set-aside unless subsequent developments changed the situation. The American Cotton Shippers Association opposes a set-aside.

A number of recommendations have been received since the comment period ended, including the one from the Producer Steering Committee. A similar recommendation was received from the Delta Council. Others have reaffirmed their original recommendations.

Agency Positions

Treasury, State, Commerce, CWPS, CEA, NSC, and Esther Peterson are opposed to a cotton set-aside, because of their concern about the uncertainty of U.S. and world production, and U.S. exports in 1979. Treasury, in particular, foresees the possibility of a tighter supply/demand balance in the world and in the U.S. based on the data presented by USDA under all weather scenarios. Consequently, they feel the risk associated with higher prices is much greater with a set-aside than indicated. Commerce also indicated that a farmer-owned reserve program for cotton could be considered in 1979 in the event of an excess supply of cotton.

USDA representatives along with OMB support a 10 percent set-aside, with a target price of 58 cents per pound. The potential cotton acreage and production in the absence of a set-aside and the resulting lower cotton prices, excessive stocks and higher government outlays are of concern. The tools are available to prevent this from happening, and they believe they should be used.

Howard W. Hjort

HOWARD W. HJORT
Acting Chairman
Working Group on Food and
Agricultural Policy

Table 1

WORLD COTTON SUPPLY AND DISTRIBUTION 1/

1973/74 - 1980/81

(million bales 480 lb net)

					Prelim.	Est.	Projected	
	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
Production								
World	63.3	64.4	54.0	57.4	63.5	59.6	64.3	65.5
U.S.	13.0	11.5	8.3	10.6	14.4	10.7	13.0 2/	11.9 2/
USSR	11.0	12.2	11.6	12.0	12.7	12.5	12.8	13.1
PRC	11.7	11.5	10.7	10.0	9.2	9.6	10.5	11.0
Other	27.6	29.2	23.4	24.8	27.2	26.8	28.0	29.5
Imports								
World	20.1	17.1	19.5	18.3	19.9	19.8	19.5	19.7
U.S.	-	-	-	-	-	-	-	-
USSR	.6	.6	.6	.5	.4	.4	.3	.3
PRC	1.8	.7	.9	.6	1.8	2.1	1.8	1.8
Other	17.7	15.8	18.0	17.2	18.7	17.3	17.4	17.6
Exports								
World	19.6	17.4	19.1	17.5	18.9	19.8	19.5	19.7
U.S.	6.1	3.9	3.3	4.3	5.5	5.8	5.5	5.0
USSR	3.4	3.6	4.0	4.3	4.1	3.8	3.8	4.1
PRC	.1	.2	.2	.2	.1	.1	-	-
Other	10.0	9.7	11.6	8.2	9.2	10.1	10.2	10.6
Consumption								
World	62.2	58.3	61.0	61.1	60.8	61.9	63.0	64.2
U.S.	7.5	5.9	7.3	6.7	6.5	6.3	6.2	6.3
USSR	8.8	9.0	9.0	9.1	9.1	9.1	9.2	9.3
PRC	12.0	11.8	10.7	11.4	12.1	12.2	12.3	12.8
Other	33.9	31.6	34.0	33.9	33.1	34.3	35.3	35.8
Ending Stocks								
World	25.8	31.3	24.2	21.0	24.2	22.1	23.3	24.4
U.S.	3.8	5.7	3.7	2.9	5.3	4.1	5.5	6.2
Foreign	22.0	25.6	20.5	18.1	18.9	18.0	17.8	18.2

1/ Includes extra long staple cotton. 2/ Assumes no set aside in 1979/80 and a 20 percent set-aside requirement for 1980/81.

VARIAB. WEATHER

TABLE 2. UPLAND COTTON: S/U ESTIMATES
UNDER ALTERNATIVE SETASIDES

LINE NO		1977-78	1978-79	1979-80 NO S-A POOR	1979-80 NO S-A NORMAL	1979-80 NO S-A GOOD	1979-80 10% S-A POOR	1979-80 10% S-A NORMAL	1979-80 10% S-A GOOD
5.0	REDUCTION PCT.	0	20	15	15	15	15	15	15
10.0	ALLOC. FACT (%)	0	0	0	82	82	0	86	84
13.0									
14.0	MILLION ACRES								
15.0	ALLOTMENT/NPA	11.0	10.2	10.6	10.6	10.6	10.6	10.6	10.6
20.0	SET-ASIDE	0.0	0.4	0.0	0.0	0.0	0.8	0.8	0.8
25.0	PLANTED AC	13.6	13.0	13.8	13.8	13.8	13.2	13.2	13.2
30.0	HARVESTED AC	13.2	12.2	12.7	13.0	13.2	12.1	12.4	12.7
31.0									
35.0	YIELD/HARV AC	519	417	435	475	515	445	485	525
40.0	PROGRAM YIELD	510	579	550	550	550	550	550	550
43.0									
44.0	SUPPLY(MIL BALE)								
45.0	BEGINNING STKS	2.9	5.3	4.0	4.0	4.0	4.0	4.0	4.0
50.0	PRODUCTION	14.3	10.6	11.5	12.9	14.2	11.2	12.5	13.9
55.0	TOTAL SUPPLY 1/	17.2	15.9	15.5	16.9	18.2	15.2	16.5	17.9
58.0									
59.0	DISAPPEARANCE								
60.0	MILL USE	6.4	6.2	6.2	6.2	6.8	6.2	6.2	6.8
65.0	EXPORTS	5.5	5.8	5.5	5.5	5.5	5.5	5.5	5.5
70.0	TOTAL USE	11.9	12.0	11.7	11.7	12.3	11.7	11.7	12.3
74.0									
75.0	ENDING STKS	5.3	4.0	4.0	5.4	6.1	3.7	5.0	5.8
80.0	CCC LOANS OUT	1.2	0.1	0.1	1.4	2.1	0.1	1.0	1.8
81.0	CUM. RESERVE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
83.0									
84.0	CENTS PER LB								
85.0	TARGET	47.80	52.00	57.67	57.67	57.67	58.00	58.00	58.00
90.0	LOAN RATE	44.63	48.00	50.23	50.23	50.23	50.23	50.23	50.23
95.0	FARM PRICE	51.40	61.00	62.00	55.00	52.00	66.00	57.00	54.00
100.0	CAL. YR. PRI.	56.20	55.19	61.38	57.42	55.33	63.84	58.72	56.69
102.0									
103.0	MILLION DOLLARS								
104.0	GOVT OUTLAYS								
105.0	DEFICIENCY PYMNT	0	0	0	14	132	0	0	44
110.0	DIVERSION PYMNTS	0	35	0	0	0	0	0	0
115.0	DISASTER PYMNTS.	70	123	139	127	115	78	72	66
120.0	NET LN & INV 2/	201	+234	1	315	483	1	218	411
125.0	TOTAL OUTLAYS 2/	271	+76	140	456	730	79	290	521
127.0									
128.0	FARM RECEIPTS								
130.0	FARM VALUE	3521	3107	3422	3406	3544	3548	3420	3603
133.0	TOTAL PYMNTS	70	158	139	141	247	78	72	110
135.0	GROSS INCOME	3591	3265	3561	3547	3791	3626	3492	3713
136.0									
137.0	VALU OF EXPORTS	1357	1698	1637	1452	1373	1742	1505	1426
138.0	COST TO MILLS	1886	2113	2143	1934	2024	2262	1994	2089

1/Includes imports.
2/Plus sign denotes net receipt.

TABLE 3. COMPARISON OF OUTLAYS, COSTS AND RETURNS, ALTERNATIVE SETASIDES

LINE NO		1977-78	1978-79	1979-80 NO S-A POOR	NO S-A NORMAL	NO S-A GOOD	10% S-A POOR	10% S-A NORMAL	10% S-A GOOD
210.0	FARM PRICE	51.40	61.00	62.00	55.00	52.00	66.00	57.00	54.00
215.0	DEFICIENCY PAYMT	0	0	0	14	132	0	0	44
220.0	TOTAL OUTLAYS 1/	271	+76	140	456	730	79	290	521
221.0									
225.0	TOTAL PYMNT	70	158	139	141	247	78	72	110
230.0	FARM VALUE	3521	3107	3422	3406	3544	3548	3420	3603
235.0	GROSS INCOME	3591	3265	3561	3547	3791	3626	3492	3713
237.0	VAR. COST	167.17	163.12	180.63	180.63	180.63	171.87	171.87	171.87
240.0	RETURN/AC	96.87	88.03	77.44	76.37	94.10	102.84	92.68	109.41
241.0									
245.0	VALU OF EXPORTS	1357	1698	1637	1452	1373	1742	1505	1426
246.0	COST TO MILLS	1886	2113	2143	1934	2024	2262	1994	2089

1/Plus sign denotes net receipt.

NORMAL WEATHER

TABLE 4.UPLAND COTTON: S/U ESTIMATES UNDER ALTERNATIVE SETASIDES

LINE NO		1977-78	1978-79	NO SETASIDE 1979-80	(20%S-A) 1980-81	10% SETASIDE 1979-80	(20%S-A) 1980-81	10+10 1979-80	(20%S-A) 1980-81
5.0	REDUCTION PCT.	0	20	15	25	15	25	15	25
10.0	ALLOC. FACT (%)	0	0	82	86	86	85	88	85
13.0									
14.0	MILLION ACRES								
15.0	ALLOTMENT/NPA	11.0	10.2	10.6	10.0	10.6	10.0	10.6	10.0
20.0	SET-ASIDE	0.0	0.4	0.0	1.7	0.8	1.7	.8+.4	1.7
25.0	PLANTED AC	13.6	13.0	13.8	12.3	13.2	12.6	12.9	12.6
30.0	HARVESTED AC	13.2	12.2	13.0	11.6	12.4	11.8	12.1	11.8
31.0									
35.0	YIELD/HARV AC	519	417	475	490	485	490	485	490
40.0	PROGRAM YIELD	510	579	550	535	550	535	550	535
43.0									
44.0	SUPPLY(MIL BALE)								
45.0	BEGINNING STKS	2.9	5.3	4.0	5.4	4.0	5.0	4.0	4.7
50.0	PRODUCTION	14.3	10.6	12.9	11.8	12.5	12.0	12.2	12.0
55.0	TOTAL SUPPLY 1/	17.2	15.9	16.9	17.2	16.5	17.0	16.2	16.7
58.0									
59.0	DISAPPEARANCE								
60.0	MILL USE	6.4	6.2	6.2	6.3	6.2	6.3	6.2	6.3
65.0	EXPORTS	5.5	5.8	5.5	5.0	5.5	5.0	5.5	5.0
70.0	TOTAL USE	11.9	12.0	11.7	11.3	11.7	11.3	11.7	11.3
74.0									
75.0	ENDING STKS	5.3	4.0	5.4	6.1	5.0	5.9	4.7	5.6
80.0	CCC LOANS OUT	1.2	0.1	1.4	2.1	1.0	1.9	0.7	1.6
83.0									
84.0	CENTS PER LB								
85.0	TARGET	47.80	52.00	57.67	67.81	58.00	67.20	58.00	67.45
90.0	LOAN RATE	44.63	48.00	50.23	48.00	50.23	48.00	50.23	48.00
95.0	FARM PRICE	51.40	61.00	55.00	51.00	57.00	52.00	58.00	55.00
100.0	CAL. YR. PRI.	56.20	55.19	57.42	52.84	58.72	54.23	59.37	56.40
102.0									
103.0	MILLION DOLLARS								
104.0	GOVT OUTLAYS								
105.0	DEFICIENCY PYMNT	0	0	14	610	0	501	0	427
110.0	DIVERSION PYMNTS	0	35	0	0	0	0	66	0
115.0	DISASTER PYMNTS.	70	123	127	103	72	98	70	98
120.0	NET LN & INV 2/	201	+234	315	146	218	197	146	200
125.0	TOTAL OUTLAYS 2/	271	+76	456	859	290	796	282	725
127.0									
128.0	FARM RECEIPTS								
130.0	FARM VALUE	3521	3107	3406	2889	3420	2995	3396	3168
133.0	TOTAL PYMNTS	70	158	141	713	72	599	136	525
135.0	GROSS INCOME	3591	3265	3547	3602	3492	3594	3532	3693
136.0									
137.0	VALU OF EXPORTS	1357	1698	1452	1224	1505	1248	1531	1320
138.0	COST TO MILLS	1886	2113	1934	1845	1994	1875	2024	1966

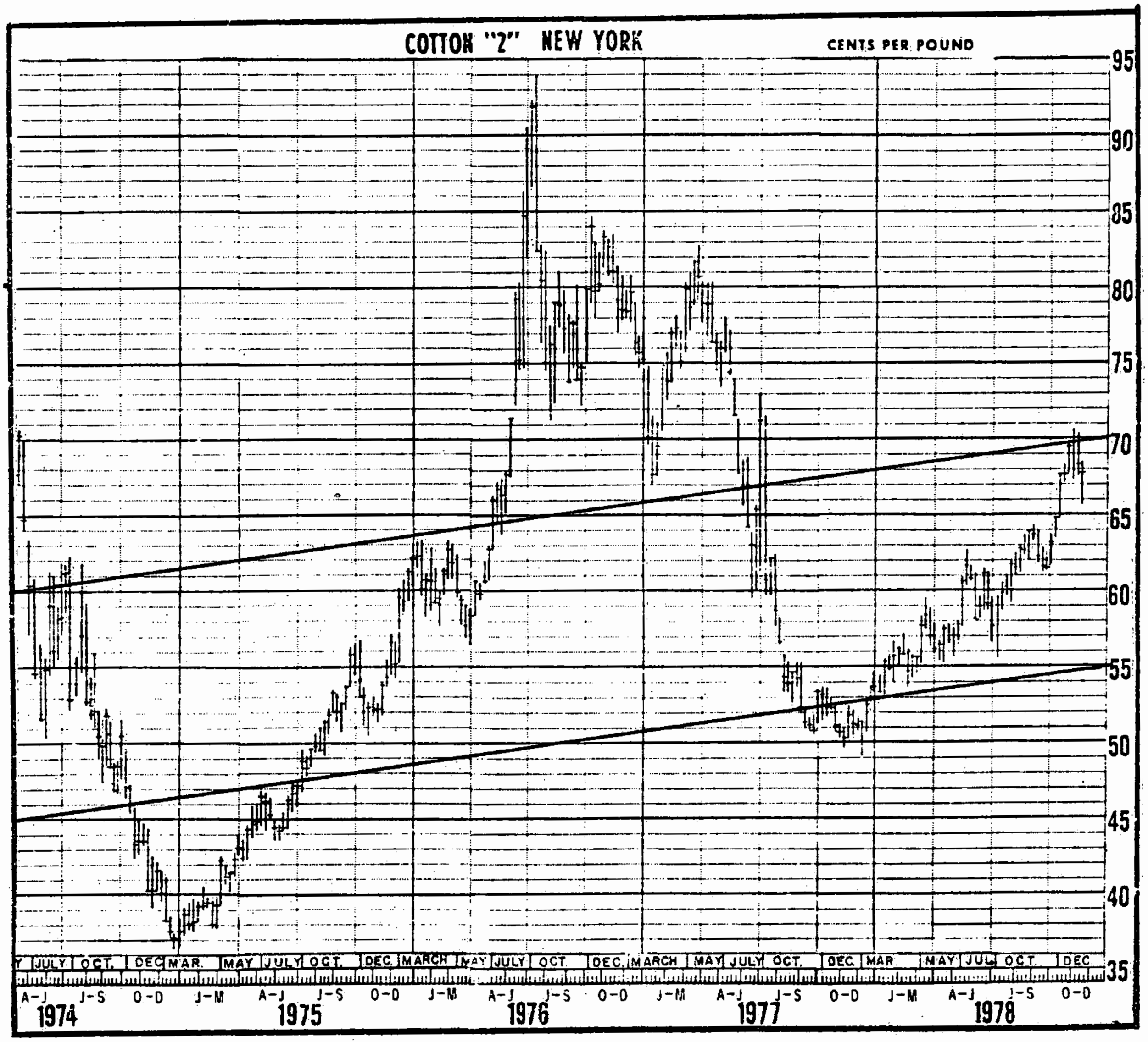
1/Includes imports.
2/Plus sign denotes net receipt.

Table 5

Review of U.S. cropland planted acreage, 7 crops
(million acres)

Commodity	1976/77	1977/78	1978/79	1979/80 20% wheat & barley 10% corn & sorghum 0% cotton	1979/80 20% wheat & barley 10% corn & sorghum 10% cotton
Corn	84.4	82.7	78.5	78.4	78.4
Sorghum	18.4	17.0	16.6	16.5	16.7
Barley	9.2	10.6	9.9	9.5	9.5
Oats	16.7	17.8	16.4	16.0	16.0
Feed grains	128.7	128.1	121.4	120.4	120.6
Wheat	80.2	74.8	66.3	68.5	68.5
Soybeans	50.2	58.8	64.4	67.0	66.8
Upland cotton	11.6	13.6	13.0	13.8	13.2
Total, 7 crops	270.7	275.3	265.1	269.7	269.1
Set-Aside	---	---	17.1 1/	16.8	17.6
Total	270.7	275.3	282.2	286.5	286.7

1/ There was an additional 1.4 million acres in the special wheat grazing and hay program.


COTTON "2" NEW YORK
CENTS PER POUND
95
90
85
80
75
70
65
60
55
50
45
40
35
JULY OCT. DEC MAR. MAY JULY OCT. DEC. MARCH MAY JULY OCT DEC. MARCH MAY JULY OCT. DEC. MAR MAY JUL OCT. DEC
A-J J-S O-D J-M A-J J-S O-D J-M A-J J-S O-D J-M A-J J-S O-D J-M A-J J-S O-D
1974
1975
1976
1977
1978

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

December 15, 1978

TO: Secretary Bergland

FROM: Working Group on Food and Agricultural Policy

SUBJECT: 1979 Meat Import Program

The Meat Import Act of 1964 requires the Secretary of Agriculture to publish before January 1, 1979 the quantities of meat that may be permitted to enter the country under the Act (the quota), and that would enter the country in the absence of this Act. If estimated meat imports exceed the quantity calculated for the quota by 110 percent or more, then the President is required to restrict meat imports to the quota level. Because we have now calculated that the 1979 trigger level will be about 1,245 million pounds, and that imports in the absence of restraints would total about 1,640 million pounds, the President is required by law to impose the quota.

The quota may be suspended if he determines that (1) such action is required by overriding economic or national security interests of the United States, giving special weight to the importance to the nation of the economic well-being of the domestic livestock industry, or (2) the supply of meat will be inadequate to meet domestic demand at reasonable prices. As noted earlier, the estimates of the trigger level and unrestrained imports are required to be published before January 1, 1979. It is not necessary to announce suspension of the quota before January 1, but unless the quota is suspended, it must be proclaimed at the level provided by law.

Based on several considerations, including the stability of domestic livestock markets and maintenance of good trade relations with the meat exporting countries, we are recommending that you advise the President to suspend the quota simultaneous with the announcement of the level of the quota and the estimate of meat imports. This should reduce the likelihood of having to make a further increase in meat imports later in the year, as was done last year.

Program options for 1979 beef imports are examined for their potential impact on beef supplies and producer and consumer prices.

<u>Options Considered</u>

Options to be considered include the following:

a. Option 1 - Impose import quotas at the 1979 adjusted base quantity level of 1,132 million pounds.

b. Option 2 - Negotiate a program of voluntary restraint agreements at or near the 1979 trigger level of 1,245 million pounds.

c. Option 3 - Negotiate a program of voluntary restraint agreements at the revised 1978 restraint level of 1,500 million pounds.

d. Option 4 - Negotiate a program of voluntary restraint agreements at 1,570 million pounds, an annual quantity equal to the rate of imports in the last half of 1978.

e. Option 5 - Negotiate a program of voluntary restraint agreements at 1,640 million pounds, near the estimate of unrestrained imports for 1979.

Options 3, 4 and 5 would require the President to invoke and suspend import quotas. All options required that voluntary restraint agreements be negotiated with the meat exporting countries.

USDA and Other Federal Costs

There will be no budget outlays connected with any of the options listed. Administrative costs such as salaries will be incurred, but these will not differ significantly no matter which alternative is selected.

Expected Impacts

a. Impact on main purpose and need to which action is addressed and duration

Each of the options were analyzed assuming the most likely supply and demand situation for 1979. Under the different options, the farm price of cattle in 1979 is projected to range between $58 and $50 per cwt. compared with an expected price of $48 in 1978 and $51 in the last 6 months of 1978. The Bureau of Labor Statistics retail beef and veal price index for 1979 is expected to range from 226 to 211. In 1978, the BLS index is expected to average 200; 212 in the last half of the year. Under the most likely supply and demand situation for 1979 a 9 percent growth in disposable income in current dollars was assumed. A one percent change in disposable income would result in a one percent change in beef prices. A one percent change in per capita beef supplies would result in a 1-1.5 percent change in beef prices.

b. Cost impacts

Since imported beef is grass fattened, it is of a lean manufacturing quality and much of it is mixed with fat trimmings from U.S. grain fed cattle to produce hamburgers, sausages, and luncheon meats. An increase in imports would have a greater impact on prices for hamburger and manufactured beef and less impact on prices for beef cuts such as steaks. On the producer side, cow-calf operators would be more affected by an increase in beef imports than feedlot operators because the lean, imported beef is more directly competitive with cow slaughter than with fed cattle production. The principal product of cow-calf operators is calves which are largely sold to feedlot operators.

With the base supply and demand scenario, the farm price of cattle would be lower under options 2, 3, 4 and 5 than under option 1. With a farm price of cattle in 1979 of about $57 per cwt. (yearling feeder cattle in the upper $60's and calves in the low to mid $70's), feeder cattle producers would be close to covering all of their non-land costs, which were $62 per cwt. in 1976 and probably close to the low $70's in 1979. All of the import options except option 1 would cause lower cattle prices which would result in reduced, or perhaps negative returns to feeder cattle producers. The loss in income to producers under options 2, 3, 4 and 5 when compared with option 1 would be between $683 and $2,564 million.

Consumer costs could fall by as much as $853 million in 1979 if the maximum level of imports (option 5) were selected when compared with option 1. The effect upon the consumer price index would be to lower it by .14 percent.

c. Other significant economic impacts

1. Domestic

Without any adverse psychological reaction in 1979 to an announcement of imports above the trigger level, producers would be less willing to rebuild herds if the farm price of cattle were in the $50-52 per cwt. range in 1979. Inventories would probably decline again in 1979 with the January 1, 1980, inventory dropping to 110 million head or less. In both 1980 and 1981 year-to-year declines in beef production would be expected.

If the farm price of cattle in 1979 were closer to $57 per cwt., as in options 1 and 2, producers would be expected to begin herd rebuilding in 1979. Beef production would still decline in 1980 but production in 1981 would be expected to be about equal to 1980.

If an adverse reaction to option 3, 4 or 5 were to occur in 1979, cattle producers would likely send more cows to slaughter, more heifers would go into feedlots and fewer into the breeding herd. Beef production would be higher and prices of both cattle and retail beef would be lower. The January 1, 1980, inventory would decline from January 1, 1979, and would be below 110 million head. Inventories in 1981 and 1982 would be lower than they would be if no adverse reaction occurred.

Beef production in 1980 and 1981 would be lower than if no adverse reaction had occurrred and prices higher. Without a very high level of imports, per capita beef consumption would probably drop to near, or perhaps below, 100 pounds (carcass weight basis).

A higher level of beef production with lower prices in 1979 would probably slow the rate of expansion in both pork and poultry production. If this continued into 1980, the probability of lower total meat supplies and higher retail meat prices would increase.

2. Foreign

The level at which the United States limits imports will also have an impact upon foreign cattle cycles, primarily the Australian cattle cycle, and their future ability to supply meat to the U.S. and other markets. If the United States were to limit imports to the adjusted base quantity or trigger level (options 1 and 2), it would cause imports to decline well below the 1978 level. This would likely cause lower cattle prices in Australia than would the other options, as the meat would either be allocated to other, lower priced markets or consumed domestically. The effect would probably be to discourage any significant herd expansion in 1979, and encourage producers to continue liquidating their herds below the 27 million head projected for March 30, 1980. This would increase Australian production and supplies in 1979, but decrease the production potential during the early 1980's. Therefore, it would delay the rebuilding phase of the Australian cattle cycle while encouraging a more rapid build-up in the U.S. cattle cycle.

Selection of the option which provides the highest level of imports in 1979 would have a positive impact upon Australian cattlemen. With the higher prices which would result from such an action, producers would likely have more confidence in the future profitability of cattle raising. The overall effect upon the cattle cycle would likely be to cause a sharper rebuilding in 1979 than might occur if imports were to remain at 1978 levels. This would, however, reduce cattle slaughter and export availabilities during the next few years, with the lowest available supplies probably occurring in 1981. Therefore, it would accelerate the rebuilding phase of the Australian cattle cycle and discourage the rebuilding of cattle numbers in the United States.

In 1978 exports of beef from Australia are expected to be about 755,000 tons (product weight). The United States will account for 46 percent of these exports and other traditional developed markets for about 16 percent. The remaining exports are to developing areas including South Korea, Eastern Europe and the Middle Eastern countries. Consequently, about 62 percent of Australian exports will be to countries which offer maximum prices and most of the remaining exports will be to countries which pay lower prices. We expect Australian export availabilities in 1979 to decline by about 17 percent to 630,000 tons with U.S. imports at 1,640 million pounds. The impact will be to reduce sales of beef to developing countries by about 140,000 tons or 49 percent below the 1978 level. The U.S. share of the Australian exports would rise from 46 percent in 1978 to 61 percent in 1979.

The Options

As noted, five options were considered by the Working Group, ranging from holding imports at the adjusted base quota level provided by the formula in the law (1,132 million pounds) to a level near the estimate of unrestrained meat imports (1,640 million pounds). The option to remove all restraints was not considered by the Working Group, owing to commitments made by the President not to allow unrestrained imports in 1979, as well as concern that a decision to allow unrestrained imports at this time could result in an emotional decision by cattlemen to restrain rebuilding of the cattle herd.

Near-term inflationary impacts were also taken into consideration. Meat prices, both beef and other meats, will increase significantly more if meat imports are held at or near the trigger level rather than the higher levels considered. Therefore, the options to hold imports at the quota level (1,132 million pounds) or the trigger level (1,245 million pounds) are not recommended by any member of the Working Group.

Set forth below are options for setting the 1979 meat import level:

Option 1 - Negotiate a program of voluntary restraint agreements at the revised 1978 restraint level of 1,500 million pounds.

Option 2 - Negotiate a program of voluntary restraint agreements at 1,570 million pounds, an annual quantity equal to the rate of imports in the last half of 1978.

Option 3 - Negotiate a program of voluntary restraint agreements at 1,640 million pounds, near the estimate of unrestrained imports for 1979.

An analysis of these options by the Working Group indicates that the differences in the near-term price impacts of these options is fairly small. The effects of these options on production, consumption, and prices is summarized in Table 7, attached. All options would require the President to invoke and then suspend import quotas and to negotiate voluntary restraint agreements at the higher import level.

Agency Positions

Option (1), 1,500 million pounds, is recommended by USDA members. This is the level of meat imports allowed in 1978. It is believed that this would provide for a sufficient level of imports to restrain adequately 1979 meat prices, but that it would not provoke U.S. cattlemen to restrain rebuilding their herds.

Option (2), 1,570 million pounds, is recommended by State, Commerce, STR, and AID. This option would provide for an annual rate of meat imports in 1979 comparable to the rate for the last six months of 1978. These members believe that some increase in 1979 meat imports in 1979 is important not only to restrain meat prices but to maintain the credibility of the Administration's anti-inflation program.

Option (3), 1,640 million pounds, is recommended by Treasury, the National Security Council, the Council on Wage and Price Stability, and Esther Peterson. These members believe that this maximum level of meat imports is needed to retrains meat prices to lowest levels in 1979, and to provide a clear indication of the seriousness of the Administration's commitment to controlling inflation.

Enclosed is a memorandum for you to send to the President, setting forth the options available to him and recommending that he choose from among the three options supported by various members of the Working Group.

Howard W. Hjort

HOWARD W. HJORT
Acting Chairman
Working Group on Food and
Agricultural Policy

Enclosures

TABLE 1 -- IMPORTS OF MEATS SUBJECT TO P.L. 88-482
(Million pounds, product weight)

	Restraint levels	Restraint levels	In Absence of Restraints
	1977	1978	1979
Australia....................	653.0	766.2	948.0
New Zealand..................	268.3	314.8	309.0
Mexico.......................	62.1	72.9	60.0
Canada.......................	75.0	88.0	50.0
Ireland......................	0	0	15.0
United Kingdom...............	0	0	0
Caribbean Area...............	213.5	250.5	258.0
Other........................	--	--	--
Total......................	1,271.9	1,492.3	1,640.0

NOVEMBER 1978

TABLE 2--BEEF AND VEAL: IMPORTS BY SELECTED COUNTRIES AND TOTAL FOR ALL COUNTRIES, 1975-79 (CARCASS WEIGHT EQUIVALENT)
(In thousands of metric tons)

Country	1975	1976	1977	Estimated 1978	Forecast 1979 1/
United States	808	953	890	1,050	1,160 3/
EC 2/	286	458	431	417	415
Canada	87	143	89	85	85
Japan	64	130	121	140	170
Spain	27	44	50	45	60
Greece	37	79	90	90	100
Switzerland	11	15	15	17	18
German Democratic Rep.	9	9	9	10	12
USSR	372	275	350	100	100
Brazil	29	27	35	125	100
Portugal	24	36	53	17	23
Korea, Republic of	--	1	8	67	63
Other countries	626	777	817	850	700
Total	2,380	2,945	2,958	3,013	3,006

1/ FAS forecasts. 2/ Excludes intra-trade. 3/ Assumes the maximum level of unrestrainted imports of 744,000 metric tons (product weight).

TABLE 3--BEEF AND VEAL: EXPORTS BY SELECTED COUNTRIES AND TOTAL FOR ALL COUNTRIES, 1975-79 (CARCASS WEIGHT EQUIVALENT)
(In thousands of metric tons)

Country	1975	1976	1977	Estimated 1978	Forecast 1979 1/
P.L. 88-482: 2/					
Australia	744	860	1,061	1,100	957
New Zealand 3/	305	373	392	362	329
Canada	21	59	51	37	35
Mexico	14	23	26	27	28
Central America 4/	124	145	126	147	153
Subtotal	1,208	1,460	1,656	1,673	1,502
EC 5/	234	195	142	127	125
Argentina	266	534	605	750	700
Uruguay	113	195	129	134	135
Other countries	525	560	560	495	500
Subtotal	1,138	1,484	1,436	1,506	1,460
Grand Total	2,346	2,944	3,092	3,179	2,962

1/ FAS forecasts. 2/ Excludes Ireland. 3/ Year ending September. 4/ Includes Dominican Republic and Haiti. 5/ Excludes intra-trade.

SOURCE: Reports of U.S. Agricultural Attaches and related information

NOVEMBER 1978 Commodity Programs, FAS, USDA

TABLE 4--MEAT PRODUCTION IN MAJOR IMPORTING AREAS, 1975-79
CARCASS WEIGHT EQUIVALENT
(In thousands of metric tons)

Commodity and country	1975	1976	1977	Estimated 1978	Forecast 1979 1/
Beef and Veal:					
United States	11,271	12,166	11,845	11,325	10,620
Canada	1,050	1,139	1,143	1,040	975
EC	6,602	6,528	6,377	6,490	6,500
Japan 2/	353	298	361	418	400
Total	19,276	20,131	19,726	19,273	18,495
Pork:					
United States	5,343	5,753	6,009	6,060	6,350
Canada	521	512	539	615	640
EC	7,750	7,854	8,158	8,253	8,665
Japan 2/	1,039	1,056	1,169	1,275	1,330
Total	14,653	15,175	15,875	16,203	16,985
Mutton and Lamb:					
United States	186	168	159	138	140
Canada	8	8	5	5	5
EC	529	539	516	515	520
Japan 2/	3/	3/	3/	3/	3/
Total	723	715	680	658	665
Poultry: 4/					
United States	4,825	5,379	5,537	5,870	6,400
Canada	399	448	461	480	503
EC	3,101	3,341	3,461	3,550	3,634
Japan	756	839	922	1,025	1,095
Total	9,081	10,007	10,381	10,925	11,632
Total meat:					
United States	21,625	23,466	23,550	23,370	23,510
Canada	1,978	2,107	2,148	2,132	2,123
EC	17,982	18,262	18,512	18,827	19,319
Japan	2,148	2,193	2,452	2,580	2,825
Total	43,733	46,028	46,662	46,909	47,777

1/ FAS forecast. 2/ Prior to 1976 Japanese Ministry of Health and Welfare, 1976 forward Japanese Ministry of Agriculture and Forestry. 3/ Less than 500 tons. 4/ Product weight basis.

SOURCE: Reports of U.S. Agricultural Attaches and related information.

NOVEMBER 1978 Commodity Programs, FAS, USDA

TABLE 5--NET MEAT IMPORTS IN MAJOR IMPORTING AREAS--1975-79
(CARCASS WEIGHT EQUIVALENT)
(In thousands of metric tons)

Commodity and Country	1975	1976	1977	Estimated 1978	Forecast 1979 1/
Beef and veal:					
United States	784	912	844	985	1,095
Canada	66	84	38	48	50
EC 2/	52	263	289	290	290
Japan	64	130	121	140	170
Total	966	1,389	1,292	1,463	1,605
Pork:					
United States	101	69	66	120	125
Canada	4	50	46	6	5
EC 2/	0	-33	-82	-90	-90
Japan	178	204	152	135	120
Total	283	290	182	171	160
Mutton and lamb:					
United States	10	15	8	15	15
Canada	20	17	14	15	15
EC 2/	270	254	254	240	240
Japan	262	272	296	275	255
Total	546	558	572	545	525
Poultry: 3/					
United States	-95	-183	-189	-195	-200
Canada	10	32	24	21	21
EC 2/	-65	-99	-184	-152	-160
Japan	19	36	45	49	53
Total	-131	-214	-304	-277	-286
Total meat:					
United States	800	813	729	925	1,035
Canada	100	183	122	90	91
EC 2/	241	385	277	288	280
Japan	523	642	614	599	598
Total	1,664	2,023	1,742	1,902	2,004

1/ FAS forecasts. 2/ Excludes intra-trade. 3/ Product weight basis.

SOURCE: Reports of U.S. Agricultural Attaches and Related Information

NOVEMBER 1978 Commodity Programs, FAS, USDA

TABLE 6--PRODUCTION AND EXPORTS OF BEEF AND VEAL BY MAJOR EXPORTING COUNTRIES--1975-79 (CARCASS WEIGHT EQUIVALENT)
(In thousands of metric tons)

Item	1975	1976	1977	Estimated 1978	Forecast 1979 1/
Production:					
P.L. 88-482 countries: 2/					
Australia............	1,699	1,870	2,125	2,020	1,712
New Zealand 3/........	508	628	558	542	464
Central America 4/....	340	371	379	420	430
Mexico................	889	986	1,040	1,040	1,020
Subtotal............	3,436	3,855	4,102	4,022	3,626
Other:					
Argentina.............	2,439	2,811	2,900	3,014	2,860
Uruguay...............	345	405	363	375	378
Subtotal............	2,784	3,216	3,263	3,389	3,238
Total...............	6,220	7,071	7,365	7,411	6,864
Exports:					
P.L. 88-482 countries: 2/					
Australia............	744	860	1,061	1,100	957
New Zealand 3/........	305	373	392	362	329
Central America 4/....	124	145	126	147	154
Mexico................	14	23	26	27	28
Subtotal............	1,187	1,401	1,605	1,636	1,468
Other:					
Argentina.............	266	534	605	750	700
Uruguay...............	113	195	129	134	135
Subtotal............	379	729	734	884	835
Total...............	1,567	2,130	2,339	2,520	2,303

1/ FAS forecasts. 2/ Excludes Canada and Ireland. 3/ Year ending September. 4/ Includes Haiti and Dominican Republic.

SOURCE: Reports of U.S. Agricultural Attaches and Related Information

Meat Import Options With Alternative Demand and Supply Conditions

Item	Unit	1978 Annual	1978 Last 6 Months	1979 Option 1	1979 Option 2	1979 Option 3	1979 Option 4	1979 Option 5
ef Production	Mil lb.	24,337	12,147	22,975	23,075	23,525	23,575	23,625
r Capita onsumption:								
Total beef	lb.	120.5	60.2	112.1	113.2	116.9	117.2	118.2
Imported beef	lb.	10.3	5.1	8.0	8.7	10.3	10.7	11.2
Total red meat and poultry	lb.	243.5	123.7	239.7	240.8	243.1	243.1	243.9
rm price cattle	$/cwt	48.00	51.00	58.00	56.00	52.00	51.00	50.00
S beef and veal tail price index	1967=100	200	212	226	223	215	213	211
pact on 1/ oducer income	Mil. $				-683	-1851	-2206	-2564
nsumer expen- iture for beef	Mil. $				-169	-503	-677	-853
nsumer price idex _ 1979	Percent				-.029	-.105	-.124	-.143
ota meat imports: roduct weight	Mil lb.	1,500	790	1,132	1,245	1,500	1,570	1,640
rcass weight	Mil lb.	2,025	1,067	1,528	1,680	2,025	2,120	2,215

Impact on producers income, consumer expenditure for beef and consumer price index of imports under options 2, 3, 4, and 5 compared to option 1.

Table 1.

Meat Import Options With Alternative Demand and Supply Conditions

Item	Unit	1978 Annual	1978 Last 6 Months	1979 Option 1	1979 Option 2	1979 Option 3
Beef Production	Mil. lb.	24,337	12,147	23,525	23,575	23,625
Per Capita Consumption:						
Total beef	lb.	120.5	60.2	116.9	117.2	118.2
Imported beef	lb.	10.3	5.1	10.3	10.7	11.2
Total red meat and poultry	lb.	243.5	123.7	243.1	243.1	243.9
Farm price cattle	$/ cwt	48.00	51.00	52.00	51.00	50.00
BLS beef and veal retail price index	1967=100	200	212	215	213	211
Impact on producer income	Mil. $			20,734	20,379	20,021
Consumer expenditure for beef	Mil. $			36,230	36,056	35,880
Consumer price index - 1979 = 211 1967 = 100	Percent Change 1/			-.105	-.124	-.143
Quota meat imports product weight	Mil lb.	1,500	790	1,500	1,570	1,640
Carcass weight	Mil lb.	2,025	1,067	2,025	2,120	2,215

1/ CPI change relative to import at the 1,132 million pound quota level.

THE WHITE HOUSE

WASHINGTON

December 19, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT
LYNN DAFT Lynn Stu

SUBJECT: Sugar Proclamation

On January 20, 1978, you issued an emergency proclamation under your Section 22 authority establishing an import fee on raw sugar of 2.7 cents per pound and on refined sugar of 3.22 cents per pound. This was necessary to equalize the price of foreign sugar entering this country with the domestic price set by the de la Garza loan program. Without these fees, much of the domestic sugar would have been placed under loan to the CCC and never redeemed. At the time of this proclamation, 1977 crop sugar was being supported at 13.5 cents per pound, raw basis. Given the price level then prevailing in world markets, the 2.7 cent fee was designed to protect this 13.5 cent support price plus the 6 percent interest charge on CCC loans.

It was recognized at the time this proclamation was issued that it would eventually have to be changed, either to accomodate changes in the level of world prices or to protect the higher support price that the law required be set for 1978 crop sugar, or both. The support level for 1978 crop sugar has since been set at 14.73 cents per pound. Also, we delayed making changes in the level of import fees while the Congress was deliberating over new sugar legislation this past session.

As you recall, the Congress failed to agree on a new sugar program. At the request of Senators Long and Stone, among others, you agreed to:

(a) Try again early in the next session of Congress to reach agreement on an acceptable sugar program for the 1979 crop and beyond;

(b) Continue to use existing tariff and fee authority to protect a domestic price of 15 cents per pound (rather than 14.73 cents, the minimum required by law); and

(c) Instruct Customs to monitor U.S. imports from countries not party to the International Sugar Agreement (ISA) and, if necessary, to limit imports under existing authority to assist in maintaining the 15 cent price objective.

In return, the Senators were asked to help achieve early ratification of the ISA.

It is necessary to issue a new proclamation now to implement your decision to protect a 15 cent price. In addition, we need to adopt a procedure that will automatically adjust the import fee in response to changes in world prices. Once this system is adopted, new proclamations will be required only when there are changes in the price objective.

There is general agreement among your advisers on the technical details of the proposed proclamation on sugar import fees. As drafted, the proclamation provides for the following:

(a) Continuation of the existing import fees of 2.70 cents per pound for raw sugar and 3.22 cents per pound for refined sugar and certain sugar sirups, through December 31, 1978.

(b) Provision for adjustment of these import fees at quarterly intervals beginning January 1, 1979. Such adjustments would be based on changes in world spot prices as reported by the New York Coffee and Sugar Exchange or, in the absence of such quotations, by the International Sugar Organization. For each calendar quarter, the reference period would be the 20 market days preceeding the 20th day of the month prior to the beginning of the quarter. The fee would reflect the difference between world prices, adjusted to a U.S. delivered basis, and the price objective for imported sugar, expressed in cents per pound, raw value. The fee for refined sugars and certain sugar sirups would be .52 cents higher than the raw sugar fee, which is the existing differential.

(c) Provision for a one cent per pound further increase or decrease of the fees should the average world price for 10 consecutive market days, adjusted to a U.S. delivered basis, plus the fee then in effect, deviate from the price objective for imported sugar by more than one cent per pound, raw value.

(d) Applicability of the quarterly fees to all sugars and sirups entered or withdrawn from customs warehouse beginning the first day of the calendar quarter. Fees adjusted within a quarter, as described in paragraph (c), would be applicable to sugars and sirups entered the day following the filing of notice with the Federal Register, unless such sugars and sirups had been exported on a through bill of lading to the United States prior to such date.

(e) All fees would be subject to the statutory limitation that they not exceed 50 percent ad valorem.

This approach has several advantages over the current system. It lessens the degree of uncertainty over when import fees will be changed and by how much they will be changed. The level of the import fee is determined by market price. Furthermore, should there be abrupt changes in market price, there is provision for compensating changes in the level of import fees.

There are two questions concerning the proclamation for which Presidential decisions are sought:

(1) The level at which the market price objective should be established for the remainder of the 1978 crop year.

(2) The need for action to resolve problems caused by imports of refined sugar from Canada.

<u>Market Price Objective</u>

As noted above, you notified Senator Long and others in late October that you would use existing tariff and fee authority to protect a domestic price of 15 cents per pound. With world prices now running around 8.0 cents, the proclamation formula will result in an increase in the import fee of about 0.6 cents per pound on Janaury 1, 1979, to maintain a domestic market price of 15 cents.

Secretary Bergland understood that the 15 cent price objective you announced in October would apply for the entire 1978 crop year -- i.e., that you intend to protect the price support program by achieving a domestic market price of 15 cents per pound of raw sugar for the October-September marketing year, as specified in the bill under consideration in the last session of Congress. To do this, the market price objective for the remainder of the 1978-79 marketing

year should be 15.2 cents, to bring the full year average to 15 cents a pound.

Your other advisers interpreted your commitment to be prospective and not retroactive to October 1, 1978. It was our understanding that you simply agreed to establish the import fee at such a level as would yield a domestic market price of 15 cents per pound for the remainder of the 1978 crop, with no particular commitment as to timing. Beyond the fact that this is our understanding of what you agreed to do, to adopt a 15.2 cent price objective would also have adverse inflationary effects that we feel should be avoided.

DECISION

_______ 15.0 cent market price objective for the remainder of the 1978 crop year -- through September 30, 1979 (State, Treasury, Commerce, COWPS, CEA, NSC, DPS)

_______ 15.2 cent market price objective for the remainder of the 1978 crop year -- through September 30, 1979 (USDA)

Refined Sugar

U.S. refiners charge that refined sugar is being marketed in this country at prices with which they cannot compete. They believe that the current differential of 0.52 cent between the import fee on refined sugar and that on raw sugar is insufficient. A review of the record shows that since March, 1978, the only country from which we have imported refined sugar in substantial quantities is Canada. Our analysis does not indicate that a higher differential is necessary to protect the price support program, and the proposed proclamation reflects this conclusion.

Imports of Canadian refined sugar will continue to be a problem, however, in Northeastern and North Central States. Canadian refined sugar is underselling U.S. refined sugar in some border areas. The Canadian system of duty drawbacks on sugar exports appears to be exacerbating the problem, since the way in which this system is operated may involve a degree of export subsidization.

This problem should be acted upon as soon as possible in order to avoid the possibility of more severe action through new legislation. Your advisers recommend that the Departments of State and Agriculture begin consultations with the Canadian Government in an effort to halt any subsidization of Canadian sugar exports to the U.S. market.

DECISION

_________ Agree

_________ Disagree

~~CONFIDENTIAL~~

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

C

December 22, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: James T. McIntyre, Jr. Jim

SUBJECT: Talking Points for Call to Secretary Brown

1. 1980 Defense Total: $135.6B TOA (1.3% real growth)
$122.8B Outlays (3% real growth over 1979 base of $112.0B)
($2.1B supplemental TOA for FY 79)

($ in billions)

	TOA	(Real Growth)	Outlays*	(Real Growth)
1.	134.0	(.1%)	122.9	(2.6%)
2.	135.6	(1.3%)	122.2	(2.6%)
3.	136.4	(1.9%)	122.8	(3.0%)
4.	137.7	(3.0%)	123.2	(3.3%)

* Option 1 uses OMB outlay rates; all other options use DOD outlay rate assumptions.

II. Civilian Personnel: 1979 = 995 (thousand)
1980 = 986 "
1981 = 979 "
(DOD request was 997, 991, 991)

III. Efficiencies: I want to be able to demonstrate these publically. Had it not been for the 3% commitment, I would have taken the $1B in efficiencies out of your total.

- As it is, I am essentially giving you more program for the chosen budget level.
- I'd like you to report to me and Jim frequently as to how all of your efficiency efforts are proceeding, especially base realignments.

~~CONFIDENTIAL~~

IV. Program Decisions: (Here are two alternative ways to proceed -- we recommend A)

A. I have made decisions on each of the specific program issues, and have asked Jim and John to pass those back to you. (OR)

B. I have made the following decisions on the specific program issues still outstanding:

-- MX. Per your recommendation, proceed with full scale development in 1979 (supp.), and plan to make final basing choice in time to fund actual development of basing mode in 1980.

-- Army "heavying up". Plan for continued modernization of Army units as presently configured. Consider additional support for existing units. Defer plans to create new heavy battalions and convert two infantry divisions.

-- ATCA. Purchase four (4) aircraft in FY 80.

-- Frigate. Add a sixth Perry-class FFG-7 ($190M) in FY 80, as you have agreed.

-- EF-111. Proceed with program if you believe electronics difficulties are solved (Do not stretch out extensively, though).

-- R&D. $13.5B total, with program content as per your rankings.

-- O&M. $40.0B total (1.5% real growth, reflects $200M in supply and manpower efficiencies, so actual "program content" is worth $40.2B).

-- Military Construction (Includes family housing). $3.5B.

V. Outyear Numbers: (We must print 1981 and 1982 numbers, these reflect about 3% (2.7%, to be exact) real growth in outlays)

($ in Billions)

	1980	1981	1982
TOA	135.6	145.8	155.8
Outlays	122.8	133.8	145.0

VI. Defense Budget/Planning Process

-- As I have said before, I am disappointed in the way in which I was presented with your program and budget. Essentially, yours is a different (and less satisfactory) approach, and I would like you to work with OMB and NSC to change that.

-- There are at least three major aspects of the process which concern me:

A. Calendar -- We simply receive things too late. Defense is too important for me to consider your actual recommendations only in the closing hours and days of the process.

B. Rankings -- I found your arguments about "bands" and "balance" quite confusing. I want you to take my guidance, build a request around it, and rank (using ZBB) items above and below that level. Your approach of "working down" from $140-plus billion was not useful.

C. Guidance -- I would like your planning guidance and scheduling to be consistent with mine. Your fiscal guidance should center on mine, not use it as a low minimum. Your planning calendar should allow you to make full recommendations in the spring and fall process well enough in advance to allow me (plus OMB and White House staff) time to consider them carefully.

VII. 3% Commitment. I am persuaded that the 3% commitment has become a real long term liability to me. The thought of its continued budget impact in next year's planning is not a pleasant one.

-- I want you to help me formulate ways in which we might gracefully extract ourselves from the "tightness" of that commitment. (Especially since we have significantly improved NATO)

-- I consider this an urgent priority, and see my meetings at Guadeloupe as an appropriate forum to begin tentative talks on the subject.

(One avenue to pursue would be to begin immediately to emphasize <u>specific</u> military improvements (ground, air, and sea capabilities) and shift slowly off of the dollar totals. The NATO Long Term Defense Plan -- LTDP -- was such as effort, and the recent NATO AWACS success was an explicit example of this kind of specific program. As you know, our budget has major (5-10-15% real growth) commitments in things like Army anti-tank systems, Air Force tactical fighters, and other "NATO-related" items. We could of course continue such healthy commitments even within significantly reduced defense totals.)

THE WHITE HOUSE
WASHINGTON

12/22/78

Stu Eizenstat

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Please notify other parties of the President's decision.

Rick Hutcheson

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION

FOR ACTION	FYI	
		VICE PRESIDENT
		JORDAN
✓		EIZENSTAT
		KRAFT
		LIPSHUTZ
		MOORE
		POWELL
		RAFSHOON
		WATSON
		WEXLER
		BRZEZINSKI
		MCINTYRE
		SCHULTZE
		ADAMS
		ANDRUS
		BELL
		BERGLAND
		BLUMENTHAL
		BROWN
		CALIFANO
		HARRIS
		KREPS
		MARSHALL
		SCHLESINGER
		STRAUSS
		VANCE

		ARONSON
		BUTLER
		H. CARTER
		CLOUGH
		CRUIKSHANK
		FIRST LADY
		HARDEN
		HERNANDEZ
		HUTCHESON
		KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PETTIGREW
		PRESS
		SANDERS
		WARREN
		WEDDINGTON
		WISE
		VOORDE

	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

Stu - pls notify other parties of [redacted] Pres decision

THE WHITE HOUSE
WASHINGTON

12/21/78

Mr. President:

Memos from Bergland, Kahn and Peterson are attached, but are summarized in Stu's cover memo.

Rick

ACTION REQUESTED BEFORE JANUARY 1

THE WHITE HOUSE

WASHINGTON

December 19, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT
LYNN DAFT

SUBJECT: 1979 Meat Import Program

The Meat Import Act of 1964 requires the Secretary of Agriculture to announce before January 1, 1979 the level of meat imports for 1979 prescribed under the law and an estimate of the quantity of meat that would enter the country in the absence of the limitations imposed by this Act. If the quantity that would enter the country in the absence of the limitations exceeds the quantity prescribed under the Act by 110 percent or more, you are required to restrict meat imports to the level indicated in the law.

The USDA reports that the 1979 trigger level (110 percent of the prescribed quantity) will be about 1,245 million pounds, and that imports in the absence of restraints would total about 1,640 million pounds. Given these estimates, you will be required to set a meat import quota of 1,132 million pounds in 1979 (compared to the 1,492 million pounds established this year), unless steps are taken to suspend the quota.

The quota may be suspended if you determine that either: (1) such action is required by overriding economic or national security interests of the United States, giving special weight to the importance to the nation of the economic well-being of the domestic livestock industry, or (2) the supply of meat will be inadequate to meet domestic demand at reasonable prices. This is what we did last year and what other Presidents have done a number of times in recent years.

The Food and Agricultural Policy Working Group has examined several options, ranging from the quantity prescribed by the Meat Import Act of 1964 (1,132 million pounds) to the maximum quantity that could be expected in the absence of any import restraints (1,640 million pounds). This memorandum provides a brief description of the situation and outlook for meat and livestock, followed by an evaluation of the major options. A decision is needed soon so the State Department can proceed to negotiate the voluntary restraint agreements (VRA's), assuming we chose to set imports above the minimum level. It is also important that we establish our imports at a level that does not have to be adjusted again during the year, as was required this past year.

Meat and Livestock Situation and Outlook

This year marked the third consecutive year of U.S. cattle herd liquidation. Cattle and calf slaughter exceeded the calf crop in 1976 for the first time since 1947. The same phenomenon has occurred in 1977 and 1978. In 1979 it is expected that this trend will reverse and that rebuilding of the U.S. cattle herd will finally begin.

The level of production of beef and veal peaked in 1976 and has declined sharply since then. The production of both pork and poultry has increased over this period, off-setting much of the drop in beef supplies. Retail prices have risen substantially, nonetheless. The retail price of beef in the second half of 1978 was nearly 30 percent above the 1976 average price and the price of pork was up 8 percent. As a result of the changed price relationships, the consumption of meat has shifted perceptibly away from beef and toward pork and poultry. Since 1976, the per capita consumption of beef has fallen by about 7 percent and is expected to fall another 12 to 14 percent by 1980.

As you know, cattle prices have materially strengthened this year. For the year, cattle prices at the farm will average about 40 percent above the 1977 average ($34.48 in 1977 versus $48.04 in 1978). Although the rise in farm price has been uneven throughout the year, the trend continues upward. Our analysis indicates that this trend will continue at least through mid-1980, when prices could go above $55.

The Options

Several options were considered by the Working Group, ranging from a low of 1,132 million pounds to a high of 1,640 million pounds. Options at the low end of the scale were rejected by the Working Group due to their inflationary effects over the coming year. Three options were suggested for your consideration:

(1) 1,500 million pounds -- essentially a continuation of the 1978 level of 1,492 million pounds.

(2) 1,570 million pounds -- an annual quantity equal to the rate of imports in the last half of 1978.

(3) 1,640 million pounds -- an estimate of the maximum quantity that would be imported in the absence of import restraints.

Analysis of the Options

The USDA has prepared two sets of anaylses. In one analysis, they evaluate the implications of the above three options in 1979. A summary table (Table 1) is attached. In the other analysis, they compare the effects of very low imports (1,245 million pounds, which is lower than any of the options noted above) and the highest possible level of imports (1,640 million pounds, the same as option (3)) for both 1979 and 1980. These results are summarized in Table 2 and production levels are graphically displayed in Chart 1.

The decision on meat imports has significance beyond 1979 alone. At low import levels, beef producers will have maximum incentive to retain heifers in the herd rather than sending them to slaughter, and beef production will be reduced in 1979 as the herd is rebuilt. However, beef supplies beyond 1979, particularly from 1981 on, will be higher than otherwise because of the accelerated herd rebuilding.

Higher cattle and beef prices resulting from low import levels would also stimulate additional pork and poultry production. The increased production of these meats would continue to partially offset reduced beef production. Per capita meat supplies, under the low import option, would essentially remain constant.

At high import levels, beef supplies would be increased not only by additional imports, but also by higher domestic production, as the incentive for domestic producers to rebuild herds would be diminished. Both farm and retail beef prices would be less, and as a consequence, production of pork and poultry would increase less.

Higher imports in 1979 will also lead to reduced foreign supplies beyond 1979. Besides delaying rebuilding of the U.S. herd, higher 1979 U.S. imports will result in higher cattle and meat prices in the meat exporting countries, providing them with an incentive to withhold cattle in 1980 to rebuild their own herds, thus reducing export availability in 1980 and 1981.

In summary, the analysis revealed that:

- o Cattle prices are strong and will remain strong in 1979, regardless of which option is chosen. In 1980, cattle prices will go even higher, again, regardless of the level of imports in 1979.

- o Higher imports of beef in 1979 will moderate the rise of beef prices in 1979, holding the increase to about 5.1 percent versus 7.1 percent under the low import option (Option 1). In dollar terms, this represents a consumer saving of about $350 million.

- o The implications for 1980 and beyond are the reverse, however. Higher imports in 1979 would dampen increases in the production of pork and poultry and would forestall the rebuilding of beef herds. As a result, the consumer savings made possible by higher imports in 1979 would be more than cancelled by an estimated 16 percent increase in beef prices in 1980.

- o Producer income would be about $713 million higher in 1979 with option (1) than with option (3).

Agency Positions

The USDA recommends option (1). They note that any lower level of imports would almost certainly produce misunderstanding about the seriousness of the Administration's commitment to reduce inflation. Any higher level of imports, however, would only prolong the inflationary problems associated with the rebuilding of beef herds and would be even more pronounced in 1980.

A 1979 meat import level of 1,570 million pounds (Option 2) is recommended by the Departments of State and Commerce, the Special Trade Representative, and the Agency for International Development. They believe that a high level of meat imports is desirable to restrain meat price increases, and that by maintaining in 1979 the rate of meat imports for the second half of 1978 and not setting imports at the maximum level, the Administration can lessen criticism from producer interests.

A 1979 meat import level of 1,640 million pounds (Option 3) is recommended by the Department of the Treasury, the National Security Council, the Council on Wage and Price Stability, and Esther Peterson. They regard meat prices as a continuing, highly visible problem, and believe that an increase in meat imports is necessary in 1979 not only to restrain meat prices but to give credibility to the Administration's anti-inflation program.

Recommendation

We find the USDA analysis of the longer-term consequences persuasive. The year of lowest beef supplies is going to be 1980. It is important, therefore, that cattle herds begin to be rebuilt in 1979 and that hog and poultry producers continue to expand and take up the slack in 1980. A high level of imports now would be short-sighted and self-defeating in the long run -- accentuating the cycle of the last few years and postponing the rebuilding of the herds which will moderate prices. We met with representatives of the cattle industry earlier this week. They indicated that an import level of 1.4 to 1.45 billion pounds would be acceptable, and that they could probably live with 1.5 billion pounds, although the lower figures would help rebuild confidence among their constituency. Given this, we believe it would be to our immediate political advantage and to our longer-term economic advantage to set 1979 imports at the low end of the range of options noted above.

In short, it comes down to a choice between encouraging herd rebuilding in Australia and restraining domestic meat prices in 1979 (high imports) versus encouraging herd rebuilding in the U.S. and restraining domestic meat prices in 1980 and beyond (low imports). For both political and economic reasons, we recommend the latter.

DECISION

_____ 1,500 million pounds (USDA, DPS)

__✓__ 1,570 million pounds (State, Commerce, STR, AID, CEA)

J

_____ 1,640 million pounds (Treasury, COWPS, NSC, Esther Peterson)

TABLE 1

Meat Import Options With Alternative Demand and Supply Conditions

Item	Unit	1978 Annual	1978 Last 6 Months	1979 Option 1	1979 Option 2	1979 Option 3
Beef Production	Mil. lb.	24,337	12,147	23,525	23,575	23,625
Per Capita Consumption:						
Total beef	lb.	120.5	60.2	116.9	117.2	118.2
Imported beef	lb.	10.3	5.1	10.3	10.7	11.2
Total red meat and poultry	lb.	243.5	123.7	243.1	243.1	243.9
Farm price cattle	$/ cwt	48.00	51.00	52.00	51.00	50.00
BLS beef and veal retail price index	1967=100	200	212	215	213	211
Impact on producer income	Mil. $			20,734	20,379	20,021
Consumer expenditure for beef	Mil. $			36,230	36,056	35,880
Consumer price index - 1979 = 211 1967 = 100	Percent Change 1/			-.105	-.124	-.143
Quota meat imports product weight	Mil lb.	1,500	790	1,500	1,570	1,640
Carcass weight	Mil lb.	2,025	1,067	2,025	2,120	2,215

1/ CPI change relative to import at the 1,132 million pound quota level.

TABLE 2-A

MEAT SUPPLY AND USE: HIGH IMPORTS OPTION

	1978	1979					1980				
		I	II	III	IV	YEAR	I	II	III	IV	YEAR
Production						'752					
Beef	24,377	6,090	5,900	5,850	5,785	23,625 - 3.09	5,540	5,325	5,220	5,215	21,300
Pork	13,359	3,335	3,470	3,470	3,640	13,915	3,700	3,700	3,700	4,050	15,150
Poultry	12,880	3,030	3,470	3,690	3,445	13,635	3,100	3,635	3,960	3,815	14,510
Other	943	213	203	183	165	764	175	154	154	167	650
Total	51,519	12,668	13,043	13,193	13,035	51,939	12,515	12,814	13,034	13,247	51,610
Supply											
Imports	2,778	765	806	763	700	3,034	703	702	701	705	2,811
Consumption											
Beef	120.5	31.2	29.3	29.3	28.4	118.2	27.0	26.1	25.6	24.7	103.4
Pork	61.4	15.1	15.6	15.6	16.4	62.7	16.5	16.6	16.5	17.7	67.3
Poultry	57.0	13.4	14.9	15.0	16.2	59.5	13.6	15.5	16.1	17.8	63.0
Other	4.6	1.0	.9	.8	.8	3.5	.8	.7	.7	.8	3.0
Total	243.5	60.7	60.7	60.7	61.7	243.9	57.7	58.9	58.9	61.0	236.7
Prices											
Farm											
Cattle	48.06	48	50	52	51	50	55	61	65	67	62
Hogs	47.19	50	45	45	48	47	49	49	50	49	49
Broilers	26.6	24.5	25.0	26.5	22.0	24.5	25	28	29	25	26.8
Retail											
Beef	200.8	209	210	212	213	211	225	242	253	260	245
(%) *	(22)	(0.0)	(0.5)	(1.0)	(0.5)	(5.1)	(6.6)	(7.5)	(4.5)	(2.7)	(16.0)
Pork	212.2	216	215	215	218	216	218	218	220	219	219
(%)	(12.3)	(1.4)	(-0.5)	(0.0)	(1.4)	(1.8)	(0.9)	(0.0)	(0.1)	(-.5)	(1.4)
Poultry	173.6	170	170	172	160	168	175	180	185	172	178
(%)		(-5.5)	(0.0)	(1.1)	(-7.0)	(-3.2)	(4.1)	(2.8)	(2.8)	(-7.0)	(6.0)

* Percent change from previous corresponding period.

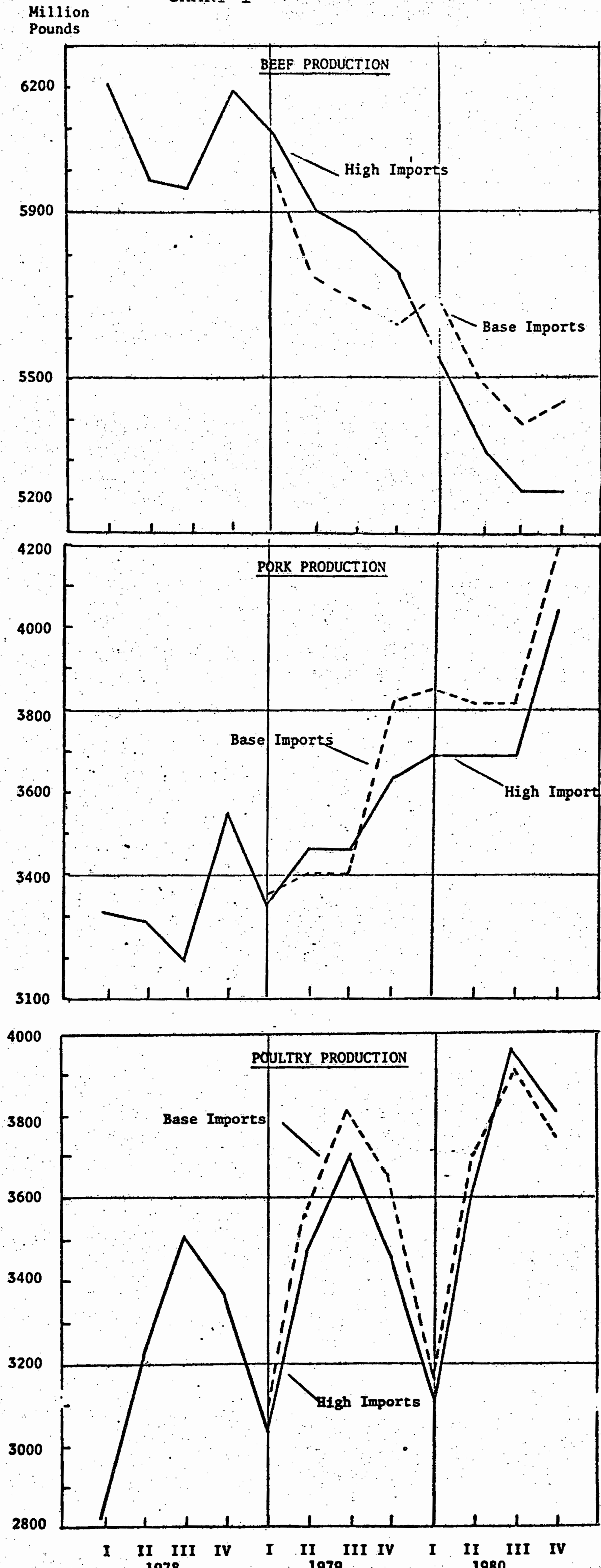
TABLE 2-B

Meat Supply & Use: Base Imports Option

1302
5.34

	1978	1979 I	1979 II	1979 III	1979 IV	1979 Year	1980 I	1980 II	1980 III	1980 IV	1980 Year
Production											
Beef	24,377	6,005	5,745	5,695	5,630	23,075	5,700	5,490	5,380	5,430	22,000
Pork	13,359	3,330	3,415	3,415	3,830	13,990	3,850	3,825	3,825	4,200	15,700
Poultry	12,880	3,065	3,530	3,820	3,630	14,045	3,140	3,665	3,910	3,745	14,460
Other	943	186	146	160	164	565	175	154	154	167	650
Total	51,519	12,586	12,836	13,090	13,254	51,766	12,865	13,134	13,269	13,542	52,810
Supply											
Imports	2,778	615	647	613	559	2,434	567	563	562	568	2,260
Consumption											
Beef	120.5	29.4	28.3	27.9	27.6	113.2	27.1	26.2	25.7	25.7	104.7
Pork	61.4	15.1	15.4	15.6	17.1	63.2	17.2	17.2	17.1	18.4	69.9
Poultry	57.0	13.5	15.1	15.6	17.0	61.2	13.7	15.6	15.8	17.5	62.6
Other	4.6	.9	.7	.7	.8	3.1	.8	.7	.7	.8	3.0
Total	243.5	58.9	59.5	59.8	62.5	240.7	58.8	59.7	59.3	62.	240.2
Prices											
Farm											
Cattle	48.06	53	55	58	57	55.75	58	60	63	63	61
Hogs	47.19	50	49	49	46	48.50	48	46	45	43	45.50
Broilers	26.6	26.0	27.0	28.0	22.0	25.8	25.0	26.0	25.0	20.0	24.0
Retail Indexes											
Beef	200.8	212	222	230	228	223	229	235	248	249	240
%Change	(22.7)	(1.4)	(4.7)	(3.6)	(-0.9)	(11.1)	(2.7)	(2.6)	(5.5)	(0.4)	(7.6)
Pork	212.2	218.0	218.0	221.0	217.0	218.5	217.0	211	210	208	211.5
%Change	(12.3)	(2.3)	(0.0)	(1.4)	(-1.8)	(3.0)	(-0.7)	(-2.8)	(-0.5)	(-0.5)	(-3.2)
Poultry	173.6	178.0	178.0	175.0	165.0	174.0	178.0	175.0	179.8	162.0	171.2
%Change		(-1.1)	(0.0)	(-1.7)	(-5.7)	(0.2)	(2.3)	(-1.7)	(-2.4)	(-5.1)	(-1.6)

CHART 1


Million Pounds
BEEF PRODUCTION
High Imports
Base Imports
6200
5900
5500
5200
PORK PRODUCTION
Base Imports
High Imports
4200
4000
3800
3600
3400
3100
POULTRY PRODUCTION
Base Imports
High Imports
4000
3800
3600
3400
3200
3000
2800
I II III IV I II III IV I II III IV
1978 1979 1980

BERGLAND

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

December 15, 1978

MEMORANDUM FOR THE PRESIDENT

SUBJECT: 1979 Meat Import Program

This memorandum seeks your guidance on the quantity of meat which should be permitted to be entered into the United States during calendar year 1979, subject to the Meat Import Act of 1964 (P.L. 88-482). The options range from the adjusted base quota of 1,132 million pounds to a level estimated to be the quantity of meat that would enter the country in the absence of restraints, 1,640 million pounds.

Key factors to be considered in reaching a decision are:

- o the law that requires imposition of quotas on importation of certain meat products.
- o the willingness of meat exporting countries to enter into voluntary restraint agreements.
- o the impact in 1979 and beyond on: domestic beef producers, domestic pork and poultry producers, American consumers of meat, meat exporting nations, and other meat importing nations.

These factors are discussed below.

The Meat Import Act of 1964

The Meat Import Act of 1964 requires the Secretary of Agriculture to publish before January 1, 1979 the level of meat imports for 1979 prescribed under the law (the adjusted base quota) and an estimate of the quantity of meat that would enter the country in the absence of the limitations imposed by this Act. If the quantity that would enter the country in the absence of the limitations in the Act exceeds the adjusted base quota level prescribed under the Act by 110 percent or more, you are then required to restrict meat imports to the adjusted base quota level.

We have now calculated that the 1979 trigger level (110 percent of the adjusted base quota) will be about 1,245 million pounds, and that imports in the absence of restraints would total about 1,640 million pounds. Upon publication of these estimates, the law requires you to issue a proclamation imposing limits on meat imports at the 1979 adjusted base quota level.

However, the quota may be suspended if you determine that (1) such action is required by overriding economic or national security interests of the United States, giving special weight to the importance to the nation of the economic well-being of the domestic livestock industry, or (2) the supply of meat will be inadequate to meet domestic demand at reasonable prices.

The estimates of the adjusted base quota and unrestrained imports are required to be published before January 1, 1979. We are recommending that you announce your decision on the 1979 meat import program concurrently with the announcement of the level of the quota and the estimate of unrestrained meat imports. U.S. cattle producers and representatives of meat exporting countries have expressed strong interest in having the 1979 meat import level established at the beginning of the year and not altered during the course of the year, so as to avoid market disruptions.

Meat and Livestock Situation and Outlook

This year (1978) marked the fourth consecutive year of U.S. cattle herd liquidation. Cattle and calf slaughter exceeded the calf crop in 1976 for the first time since 1947. The same phenomenon has occurred in 1977 and 1978. In 1979 it is expected that this trend will reverse and that rebuilding of the U.S. cattle herd will begin.

The decision on meat imports has significance for meat supplies and prices beyond the mere level of meat imports allowed in 1979. It will affect the rate at which rebuilding of the U.S. cattle herd gets underway in 1979, and the rate at which pork and poultry production are expanded. It will thus have impacts on meat supplies beyond 1979 alone. At low import levels, prices will be highest at both the retail and farm levels for all meats. Beef producers will have maximum incentive to retain heifers in the herd rather than sending them to slaughter, and beef production will be reduced in 1979 as the herd is rebuilt. However, beef supplies beyond 1979, particularly from 1981 on, will be higher than they otherwise would be because of the accelerated herd rebuilding effort.

Higher cattle and beef prices resulting from low import levels will also stimulate pork and poultry production, and increased production of these meats would to some extent offset reduced beef production. Total meat production in 1979 would be higher than in 1978 but lower than would be the case if imports are set at higher levels.

At higher import levels beef supplies would be increased not only by additional imports, but also by higher domestic production, as the incentive for domestic producers to rebuild herds would be diminished. Both farm and retail beef prices would be less than under low import options, and as a consequence, production of pork and poultry would increase less as prices for these meat products would be somewhat dampened.

Higher imports and higher supplies in 1979 will also lead to reduced supplies beyond 1979. Besides delaying rebuilding of the U.S. herd, higher 1979 U.S. imports will result in higher cattle and meat prices in the meat exporting countries, providing foreign producers with the greatest incentive to withhold cattle in 1980 in order to rebuild their own herds, thus reducing export availability in 1980 and 1981. Consequently, meat supplies beyond 1979 would be somewhat tighter than would likely be the case with a lower import level in 1979. Meat prices in 1979, in both the meat exporting countries and other meat importing countries, will increase as higher U.S. prices bid meat away from those markets.

The table below compares pertinent figures for 1976-1978 with high and low import options for 1979:

Item	1976	1977	1978	1979 1/	1979 2/	1980 1/	1980 2/
	Billion Pound Carcass Weight						
Production							
Beef	26.0	25.3	24.4	23.1	23.6	22.0	21.3
Pork	12.7	13.2	13.4	14.0	13.9	15.7	15.2
Poultry	11.8	12.1	12.9	14.0	13.6	14.5	14.5
Other	1.2	1.2	0.9	0.7	0.8	0.6	0.6
Total Production	51.7	51.8	51.6	51.8	51.9	52.8	51.6
Beginning Stocks	0.8	0.9	0.7	0.8	0.8	0.8	0.8
Imports 3/	2.6	2.4	2.8	2.3	3.0	2.3	2.8
Total Supply	55.1	55.1	55.1	54.9	55.7	55.9	55.2

	1976	1977	1978	1979 1/	1979 2/	1980 1/	1980 2/
	Carcass Weight Pounds Per Capita						
Civilian Consumption							
Beef	129.3	125.9	120.5	113.2	118.2	104.7	103.4
Pork	59.5	61.5	61.4	63.2	62.7	69.9	67.3
Poultry	52.5	54.1	57.0	61.2	59.5	62.6	63.0
Other	5.9	5.6	4.6	3.1	3.5	3.0	3.0
Total Civilian Consumption	247.2	247.1	243.5	240.7	243.9	240.2	236.7

	1976	1977	1978	2nd half 1978	1979 1/	1979 2/	1980 1/	1980 2/
	Dollar Per Hundredweight							
Prices								
Farm Price Cattle	33.70	34.40	48.06	51.00	55.75	50.00	61.00	62.00
Farm Price Hogs	42.95	40.04	47.19	47.89	48.50	47.00	45.50	49.00
Beef and Veal Retail Price Index (1967=100)	164.5	163.6	200.8	211.7	223.0	211.0	240.0	245.0
Pork Retail Price Index (1967=100)	199.5	188.8	212.2	215.7	218.5	216.0	211.5	219.0

1/ Imports at the trigger level of 1,245 million pounds.
2/ Imports at the estimated unrestrained level: 1,640 million pounds.
3/ Includes imports of meat items not subject to the Act.

In summary, the lower options for 1979 meat imports would result in lowest meat supplies in 1979, and would be most inflationary in that year, but would also lead to the greatest expansion in production in 1980 and beyond, and would therefore be least inflationary over that time period. The higher options for meat imports would result in highest meat supplies in 1979 and would be least inflationary that year, but would also provide least incentive for meat producers to expand production. Consequently, these options would be somewhat more inflationary in the period beyond 1979.

The Options

Five options were considered by the Working Group on Food and Agricultural Policy. As noted earlier, a decision to set meat import limits at a level higher than the 1,245 million pounds suggested in Option (2), the trigger level provided by the formula in the 1964 Meat Import Act, must be based on your determination that (1) such action is required by overriding economic or national security interests of the United States, giving special weight to the importance to the nation of the economic well-being of the domestic livestock industry, or (2) the supply of meat will be inadequate to meet domestic demand at reasonable prices.

For each option, it will be necessary to negotiate voluntary restraint agreements with meat exporting countries:

(1) Set meat import limits at 1,132 million pounds, the adjusted base quota level provided by the formula in the 1964 Meat Import Act.

(2) Set meat import limits at 1,245 million pounds, 110 percent of the base quota and the trigger level provided by the Act.

(3) Set meat import limits at 1,500 million pounds, continuing the revised 1978 level.

(4) Set meat import limits at 1,570 million pounds, an annual quantity equal to the rate of imports in the last half of 1978.

(5) Set meat import limits at 1,640 million pounds, near the estimate of unrestrained imports for 1979.

Based on concerns with near-term inflation in food prices, members of the Working Group have not recommended the lower two options. However, the analyses of meat supply and prices do indicate that while these lower options would be more inflationary in 1979, they would sufficiently stimulate domestic production to result in lower meat prices in 1980 than would be the case with higher import options, and they would result in substantially less increases in meat prices in 1980 over 1979.

Agency Positions

Notwithstanding the longer-term benefits of lower meat import options, I must recommend that meat imports for 1979 be set at the 1978 revised level, 1,500 million pounds. To set a lower level would almost certainly produce misunderstanding about the seriousness of the Administration's commitment to reduce inflation, especially as we are not likely to have an opportunity to explain the longer-term benefits.

A 1979 meat import level of 1,570 million pounds (Option 4) is recommended by the Departments of State and Commerce, the Special Trade Representative, and the Agency for International Development. These members believe that a high level of meat imports is desirable to restrain meat price increases, and that by maintaining in 1979 the rate of meat imports for the second half of 1978, an adverse reaction on the part of U.S. cattle producers can be avoided.

A 1979 meat import level of 1,640 million pounds (Option 5) is recommended by the Department of the Treasury, the National Security Council, the Council on Wage and Price Stability, and Esther Peterson. These members regard meat prices as a continuing, highly visible problem, and believe that an increase in meat imports is necessary in 1979 not only to restrain meat prices but to give credibility to the Administration's anti-inflation program.

Attached is the memorandum to me from the Working Group transmitting their recommendations.

Decision

________ Option 1, set limit at 1,132 million pounds, the adjusted base quota established by law.

________ Option 2, set limit at 1,245, 110 percent of the base quota, and the level at which the quota must be invoked.

________ Option 3, set limit at 1,500 million pounds, the 1978 level.

________ Option 4, set limit at 1,570 million pounds, annualizing the rate of meat imports during the last half of 1978.

________ Option 5, set limit at 1,640 million pounds, the quantity of meat which would likely be imported in the absence of any restraints.

Bob Bergland

BOB BERGLAND
Secretary

Attachment

KAHN

THE WHITE HOUSE

WASHINGTON

December 21, 1978

MEMORANDUM TO THE PRESIDENT

FROM: A. E. Kahn Fred

SUBJECT: 1979 Meat Import Program

I would like to explain more fully my reasons for strongly supporting the high import option of 1,640 million pounds.

1. The memo you have received purports to present you with a choice between restraining meat prices in 1979 and restraining them in 1980. Essentially, the argument is that because high imports in 1979 will reduce prices, they will diminish the incentive to rebuild our herds; and this will in the future result in supplies smaller, and prices higher, than they would otherwise be.

But no basis is offered for these confident predictions. The decision to build herds or deplete them is surely dependent on the relation between present and anticipated prices. The material we have examined offers no reason for anticipating that lower current prices (caused by high imports) will cause farmers to expect prices to be even lower in the future, and therefore to deplete their herds.

It is equally plausible that high imports and lower prices in 1979 would create the opposite expectation--that prices will be relatively higher in the future than now, and therefore induce the withholding of animals from the market for herd rebuilding. While this would mean lesser consumer benefits from the higher level of imports in 1979, it would also mean larger supplies and lower prices in subsequent years. At the very least, it does not necessarily mean diminished supplies and inflationary price increases in the intermediate years beyond 1979.

In short, I find unconvincing the suggestion that the benefits from a freer flow of international trade, giving American consumers access to wider sources of supply, are necessarily temporary, and that the lower prices it brings today can be obtained only at the expense of higher prices tomorrow.

I suggest you should in any event take all of these predictions with a grain of salt. Forecasts of this kind have not been very accurate. Predicting producers' decisions involves a lot of guesswork.

2. During the past year, meat prices have been perhaps the most highly visible component in the CPI. Food price inflation has outpaced overall inflation, largely because of rapid price increases for meats. Retail beef and veal prices have gone up by 29 percent during the last 12 months.

3. Imported beef, which is used to produce hamburger and manufactured products, supplies only seven percent of domestic consumption and does not compete directly with the better quality fed beef produced in the U.S. A lower level of imports has a disproportionately harmful effect on lower income consumers, who purchase these less expensive products. Retail ground beef prices have increased by 35 percent during the last 12 months.

4. Under the high import option, according to the Department of Agriculture analysis, the 1979 farm price of cattle would still be 4 percent above the 1978 level, and retail beef and veal prices would still be 5.5 percent higher.

5. Finally, selection of the high import option would be seen as clear evidence of the Administration's commitment to fight inflation. I fear that any other decision would be viewed as business as usual.

PETERSON

THE WHITE HOUSE

WASHINGTON

December 21, 1978

MEMORANDUM FOR THE PRESIDENT

Secretary Bergland's memos on sugar and cotton reflect most of our concerns, though we would like to expand on a few points. Our comments on the meat import program are rather more extensive.

SUGAR

We support the 15.0 cent price objective for the year beginning January 1, 1979. The establishment of a 15.2 cent price objective from January through September is undesirable for several reasons. Consumers and many skeptical "inflation watchers" would view the setting of a 15.2 cent price objective as another government mandated price increase which the President could have avoided. Setting a 15.2 cent price could even backfire with producers. Since we are limited to a fee of no more than 50 percent ad valorem, the higher the price objective the greater the liklihood we will fail to achieve the objective. Failure to achieve the objective would be viewed by producers as incompetence and/or an unwillingness to make good our commitment.

COTTON

We believe present economic conditions in the cotton industry do not indicate a need for a set aside. Favorable weather this year could result in large carry-over stocks and the need for a set aside in 1980. However, it would be politically difficult, a year from now, to justify a reasonable set aside in the face of high stocks, if the year before we had a 10% set aside with only a four million bale carry in.

MEAT IMPORTS

We recommend a 1979 meat import quota of 1,640 million pounds. We realize that this will be near the level of meat available and will be unpopular with cattlemen. The estimated impacts of various options contained in Secretary Bergland's memo are necessarily based on judgments. In this case, they are judgments of the likely psychological reactions of American and Australian cattlemen and the resultant impact on herd rebuilding intentions. We do not disagree with the assumed direction of effects, only the magnitude. The USDA attributes last year's continued herd liquidation in the face of high prices to the cattlemen's adverse reaction to the government's import decision, and argues that a large import quota this year will result in further delay of herd rebuilding. A fact often overlooked in this analysis is the cattlemen's need last year to pay off the large debt they accumulated from 1975 to 1978. The pressure from bankers to liquidate herds at favorable prices was equally as important as psychology. Now that the debt levels are more manageable, and prices have remained high for an entire year, bankers should cease to be a strong deterrent to herd rebuilding.

Whatever option is chosen, we would strongly recommend that the announcement be made in a positive tone. By allowing an increase in meat imports we are <u>not</u> asking cattlemen to sacrifice and such a statement would only open the Administration up to attack.

We are implementing a policy which will hold the increase in meat prices--from today's very high levels--to between 5% and 12% depending on the option chosen. Pointing out that this action will only slow the rate of meat price increases should serve to blunt any complaints the cattlemen might see fit to make.

EP

Esther Peterson
Special Assistant to the President
for Consumer Affairs

THE WHITE HOUSE
WASHINGTON

12/22/78

Secretary Blumenthal
Alfred Kahn
Jim McIntyre
Charlie Schultze

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Stu Eizenstat
Frank Moore
Jack Watson

Anne Wexler

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION

FOR ACTION	FYI	
	X	VICE PRESIDENT
		JORDAN
X		EIZENSTAT
		KRAFT
		LIPSHUTZ
	X	MOORE
		POWELL
		RAFSHOON
✓	X	WATSON
		WEXLER
		BRZEZINSKI
X		MCINTYRE
X		SCHULTZE
		ADAMS
		ANDRUS
		BELL
		BERGLAND
X		BLUMENTHAL
		BROWN
		CALIFANO
		HARRIS
		KREPS
		MARSHALL
		SCHLESINGER
		STRAUSS
		VANCE

		ARONSON
		BUTLER
		H. CARTER
		CLOUGH
		CRUIKSHANK
		FIRST LADY
		HARDEN
		HERNANDEZ
		HUTCHESON
X		KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PETTIGREW
		PRESS
		SANDERS
		WARREN
		WEDDINGTON
		WISE
		VOORDE

	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

THE WHITE HOUSE

WASHINGTON

12/20/78

Mr. President:

The attached memo was received late tonight. Neither DPS or CL have had an opportunity to review the recommendations. Stu recommends that you treat this memo as information only and delay your decision until all relevant staff have had a chance to review it.

Rick/Bill

8:00 AM

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

December 20, 1978

C

MEMORANDUM FOR THE PRESIDENT

From: W. Michael Blumenthal
Alfred Kahn
James T. McIntyre wsc
Charlie Schultze CLS

Subject: The Real Wage Insurance Program

This memorandum seeks your guidance on the real wage insurance (RWI) program.

Chairman Ullman plans hearings on the proposal for January 22 and would like Treasury to submit its final proposal to the Committee on January 5.

We continue to believe that real wage insurance, if swiftly enacted, or seen to be on the way to enactment, would be an important inducement to hold wage increases within the pay standards. But you should be aware of a number of important difficulties.

In developing the program we have run into several budgetary, technical, and political problems. The Congress may well kill the proposal or modify it with various amendments that change its nature or enlarge its scope. Chances for swift and uncluttered enactment are low, and the debate may prove controversial and prolonged.

In particular, there may be attempts to convert a program which rewards people for acting against inflation into a proposal that simply indexes various groups against inflation -- e.g. by making the insurance available to low wage workers even if their pay increases exceed 7 percent. Such changes would set an extremely dangerous precedent, as well as add sharply to potential budgetary exposure.

For all of these reasons we recommend that:

1. We make it clear at the outset that we could not accept a program whose scope and nature were substantially changed from the one submitted;

2. We need expeditious enactment of RWI; and

3. While you should strongly endorse the program, you should leave the day-to-day selling effort largely to the Treasury and your economic advisers. You need not invest your prestige too heavily in the proposal's success through close personal involvement in the day-to-day efforts to enact the program.

With one exception, we have worked out all of the major issues of program design. That exception involves the range of inflation against which we would protect those workers who comply with the pay standards -- e.g. from 7 percent to 10 percent; from 7 percent to 9 percent, etc. The wider the range, the more effective the program in inducing compliance with the pay standards, but the larger the budget exposure. On this issue we need your guidance.

All employees, public and private, would be eligible for the program so long as they met the 7 percent pay standards. In no event would the insurance cover wages above $20,000. Some groups are exempted from the CWPS voluntary standards (e.g. unions under pre-existing contracts and low wage workers), but they would not be eligible for the real wage insurance unless they met the 7 percent guideline. Principally because of the 1979 increase in the minimum wage, the vast majority of low paid employees will have wage increases in excess of 7 percent, and so will not be eligible. The same situation will face most employees under existing union contracts. With reasonably high (two-thirds) participation of all other workers, each point of inflation above the threshold will cost $5 billion. With maximum participation of these workers (100 percent) each point will cost $6.5 billion. Higher inflation would, of course, be accompanied by higher income tax revenues.

Alternatives

A. The program would insure a worker against 3 points of inflation -- from 7 percent to 10 percent. This variant, on which we have premised our consultations, has the advantage of fully insuring real wages up to quite a high inflation rate, and therefore is a good inducement for workers to comply with the standard. But it would entail a budget cost of $2.5 billion in 1979 if we hit our projected inflation rate of 7-1/2 percent and higher if we exceed it. At 8 percent, e.g., the cost would be $5 billion, and it has a potential budget exposure of $15 to $19-1/2 billion at 10 percent inflation.

B. The program would insure a complying worker against 2 points of inflation -- from 7 percent to 9 percent. The narrower range of protection significantly reduces the attractiveness of the program. But it also significantly reduces potential costs. The actual cost with 7-1/2 percent inflation would still be $2.5 billion, but the outside potential budget exposure would be reduced to $10 to $13 billion.

Problem Areas

You should know that, as debate begins on RWI, several serious problems will quickly emerge.

a. Budget costs: Critics will say that the program risks creating more inflation through an increased FY 1980 budget deficit. There are many who will believe that our inflation forecast is too low and will say that, on "realistic" inflation projections, the proposal breaches your $30 billion deficit goal by a wide margin. (The critics would be wrong, of course. Higher inflation would generate net additional Federal revenues equal to about four-fifths of the additional cost of RWI -- it would not add substantially to the deficit.)

b. <u>Technical problems</u>: Critics will focus immediately on the inevitable complexity and paperwork burdens of complying, particularly for small business.

c. <u>Equity problems</u>: As an incentive scheme, rather than a broad-based tax cut, RWI will draw fire for many perceived inequities in its coverage and the distribution of its payout. There may be efforts to convert the proposal into a straightforward scheme to index the income tax.

d. <u>Timing problems</u>: It is unlikely that we can push the proposal through Congress before the major 1979 collective bargaining negotiations. RWI may well "die on the vine," and in so doing damage the credibility of the voluntary wage-price standards. In pressing for RWI we cannot get in the position of arguing that your anti-inflation program stands or falls on its enactment.

<u>Personal Views</u>

Secretary Blumenthal feels strongly that the range should be 7 to 9 percent, to limit the potential budget exposure and to blunt the charge that RWI risks an enormous payout during a period of high inflation. Blumenthal feels that it would damage the credibility of the entire budget to have bandied about potential costs in the $15 to $19.5 billion range, as would be the case with the 7 to 10 percent program. He further believes we could justify a 7 to 9 percent range as realistic and adequate and explain that, with a higher inflation rate, all bets would be off with respect to all our economic policies. Finally, Blumenthal believes that the 1979 inflation rate, barring a recession, will almost certainly exceed 7.5 percent, and thus that RWI costs will in fact exceed $2.5 billion.

Charlie Schultze believes we should stick with the 7 to 10 percent. Shaving a point off the protection afforded by RWI will significantly reduce its attractiveness as an incentive for compliance without reducing budget exposure <u>in the most likely range of price increases</u> (7 to 9 percent). Lowering the range of protection would particularly hinder the attractiveness of the program to those workers whose compliance with the standards requires them to sacrifice relatively large wage increases. If there should be very high compliance with the pay standards and, nevertheless, a 10 percent price increase, real wages and purchasing power would be very severely reduced. Under those unlikely circumstances, a large RWI payout in the spring of 1980 would be a desirable outcome. Moreover, as noted earlier, a high inflation rate would increase net budget revenues by approximately four-fifths of the increased cost of real wage insurance. Bad performance on food and energy prices could give us high inflation. But to the extent a reasonably generous RWI program secures widespread compliance with the pay standards, it will keep that source of inflation from spreading to wages, and thus help prevent a much worse inflationary problem in 1980.

Fred Kahn agrees with Charlie, if it is the case that higher net revenues would under rates of inflation in excess of 7 percent offset four-fifths of the impact of increased RWI payments on the deficit.

Jim McIntyre also believes that we should hold to the 7 to 10 percent option. The entire rationale for RWI is to enhance the acceptability of the wage-price standards and thereby reduce inflation. Lowering the cap to 9 percent is likely to significantly reduce the effectiveness of the program by reducing compliance; inflation would then turn out to be higher within the 7-1/2 to 9 percent range. If we are going to go forward with RWI, we should propose the most effective anti-inflationary option. In the unlikely event that inflation exceeds 9 percent, the resulting higher receipts will provide protection against a large increase in the deficit unless real growth slows sharply. If that should happen, the larger RWI payout would be desirable to help prevent a serious recession.

Recommendations and Decisions

Despite the problems, we believe on balance that the program should go forward. It is our only innovative legislative response to the inflation problem. Without RWI, a 7 percent pay standard will be very difficult to defend in the face of an official inflation forecast in excess of 7 percent. Abandoning it would leave us vulnerable to those desiring outright controls. Accordingly, we seek your approval on three issues:

1. That we go forward with RWI

✓ approve ____ disapprove

2. That the insured inflation range be

A. 7 to 10 percent ✓

B. 7 to 9 percent ____

3. That you endorse the program strongly but leave the initial presentation and selling efforts to Treasury and your economic advisers, rather than making this a top Presidential priority with a White House lead.

✓ ____

J

THE WHITE HOUSE

WASHINGTON

Moot - Jensen notified

MEMORANDUM

Date: December 26, 1978

FOR ACTION:
Stu Eizenstat
Jim McIntyre nc - moot
Charlie Schultze nc - moot
Alfred Kahn

FOR INFORMATION:
Vice President
Frank Moore (Les Francis)
Jack Watson
Anne Wexler
Landon Butler

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Secretary Marshall memo re Real Wage Insurance (RWI) Program

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 12 noon

DAY: Thursday

DATE: Dec 28

ACTION REQUESTED:

_X_ Your comments

Other:

STAFF RESPONSE:

____ I concur. ____ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

DEC 22 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: SECRETARY OF LABOR Ray

SUBJECT: REAL WAGE INSURANCE (RWI) PROGRAM

I have now received a copy of the Blumenthal/Kahn/McIntyre/Schultze memo of December 20 to you on Real Wage Insurance (RWI). Let me add my views on this difficult issue since the RWI program is of critical importance to achieving our anti-inflation goals, especially adherence to the wage standards in newly negotiated collective bargaining agreements.

I recognize that RWI presents many difficult technical and administrative problems as well as raising complicated considerations of equity all of which will undoubtedly be highlighted in hearings on the Hill.

Yet the program is perceived as central to our anti-inflation effort and at this point deserves your strongest support. A number of unions who support the inflation program--including the UAW--feel strongly about RWI. For this reason, my recommendations would be:

1. The program should receive high Presidential priority in an effort to obtain passage early enough to help influence the size of the settlement in the Teamsters/Truckers dispute. This contract expires at the end of March. The negotiations might be adversely affected if RWI were dropped as a Presidential priority.

2. You have a strong personal identification with RWI because the concept was initially

unveiled in your inflation speech. Any lessening of its priority will signal a lessening in your commitment to the anti-inflation program.

3. The program should insure a worker against three percentage points of inflation--from 7 percent to 10 percent. In view of the currently high monthly increases in the Consumer Price Index (CPI), a program that insures up to 9 percent will be viewed as only a half-way measure.

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION

FOR ACTION	FYI	
	X	VICE PRESIDENT
		JORDAN
X		EIZENSTAT
		KRAFT
		LIPSHUTZ
	X	MOORE
		POWELL
		RAFSHOON
	X	WATSON
	X	WEXLER
		BRZEZINSKI
X		MCINTYRE
X		SCHULTZE
		ADAMS
		ANDRUS
		BELL
		BERGLAND
		BLUMENTHAL
		BROWN
		CALIFANO
		HARRIS
		KREPS
		MARSHALL
		SCHLESINGER
		STRAUSS
		VANCE

		ARONSON
	X	BUTLER
		H. CARTER
		CLOUGH
		CRUIKSHANK
		FIRST LADY
		HARDEN
		HERNANDEZ
		HUTCHESON
X		KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PETTIGREW
		PRESS
		SANDERS
		WARREN
		WEDDINGTON
		WISE
		VOORDE

	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

+2

C

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

December 22, 1978

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze CLS

Subject: Pork Production

Good news. USDA's survey of farmers' intentions on hog production was released yesterday. Farmers intend to keep 15 percent more animals for breeding between now and May than during the comparable period a year ago. Based on these intentions analysts now forecast a 17 percent increase in the baby pig crop. Market traders had been expecting substantially lower increases.

As you know, earlier failure of hog production to expand in the face of lower grain prices has been one of the major causes of meat price increases. Higher pork prices made it easier for beef prices to rise. While meat prices will continue to rise next year, the new pork production estimates -- if borne out -- should moderate the price increase, especially in the latter part of the year.

CEA staff is now working with USDA to assess the impact of the new report on our 1979 meat price forecast.

THE WHITE HOUSE
WASHINGTON

12/22/78

Stu Eizenstat

The attached was returned in the President's outbox today and is forwarded to you for your information. The signed original has been given to Bob Linder for appropriate handling.

Rick Hutcheson

cc: Bob Linder

THE WHITE HOUSE

WASHINGTON

December 19, 1978

C

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
LYNN DAFT Lynn

SUBJECT: Sugar Proclamation

On January 20, 1978, you issued an emergency proclamation under your Section 22 authority establishing an import fee on raw sugar of 2.7 cents per pound and on refined sugar of 3.22 cents per pound. This was necessary to equalize the price of foreign sugar entering this country with the domestic price set by the de la Garza loan program. Without these fees, much of the domestic sugar would have been placed under loan to the CCC and never redeemed. At the time of this proclamation, 1977 crop sugar was being supported at 13.5 cents per pound, raw basis. Given the price level then prevailing in world markets, the 2.7 cent fee was designed to protect this 13.5 cent support price plus the 6 percent interest charge on CCC loans.

It was recognized at the time this proclamation was issued that it would eventually have to be changed, either to accomodate changes in the level of world prices or to protect the higher support price that the law required be set for 1978 crop sugar, or both. The support level for 1978 crop sugar has since been set at 14.73 cents per pound. Also, we delayed making changes in the level of import fees while the Congress was deliberating over new sugar legislation this past session.

As you recall, the Congress failed to agree on a new sugar program. At the request of Senators Long and Stone, among others, you agreed to:

(a) Try again early in the next session of Congress to reach agreement on an acceptable sugar program for the 1979 crop and beyond;

(b) Continue to use existing tariff and fee authority to protect a domestic price of 15 cents per pound (rather than 14.73 cents, the minimum required by law); and

(c) Instruct Customs to monitor U.S. imports from countries not party to the International Sugar Agreement (ISA) and, if necessary, to limit imports under existing authority to assist in maintaining the 15 cent price objective.

In return, the Senators were asked to help achieve early ratification of the ISA.

It is necessary to issue a new proclamation now to implement your decision to protect a 15 cent price. In addition, we need to adopt a procedure that will automatically adjust the import fee in response to changes in world prices. Once this system is adopted, new proclamations will be required only when there are changes in the price objective.

There is general agreement among your advisers on the technical details of the proposed proclamation on sugar import fees. As drafted, the proclamation provides for the following:

(a) Continuation of the existing import fees of 2.70 cents per pound for raw sugar and 3.22 cents per pound for refined sugar and certain sugar sirups, through December 31, 1978.

(b) Provision for adjustment of these import fees at quarterly intervals beginning January 1, 1979. Such adjustments would be based on changes in world spot prices as reported by the New York Coffee and Sugar Exchange or, in the absence of such quotations, by the International Sugar Organization. For each calendar quarter, the reference period would be the 20 market days preceeding the 20th day of the month prior to the beginning of the quarter. The fee would reflect the difference between world prices, adjusted to a U.S. delivered basis, and the price objective for imported sugar, expressed in cents per pound, raw value. The fee for refined sugars and certain sugar sirups would be .52 cents higher than the raw sugar fee, which is the existing differential.

(c) Provision for a one cent per pound further increase or decrease of the fees should the average world price for 10 consecutive market days, adjusted to a U.S. delivered basis, plus the fee then in effect, deviate from the price objective for imported sugar by more than one cent per pound, raw value.

(d) Applicability of the quarterly fees to all sugars and sirups entered or withdrawn from customs warehouse beginning the first day of the calendar quarter. Fees adjusted within a quarter, as described in paragraph (c), would be applicable to sugars and sirups entered the day following the filing of notice with the Federal Register, unless such sugars and sirups had been exported on a through bill of lading to the United States prior to such date.

(e) All fees would be subject to the statutory limitation that they not exceed 50 percent ad valorem.

This approach has several advantages over the current system. It lessens the degree of uncertainty over when import fees will be changed and by how much they will be changed. The level of the import fee is determined by market price. Furthermore, should there be abrupt changes in market price, there is provision for compensating changes in the level of import fees.

There are two questions concerning the proclamation for which Presidential decisions are sought:

(1) The level at which the market price objective should be established for the remainder of the 1978 crop year.

(2) The need for action to resolve problems caused by imports of refined sugar from Canada.

Market Price Objective

As noted above, you notified Senator Long and others in late October that you would use existing tariff and fee authority to protect a domestic price of 15 cents per pound. With world prices now running around 8.0 cents, the proclamation formula will result in an increase in the import fee of about 0.6 cents per pound on Janaury 1, 1979, to maintain a domestic market price of 15 cents.

Secretary Bergland understood that the 15 cent price objective you announced in October would apply for the entire 1978 crop year -- i.e., that you intend to protect the price support program by achieving a domestic market price of 15 cents per pound of raw sugar for the October-September marketing year, as specified in the bill under consideration in the last session of Congress. To do this, the market price objective for the remainder of the 1978-79 marketing

year should be 15.2 cents, to bring the full year average to 15 cents a pound.

Your other advisers interpreted your commitment to be prospective and not retroactive to October 1, 1978. It was our understanding that you simply agreed to establish the import fee at such a level as would yield a domestic market price of 15 cents per pound for the remainder of the 1978 crop, with no particular commitment as to timing. Beyond the fact that this is our understanding of what you agreed to do, to adopt a 15.2 cent price objective would also have adverse inflationary effects that we feel should be avoided.

DECISION

________ 15.0 cent market price objective for the remainder of the 1978 crop year -- through September 30, 1979 (State, Treasury, Commerce, COWPS, CEA, NSC, DPS) Esther Peterson

________ 15.2 cent market price objective for the remainder of the 1978 crop year -- through September 30, 1979 (USDA)

Refined Sugar

U.S. refiners charge that refined sugar is being marketed in this country at prices with which they cannot compete. They believe that the current differential of 0.52 cent between the import fee on refined sugar and that on raw sugar is insufficient. A review of the record shows that since March, 1978, the only country from which we have imported refined sugar in substantial quantities is Canada. Our analysis does not indicate that a higher differential is necessary to protect the price support program, and the proposed proclamation reflects this conclusion.

Imports of Canadian refined sugar will continue to be a problem, however, in Northeastern and North Central States. Canadian refined sugar is underselling U.S. refined sugar in some border areas. The Canadian system of duty drawbacks on sugar exports appears to be exacerbating the problem, since the way in which this system is operated may involve a degree of export subsidization.

This problem should be acted upon as soon as possible in order to avoid the possibility of more severe action through new legislation. Your advisers recommend that the Departments of State and Agriculture begin consultations with the Canadian Government in an effort to halt any subsidization of Canadian sugar exports to the U.S. market.

DECISION

________ Agree

________ Disagree

IMPORT FEES ON SUGARS AND SIRUPS

- - - - - - - - - - - - -

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

By Proclamation No. 4547 of January 20, 1978, I imposed, on an emergency basis, import fees on certain sugars and sirups. These fees were to be effective pending my further action after receipt of the report of findings and recommendations of the United States International Trade Commission after its conduct of an investigation with respect to this matter pursuant to section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624). The Commission has made its investigation and reported its findings and recommendations to me.

On the basis of the information submitted to me, I find and declare that:

(a) Sugars, described below by use and physical description, are being imported, or are practically certain to be imported, into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price support operations being conducted by the Department of Agriculture for sugar cane and sugar beets, or reduce substantially the amount of any product processed in the United States from domestic sugar beets or sugar cane;

(b) The imposition of the import fees hereinafter proclaimed is necessary in order that the entry, or withdrawal from warehouse, for consumption of such sugars will not render or tend to render ineffective, or materially interfere with, the price support operations being conducted by the Department of Agriculture for sugar beets and sugar cane, or reduce substantially the amount of products processed in the United States from such domestic sugar beets or sugar cane.

NOW, THEREFORE, I, JIMMY CARTER, President of the United States of America, by the authority vested in me by section 22 of the Agricultural Adjustment Act, as amended, do hereby proclaim that Part 3 of the Appendix to the Tariff Schedules of the United States is amended as follows:

1. Headnote 4 is continued in effect and amended by changing the heading to read "4. Sugars and sirups.--" and by adding paragraph (c) which reads as follows:

> (c)(i) The quarterly adjusted fee provided for in items 956.05 and 957.15 shall be the amount of the fee for item 956.15 plus .52 cents per pound.
>
> (ii) The quarterly adjusted fee provided for in item 956.15 shall be the amount by which the average of the daily spot (world) price quotations for raw sugar for the first 20 consecutive market days preceding the 20th day of the month preceding the calendar quarter during which the fee shall be applicable (as reported by the New York Coffee and Sugar Exchange or, if such quotations are not being reported by the International Sugar Organization), expressed in United States cents per pound, Caribbean ports, in bulk, adjusted to a United States delivered basis by adding applicable duty and attributed costs of 0.90 cents per pound for freight, insurance, stevedoring, financing, weighing and sampling, is less than 15.2 cents per pound: _Provided_, That whenever the average of such daily spot price quotations for 10 consecutive market days within any calendar quarter, adjusted to a United States delivered basis as provided herein, plus the fee then in effect (1) exceeds 16.2 cents, the fee then in effect shall be decreased by one cent, or (2) is less than 14.2 cents, the fee then in effect shall be increased by one cent: _Provided further_, That the fee may not be greater than 50 per centum of the average of such daily spot price quotations for raw sugar.
>
> (iii) The Secretary of Agriculture shall determine the amount of the quarterly fees in accordance with (i) and (ii) hereof and announce such fees not later than the 25th day of the month preceding the calendar quarter during which the fees shall be applicable. The Secretary shall certify the amount of such fees to the Secretary of the Treasury and file notice thereof with the Federal Register prior to the beginning of the calendar quarter during which the fees shall be applicable. The Secretary of Agriculture shall determine and announce any adjustment in the fees made within a calendar quarter in accordance with the first proviso of (ii) hereof, shall certify such adjusted fees to the Secretary of the Treasury, and shall file notice thereof with the Federal Register within 3 market days of the fulfillment of that proviso.

(iv) No adjustment shall be made in any fee in accordance with the first proviso of (ii) during the last ten market days of a calendar quarter.

(v) Any adjustment made in a fee during a quarter in accordance with the first proviso of (ii) hereof shall be applicable only with respect to sugar entered or withdrawn from warehouse for consumption after 12:01 a.m. (local time at point of entry) on the day following the filing of notice thereof with the Federal Register: Provided, That such adjusted fee shall not apply to sugar exported (as defined in section 152.1 of the Customs Regulations) on a through bill of lading to the United States from the country of origin before such time.

2. Items 956.05, 956.15 and 957.15 are continued in effect and amended to read as follows:

Item	Articles	Rates of Duty (Section 22 Fees)
	Sugars and sirups derived from sugar cane or sugar beets, except those entered pursuant to a license issued by the Secretary of Agriculture in accordance with headnote 4(a):	
	Principally of crystalline structure or in dry amorphous form, provided for in item 155.20, part 10A, schedule 1:	
956.05	Not to be further refined or improved in quality	3.22¢ per lb., adjusted quarterly beginning January 1, 1979, in accordance with headnote 4(c), but not in excess of 50% ad val.
956.15	To be further refined or improved in quality	2.70¢ per lb., adjusted quarterly beginning January 1, 1979, in accordance with headnote 4(c), but not in excess of 50% ad val.
957.15	Not principally of crystalline structure and not in dry amorphous form, containing soluble non-sugar solids (excluding any foreign substance that may have been added or developed in the product) equal to 6% or less by weight of the total soluble solids, provided for in item 155.30, part 10A, schedule 1	3.22¢ per lb., of total sugars, adjusted quarterly beginning January 1, 1979, in accordance with headnote 4(c), but not in excess of 50% ad val.

3. The provision of paragraph (c)(iii) of Headnote 4 of Part 3 of the Appendix to the TSUS, as added herein, requiring the determination and announcement by the Secretary of Agriculture not later than the 25th day of the month preceding the calendar quarter during which the fees shall be applicable, shall not apply to the fees to become effective January 1, 1979.

This proclamation shall be effective as of 12:01 a.m. (Eastern Standard Time) on the day following its signing.

IN WITNESS WHEREOF, I have hereunto set my hand this day of , in the year of our Lord nineteen hundred and seventy-eight, and of the Independence of the United States of America the two hundred and third.

Jimmy Carter

THE WHITE HOUSE

WASHINGTON

December 26, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
LYNN DAFT

SUBJECT: Sugar Proclamation

An incorrect proclamation was appended to the December 19 memorandum on sugar. Although we presume you intended to establish an import fee that would protect a 15.0 cent sugar price (versus 15.2 cents), since you did not check the decision box, we could not be certain. A 15.0 cent price is recommended by all your advisers, except USDA, and would be consistent with your other decisions to restrain food price inflation.

A corrected proclamation is attached for your signature.

DECISION

_____ 15.0 cent price objective (State, Treasury, Commerce, COWPS, CEA, NSC, Esther Peterson, DPS)

_____ 15.2 cent price objective (USDA)

THE WHITE HOUSE

WASHINGTON

December 19, 1978

C

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
LYNN DAFT Lynn

SUBJECT: Sugar Proclamation

On January 20, 1978, you issued an emergency proclamation under your Section 22 authority establishing an import fee on raw sugar of 2.7 cents per pound and on refined sugar of 3.22 cents per pound. This was necessary to equalize the price of foreign sugar entering this country with the domestic price set by the de la Garza loan program. Without these fees, much of the domestic sugar would have been placed under loan to the CCC and never redeemed. At the time of this proclamation, 1977 crop sugar was being supported at 13.5 cents per pound, raw basis. Given the price level then prevailing in world markets, the 2.7 cent fee was designed to protect this 13.5 cent support price plus the 6 percent interest charge on CCC loans.

It was recognized at the time this proclamation was issued that it would eventually have to be changed, either to accomodate changes in the level of world prices or to protect the higher support price that the law required be set for 1978 crop sugar, or both. The support level for 1978 crop sugar has since been set at 14.73 cents per pound. Also, we delayed making changes in the level of import fees while the Congress was deliberating over new sugar legislation this past session.

As you recall, the Congress failed to agree on a new sugar program. At the request of Senators Long and Stone, among others, you agreed to:

(a) Try again early in the next session of Congress to reach agreement on an acceptable sugar program for the 1979 crop and beyond;

(b) Continue to use existing tariff and fee authority to protect a domestic price of 15 cents per pound (rather than 14.73 cents, the minimum required by law); and

(c) Instruct Customs to monitor U.S. imports from countries not party to the International Sugar Agreement (ISA) and, if necessary, to limit imports under existing authority to assist in maintaining the 15 cent price objective.

In return, the Senators were asked to help achieve early ratification of the ISA.

It is necessary to issue a new proclamation now to implement your decision to protect a 15 cent price. In addition, we need to adopt a procedure that will automatically adjust the import fee in response to changes in world prices. Once this system is adopted, new proclamations will be required only when there are changes in the price objective.

There is general agreement among your advisers on the technical details of the proposed proclamation on sugar import fees. As drafted, the proclamation provides for the following:

(a) Continuation of the existing import fees of 2.70 cents per pound for raw sugar and 3.22 cents per pound for refined sugar and certain sugar sirups, through December 31, 1978.

(b) Provision for adjustment of these import fees at quarterly intervals beginning January 1, 1979. Such adjustments would be based on changes in world spot prices as reported by the New York Coffee and Sugar Exchange or, in the absence of such quotations, by the International Sugar Organization. For each calendar quarter, the reference period would be the 20 market days preceeding the 20th day of the month prior to the beginning of the quarter. The fee would reflect the difference between world prices, adjusted to a U.S. delivered basis, and the price objective for imported sugar, expressed in cents per pound, raw value. The fee for refined sugars and certain sugar sirups would be .52 cents higher than the raw sugar fee, which is the existing differential.

(c) Provision for a one cent per pound further increase or decrease of the fees should the average world price for 10 consecutive market days, adjusted to a U.S. delivered basis, plus the fee then in effect, deviate from the price objective for imported sugar by more than one cent per pound, raw value.

(d) Applicability of the quarterly fees to all sugars and sirups entered or withdrawn from customs warehouse beginning the first day of the calendar quarter. Fees adjusted within a quarter, as described in paragraph (c), would be applicable to sugars and sirups entered the day following the filing of notice with the Federal Register, unless such sugars and sirups had been exported on a through bill of lading to the United States prior to such date.

(e) All fees would be subject to the statutory limitation that they not exceed 50 percent ad valorem.

This approach has several advantages over the current system. It lessens the degree of uncertainty over when import fees will be changed and by how much they will be changed. The level of the import fee is determined by market price. Furthermore, should there be abrupt changes in market price, there is provision for compensating changes in the level of import fees.

There are two questions concerning the proclamation for which Presidential decisions are sought:

(1) The level at which the market price objective should be established for the remainder of the 1978 crop year.

(2) The need for action to resolve problems caused by imports of refined sugar from Canada.

Market Price Objective

As noted above, you notified Senator Long and others in late October that you would use existing tariff and fee authority to protect a domestic price of 15 cents per pound. With world prices now running around 8.0 cents, the proclamation formula will result in an increase in the import fee of about 0.6 cents per pound on Janaury 1, 1979, to maintain a domestic market price of 15 cents.

Secretary Bergland understood that the 15 cent price objective you announced in October would apply for the entire 1978 crop year -- i.e., that you intend to protect the price support program by achieving a domestic market price of 15 cents per pound of raw sugar for the October-September marketing year, as specified in the bill under consideration in the last session of Congress. To do this, the market price objective for the remainder of the 1978-79 marketing

year should be 15.2 cents, to bring the full year average to 15 cents a pound.

Your other advisers interpreted your commitment to be prospective and not retroactive to October 1, 1978. It was our understanding that you simply agreed to establish the import fee at such a level as would yield a domestic market price of 15 cents per pound for the remainder of the 1978 crop, with no particular commitment as to timing. Beyond the fact that this is our understanding of what you agreed to do, to adopt a 15.2 cent price objective would also have adverse inflationary effects that we feel should be avoided.

DECISION

________ 15.0 cent market price objective for the remainder of the 1978 crop year -- through September 30, 1979 (State, Treasury, Commerce, COWPS, CEA, NSC, DPS) Esther Peterson

________ 15.2 cent market price objective for the remainder of the 1978 crop year -- through September 30, 1979 (USDA)

Refined Sugar

U.S. refiners charge that refined sugar is being marketed in this country at prices with which they cannot compete. They believe that the current differential of 0.52 cent between the import fee on refined sugar and that on raw sugar is insufficient. A review of the record shows that since March, 1978, the only country from which we have imported refined sugar in substantial quantities is Canada. Our analysis does not indicate that a higher differential is necessary to protect the price support program, and the proposed proclamation reflects this conclusion.

Imports of Canadian refined sugar will continue to be a problem, however, in Northeastern and North Central States. Canadian refined sugar is underselling U.S. refined sugar in some border areas. The Canadian system of duty drawbacks on sugar exports appears to be exacerbating the problem, since the way in which this system is operated may involve a degree of export subsidization.

This problem should be acted upon as soon as possible in order to avoid the possibility of more severe action through new legislation. Your advisers recommend that the Departments of State and Agriculture begin consultations with the Canadian Government in an effort to halt any subsidization of Canadian sugar exports to the U.S. market.

DECISION

________ Agree

________ Disagree

THE WHITE HOUSE

IMPORT FEES ON SUGARS AND SIRUPS

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

By Proclamation No. 4547 of January 20, 1978, I imposed, on an emergency basis, import fees on certain sugars and sirups. These fees were to be effective pending my further action after receipt of the report of findings and recommendations of the United States International Trade Commission after its conduct of an investigation with respect to this matter pursuant to section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624). The Commission has made its investigation and reported its findings and recommendations to me.

On the basis of the information submitted to me, I find and declare that:

(a) Sugars, described below by use and physical description, are being imported, or are practically certain to be imported, into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price support operations being conducted by the Department of Agriculture for sugar cane and sugar beets, or reduce substantially the amount of any product processed in the United States from domestic sugar beets or sugar cane;

(b) The imposition of the import fees hereinafter proclaimed is necessary in order that the entry, or withdrawal from warehouse, for consumption of such sugars will not render or tend to render ineffective, or materially interfere with, the price support operations being conducted by the Department of Agriculture for sugar beets and sugar cane, or reduce substantially the amount of products processed in the United States from such domestic sugar beets or sugar cane.

NOW, THEREFORE, I, JIMMY CARTER, President of the United States of America, by the authority vested in me by section 22 of the Agricultural Adjustment Act, as amended, do hereby proclaim that Part 3 of the Appendix to the Tariff Schedules of the United States is amended as follows:

1. Headnote 4 is continued in effect and amended by changing the heading to read "4. Sugars and sirups.--" and by adding paragraph (c) which reads as follows:

> (c)(i) The quarterly adjusted fee provided for in items 956.05 and 957.15 shall be the amount of the fee for item 956.15 plus .52 cents per pound.
>
> (ii) The quarterly adjusted fee provided for in item 956.15 shall be the amount by which the average of the daily spot (world) price quotations for raw sugar for the first 20 consecutive market days preceding the 20th day of the month preceding the calendar quarter during which the fee shall be applicable (as reported by the New York Coffee and Sugar Exchange or, if such quotations are not being reported, by the International Sugar Organization), expressed in United States cents per pound, Caribbean ports, in bulk, adjusted to a United States delivered basis by adding applicable duty and attributed costs of 0.90 cents per pound for freight, insurance, stevedoring, financing, weighing and sampling, is less than 15.0 cents per pound: Provided, That whenever the average of such daily spot price quotations for 10 consecutive market days within any calendar quarter, adjusted to a United States delivered basis as provided herein, plus the fee then in effect (1) exceeds 16.0 cents, the fee then in effect shall be decreased by one cent, or (2) is less than 14.0 cents, the fee then in effect shall be increased by one cent: Provided further, That the fee may not be greater than 50 per centum of the average of such daily spot price quotations for raw sugar.
>
> (iii) The Secretary of Agriculture shall determine the amount of the quarterly fees in accordance with (i) and (ii) hereof and announce such fees not later than the 25th day of the month preceding the calendar quarter during which the fees shall be applicable. The Secretary shall certify the amount of such fees to the Secretary of the Treasury and file notice thereof with the Federal Register prior to the beginning of the calendar quarter during which the fees shall be applicable. The Secretary of Agriculture shall determine and announce any adjustment in the fees made within a calendar quarter in accordance with the first proviso of (ii) hereof, shall certify such adjusted fees to the Secretary of the Treasury, and shall file notice thereof with the Federal Register within 3 market days of the fulfillment of that proviso.
>
> (iv) No adjustment shall be made in any fee in accordance with the first proviso of (ii) during the last ten market days of a calendar quarter.

(v) Any adjustment made in a fee during a quarter in accordance with the first proviso of (ii) hereof shall be applicable only with respect to sugar entered or withdrawn from warehouse for consumption after 12:01 a.m. (local time at point of entry) on the day following the filing of notice thereof with the Federal Register: Provided, That such adjusted fee shall not apply to sugar exported (as defined in section 152.1 of the Customs Regulations) on a through bill of lading to the United States from the country of origin before such time.

2. Items 956.05, 956.15 and 957.15 are continued in effect and amended to read as follows:

Item	Articles	Rates of Duty (Section 22 Fees)
	Sugars and sirups derived from sugar cane or sugar beets, except those entered pursuant to a license issued by the Secretary of Agriculture in accordance with headnote 4(a):	
	Principally of crystalline structure or in dry amorphous form, provided for in item 155.20, part 10A, schedule 1:	
956.05	Not to be further refined or improved in quality	3.22¢ per lb., adjusted quarterly beginning January 1, 1979, in accordance with headnote 4(c), but not in excess of 50% ad val.
956.15	To be further refined or improved in quality	2.70¢ per lb., adjusted quarterly beginning January 1, 1979, in accordance with headnote 4(c), but not in excess of 50% ad val.
957.15	Not principally of crystalline structure and not in dry amorphous form, containing soluble non-sugar solids (excluding any foreign substance that may have been added or developed in the product) equal to 6% or less by weight of the total soluble solids, provided for in item 155.30, part 10A, schedule 1.	3.22¢ per lb. of total sugars, adjusted quarterly beginning January 1, 1979, in accordance with headnote 4(c), but not in excess of 50% ad val.

3. The provision of paragraph (c)(iii) of Headnote 4 of Part 3 of the Appendix to the TSUS, as added herein, requiring the determination and announcement by the Secretary of Agriculture not later than the 25th day of the month preceding the calendar quarter during which the fees shall be applicable, shall not apply to the fees to become effective January 1, 1979.

This proclamation shall be effective as of 12:01 a.m. (Eastern Standard Time) on the day following its signing.

IN WITNESS WHEREOF, I have hereunto set my hand this __________ day of ______________ in the year of our Lord nineteen hundred and seventy-eight, and of the Independence of the United States of America the two hundred and third.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

(1)

December 21, 1978

EYES ONLY

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

SUBJECT: CPI in November (to be released at 9:00 am Friday, December 22, 1978)

The CPI for November rose by "only" 0.5 percent (a 6.6 percent annual rate). Each of the prior two months had shown a 0.8 percent rise.

Food prices rose only 0.3 percent. A 3.8 percent decline in fruit and vegetable prices offset smaller increases for meat.

Other items rose 0.6 percent. Large decreases in natural gas and some electric utility rates (reflecting the introduction of lower winter rates) offset sizable increases in prices of medical care and imported and used cars.

It is possible that we will see a fairly modest increase in consumer prices again in December. (The reduction in property taxes in California from Proposition 13 will show up in the CPI in December). After the turn of the year, however, we are likely to have several months of large price increases before any moderation is forthcoming. Meat prices are likely to be rising strongly in early 1979. Some of the effects of earlier dollar devaluation will be showing up, and many companies, who are observing the guidelines, may nevertheless put their price increases into effect early.