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at the Gerald R. Ford Presidential Library.**

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National Cotton Council of America
Memphis, Tennessee 38112

William E. Reid
President

September 10, 1974

The Honorable Gerald R. Ford
The White House
Washington, D. C.

My dear Mr. President:

A major concern of the cotton industry in recent months has been the refusal of some foreign buyers in important export markets to make arrangements for payment for cotton contracted earlier by opening letters of credit. In an effort to overcome the problem that already has developed, and to prevent further breaches of contract, the cotton trade, in cooperation with the U.S. Department of Agriculture, recently sent a special mission to Korea, Taiwan, the Philippines and Thailand.

In each of the countries visited, we had the full support and cooperation of American Embassies. This was most helpful, and is gratefully acknowledged. Yet the problem has worsened and, at its September 6 meeting, the National Cotton Council's Board of Directors passed by unanimous vote the attached resolution, which reflects the major areas of concern.

In bringing this matter to your personal attention, we most earnestly request the involvement of all appropriate agencies of the executive branch. Copies of this letter and the resolution, therefore, are being sent to the Secretaries of State, Commerce and Agriculture.



The Honorable Gerald R. Ford
The White House
Washington, D. C.

September 10, 1974

Page 2.

Sanctity of contracts is basic to acceptable commercial practice, and failure to abide by contract terms in our judgment will completely undermine our industry's ability to be the positive force we have always been in making the maximum contribution to our balance of payments. Both cotton farmers and exporters stand to lose ruinous sums unless this problem is resolved at an early date. At stake, too, is the success of our present market-oriented farm program, which our industry fully supported, and which cannot succeed without forward contracting and fulfillment of contract terms by all parties.

Respectfully,



William E. Reid,
President

cc: Hon. Henry A. Kissinger
Hon. Frederick B. Dent
Hon. Earl L. Butz



RESOLUTION

That the Council express its grave concern and direct attention of the U.S. Government at the highest level to the need for immediate steps to assure that letters of credit for export shipments of cotton be opened in accordance with terms of the contracts.

That foreign purchasers be reminded of the performance of U.S. cotton producers and exporters on contracts during periods when the market rose to levels much higher than those contracted and that they recognize that any failure to honor contracts will seriously impair relations with their government, and any defaults will most seriously undermine established commercial practices to the detriment of all countries.

That the full resources of the Council be directed to the attainment of appropriate government action in this vital area to avoid what otherwise would be a chaotic condition in world cotton markets; and

That in taking this action the Council recognize the leadership of the many government officials and their assistance to U.S. producers and exporters in this problem area.

Adopted unanimously by
National Cotton Council Board of Directors
September 6, 1974
Huntsville, Alabama



October 4, 1974

MEMORANDUM FOR: JIM MURPHY
FROM: NORM ROSS
SUBJECT: Correspondence on Cotton

Per our conversation, the attached correspondence is for your appropriate handling.

Please send me a copy of your responses for my file.

Many thanks.

NEROSS/ee Letters that were sent over to him.

President, Union Planters Corporation - Cotton (telegram)

Honorable James B. Allen - Senator - Cotton (telegram)

10/9 ✓ Honorable John Tower - Senator - Cotton

10/9 ✓ Honorable Joe D. Waggoner, Jr. - Congressman - Cotton
(send a copy of this letter to Eberle of their reply

William E. Reid - President of National Cotton Council - Cotton.

Orville K. Sweet - President of American Polled Herefore Assoc. - Telegram
Cattle

✓ Senator Abhor - Cattle - Do not have copy, received Oct 18 copy



The White House

Washington

WHD063 WAC164(1544)(1-028886A274)PD 10/01/74 1541

TLX UNIPLANTER MFS

ZCZC 03 PD MEMPHIS TN OCT 1

1974 OCT 1 PM 5 03

PMS HONORABLE GERALD R. FORD,
PRESIDENT OF THE UNITED STATES
WASHINGTON, D C

1974 OCT 2 PM 4 40

WHITE HOUSE
MAIL ROOM

DEAR SIR:

I FORESEE DEVELOPMENT OF A CRISIS IN THE FINANCING OF
THE CURRENT YEAR'S COTTON CROP. AS A RESULT OF THE TIGHT MONEY
POLICY OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
IT IS CLEAR TO ME THAT COTTON PRODUCERS AND THOSE INDISPENSABLE
TO THE MARKETING OF THAT COMMODITY WILL FIND IT DIFFICULT, IF NOT
IMPOSSIBLE, TO SECURE ADEQUATE CREDIT ACCOMMODATIONS FROM
TRADITIONAL LENDING INSTITUTIONS.

THE PROBLEM IS COMPOUNDED BY THE USURY LAWS OF CERTAIN

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STATES IN THE DISTRICT, INCLUDING TENNESSEE, ARKANSAS AND
MISSOURI, WHICH, IN EFFECT, ASSURE LOSSES TO THE LENDER IN
THESE DAYS OF HIGH MONEY MARKET RATES.

IF THE NATION'S TIGHT MONEY POLICY IS TO BE CONTINUED,
I SEE BUT ONE SOLUTION TO THIS IMMINENT NATIONAL PROBLEM. THE
FEDERAL RESERVE SYSTEM MUST BE MADE READILY AVAILABLE TO FINANCE
DIRECTLY THE MERCHANDISING OF THE 1974 COTTON CROP WHICH IS IN
THE PROCESS OF BEING HARVESTED, SINCE A NATIONAL ECONOMIC POLICY
HAS, AS A PRACTICAL MATTER, ELIMINATED TRADITIONAL FINANCING
METHODS FROM THE PICTURE.

MOREOVER, THE EXISTING PROGRAM OF THE COMMODITY CREDIT
CORPORATION IS UNREALISTIC AND FALLS FAR SHORE OF SOLVING THIS
ACUTE PROBLEM.

IT IS RESPECTFULLY URGED THAT ALL NECESSARY STEPS BE TAKEN

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BY THE FED TO FACILITATE THE DIRECT FINANCING OF THE MERCHANDISING
SEGMENT OF THE COTTON INDUSTRY.

VERY TRULY YOURS
WILLIAM M. MATTHEWS
PRESIDENT, UNION PLANTERS CORPORATION

UNION PLANTERS NATL BK MEMPHIS TN

NNNN



October 2, 1974

Dear Senators:

This is to acknowledge and thank you for your telegram to the President dated October 1 urging that he not approve the recommendation of the U. S. Tariff Commission to permit unrestricted cotton imports into the United States.

I have noted your concern for the domestic cotton farmers, and I will see that your message is called to the early attention of the President and his agricultural and trade advisers. I am sure your request that he not approve the Tariff Commission's recommendation will receive careful consideration.

With warm regard,

Sincerely,

Tom C. Kereleges
Deputy Assistant
to the President

The Honorable James B. Allen
United States Senate
Washington, D.C. 20510

✓ bcc w/incoming to Norm Ross - for further DRAFT reply
bcc w/incoming to Amb. Eberle - FYI

TCK:EF:jk

Oct 3

10-5
The White House
Washington

1 WHB 068(1809)(1-039729A274)PD 10/01/74 1808

2 ICS IPMNAWB WSH

1974 OCT 1 PM 7 27

3 09057 GOVT NEWASHINGTON DC 107 10-01 528P EDT

4 PMS THE PRESIDENT

5 WHITE HOUSE DC

6
7 AM DEEPLY DISTURBED OVER POSSIBLE EXECUTIVE APPROVAL OF TEN
8 MONTH OLD RECOMMENDATION OF U.S. TARIFF COMMISSION TO PERMIT
9 UNRESTRICTED COTTON IMPORTS INTO UNITED STATES. RECORD WILL SHOW
10 THAT RECOMMENDATION WAS MADE WHEN SPOT-MARKET PRICE OF COTTON WAS
11 TWENTY TO TWENTY-FIVE CENTS A POUND HIGHER THAN AT PRESENT.
12 CONTINUED DECLINE OF COTTON PRICES PLUS PROSPECT OF BUMPER U.S. COT-
13 TON CROP AND CONTINUING DECLINE OF DOMESTIC CONSUMPTION OF COTTON
14 WARRANTS TOTAL REJECTION OF TARIFF COMMISSION RECOMMENDATION.
15 U.S. COTTON FARMERS ALREADY HARD-PRESSED BY HIGH COSTS OF
16 INPUTS SIMPLY CANNOT AFFORD A FURTHER DECLINE IN THE PRICE OF THEIR
17 OUTPUTS.

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23 AGAIN, I RESPECTFULLY REQUEST YOUR REJECTION OF TARIFF COMMISSION
24 RECOMMENDATION TO PERMIT UNRESTRICTED COTTON IMPORTS INTO U.S.

25 REGARDS,

26 JAMES B ALLEN USS

NNNN

October 2, 1974

Dear Senators:

I would like to thank you for your October 1 letter to the President expressing concern in behalf of the domestic shippers who received advance contractual commitments from foreign countries to purchase cotton, and now indications are that many of the purchasers may be unwilling to fulfill their contractual obligations since cotton prices have declined.

I will be glad to call your letter to the early attention of the President and his agricultural and trade advisors. I am sure that your and the National Cotton Council's views will be carefully considered.

With warm regard,

Sincerely,

**Tom C. Kereleges
Deputy Assistant
to the President**

**The Honorable John Tower
United States Senate
Washington, D.C. 20510**

**✓ bcc w/incoming to Norm Ross - for further DRAFT response
bcc w/incoming to Amb. Eberle - FYI**

TCK:EF:jk



Oct 3 -

JOHN TOWER
TEXAS

COMMITTEES:
ARMED SERVICES
BANKING, HOUSING AND
URBAN AFFAIRS
JOINT COMMITTEE ON
DEFENSE PRODUCTION

United States Senate

WASHINGTON, D.C. 20510

October 1, 1974

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files
10/9-

The President
The White House
Washington, D. C.

Dear Mr. President:

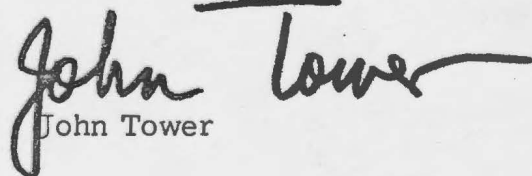
BT
Recently I have been apprised of a situation which I feel merits serious consideration.

During 1973 many foreign countries, particularly in the Far East, made advance contractual commitments to purchase U. S. cotton from private domestic shippers and marketing co-operatives. Because present world textile demand is weak, current prices have plummeted to a point far below the prices agreed to in the existing purchase contracts. Therefore, while the delivery period has not arrived for the vast majority of these outstanding contracts, there are indications that many of these foreign purchasers may be unwilling to fulfill their contractual obligations.

In the event these anticipated breaches of contract occur, our domestic cotton industry will be seriously injured. It is estimated that such defaults would cost our cotton producers, shippers, and marketers upwards of \$200 million. Furthermore, such breaches would set a precedent with respect to other U. S. commodities sold in world markets. The net effect would be a serious loss of confidence in free world trade.

I understand that the National Cotton Council has presented you with a letter expressing their concern and has outlined possible remedial actions. I strongly urge that you review this matter and stand ready to take whatever action you deem appropriate.

Sincerely yours,


John Tower



file with
central files.

September 26, 1974

Dear Joe:

I would like to take this opportunity to acknowledge receipt of your September 18 letter to the President concerning the decline in the price of cotton and the problems that are arising in the export market.

I want you to know that I will make certain that your letter is called to the President's attention without delay. It will be shared also with his agricultural and trade policy advisers. I am confident your views will be given careful consideration.

With kindest regards,

Sincerely,

Max L. Friedlander
Deputy Assistant
to the President

The Honorable Joe D. Waggoner, Jr.
House of Representatives
Washington, D.C. 20513

~~acc:~~ w/incoming to Norman Ross for DRAFT REPLY (send a copy to Eberle for reply)
bcc: w/incoming to William Eberle - FYI

MLF:EF:VO:ve

Received Sept 26.

PARISHES:
BOSSIER RED RIVER
CADDO SABINE
CLAIBORNE VERNON
DE SOTO WEBSTER

Congress of the United States

House of Representatives

Washington, D.C. 20515

September 18, 1974

The President
White House
Washington, D. C.

Dear Mr. President:

BT
The recent dramatic decline in the price of cotton is such that many farmers feel production cannot be sustained at levels necessary to satisfy the strong demand for food and fiber. The market-oriented farm program for which you and I worked in 1970 and 1973 placed the farmer's incentive to produce squarely on the market instead of direct Government payments. This program has worked well and has generally been supported by farmers in my district. However, recent developments in the Far East have occurred which seriously jeopardize the entire market-oriented concept for farm programs.

Earlier this year, cotton prices were significantly higher than they are at the present time. Many of the U.S. cotton merchants and marketing cooperatives entered into contracts for forward sales into the export market at the earlier higher prices. Now, as harvest and delivery time for these contracts approaches, we are beginning to see a number of foreign buyers either refuse to open or delay the opening of letters of credit, thereby nullifying the contracts. While we may only be seeing the tip of the iceberg, the immediate problems are in Taiwan, Thailand, South Korea and the Philippines. The potential ripple effect however could reach into other markets which, of course, affect a much greater volume of U.S. cotton. The potential loss to U.S. cotton merchants is such that it cannot be absorbed. Therefore, the ultimate injury will be to the farmers and to the farm program itself.

Last year, unlike many other foreign cotton exporting countries, U.S. farmers and merchants stood by their contracts when they could have nullified them and realized greater benefit by selling directly into the higher market. Those

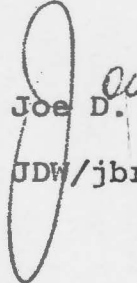
The President (cont'd)

-2-

of us who have stood fast for maintaining export sales even in the face of domestic political pressures must insist now that the foreign buyers fulfill their contracts as our people did last year.

I understand that the President of the National Cotton Council, Mr. William E. Reid, has written to you requesting the assistance of the appropriate agencies of the Executive Branch on this problem. Mr. Reid's letter was hand delivered to Mr. Norman Ross of your Domestic Council staff last week. I support Mr. Reid's request and offer my assistance in any way that I can be helpful in solving this problem before it grows worse.

Sincerely,

 Joe D. Waggonner, Jr., M.C.

JDW/jbr



THE WHITE HOUSE
WASHINGTON

October 4, 1974

MEMORANDUM FOR: JIM MURPHY

FROM: NORM ROSS

SUBJECT: Correspondence on Cotton

Per our conversation, the attached correspondence is for your appropriate handling.

Please send me a copy of your responses for my file.

Many thanks.



Norm Ross

Cip # 54116

WHD063

WAC164(1544)(1-028886A274)PD 10/01/74 1541

TLX UNIPLANTER MFS

ZCZC 03 PD MEMPHIS TN OCT 1

1974 OCT 1 PM 5 03

PMS HONORABLE GERALD R. FORD,

PRESIDENT OF THE UNITED STATES.

WASHINGTON, D C

DEAR SIR:

I FORESEE DEVELOPMENT OF A CRISIS IN THE FINANCING OF THE CURRENT YEAR'S COTTON CROP. AS A RESULT OF THE TIGHT MONEY POLICY OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, IT IS CLEAR TO ME THAT COTTON PRODUCERS AND THOSE INDISPENSABLE TO THE MARKETING OF THAT COMMODITY WILL FIND IT DIFFICULT, IF NOT IMPOSSIBLE, TO SECURE ADEQUATE CREDIT ACCOMMODATIONS FROM TRADITIONAL LENDING INSTITUTIONS.

THE PROBLEM IS COMPOUNDED BY THE USURY LAWS OF CERTAIN

STATES IN THE DISTRICT, INCLUDING TENNESSEE, ARKANSAS AND MISSOURI, WHICH, IN EFFECT, ASSURE LOSSES TO THE LENDER IN THESE DAYS OF HIGH MONEY MARKET RATES.

IF THE NATION'S TIGHT MONEY POLICY IS TO BE CONTINUED, I SEE BUT ONE SOLUTION TO THIS IMMINENT NATIONAL PROBLEM. THE FEDERAL RESERVE SYSTEM MUST BE MADE READILY AVAILABLE TO FINANCE DIRECTLY THE MERCHANDISING OF THE 1974 COTTON CROP WHICH IS IN THE PROCESS OF BEING HARVESTED, SINCE A NATIONAL ECONOMIC POLICY HAS, AS A PRACTICAL MATTER, ELIMINATED TRADITIONAL FINANCING METHODS FROM THE PICTURE.

MOREOVER, THE EXISTING PROGRAM OF THE COMMODITY CREDIT CORPORATION IS UNREALISTIC AND FALLS FAR SHORE OF SOLVING THIS ACUTE PROBLEM.

IT IS RESPECTFULLY URGED THAT ALL NECESSARY STEPS BE TAKEN

FORM 0008 PRINTED BY THE STANDARD REGISTER COMPANY, U. S. A.

FORM 0008 PRINTED BY THE STANDARD REGISTER COMPANY, U. S. A.

BY THE FED TO FACILITATE THE DIRECT FINANCING OF THE MERCHANDISING
SEGMENT OF THE COTTON INDUSTRY.

VERY TRULY YOURS
WILLIAM M. MATTHEWS
PRESIDENT, UNION PLANTERS CORPORATION

UNION PLANTERS NATL BK MEMPHIS TN

NNNN



File

December 30, 1974

Mr. Norman E. Ross, Jr.
Aide to the Domestic Council
Old Executive Office Building, Room 218
Washington, D. C. 20515

Dear Mr. Ross:

Enclosed is a copy of the letter we mailed to Congressman Poage's office recently.

Mr. Pringle, Mr. Poage's aide gave us copies of the Cotton Marketing System books to read and evaluate. We are in the process of passing them around amongst the farmers and are coming up with opinions.

We thought you might be interested in those opinions gleaned from Martin, Glasscock, Howard, and Midland County farmers; for our trip has caused some interest in all those surrounding places.

Sincerely,

G. P. Harrell

G. P. Harrell, President

Roy M. Koonce

Roy M. Koonce, Secretary
Martin County Cotton Farmers'
Committee



December 27, 1974

Congressman W. R. Poage
House of Representatives
Washington, D. C. 20515

Gentlemen:

The men comprising the Martin County Cotton Farmers' Committee, seeing that the problems of the cotton farmer will be solved only by repeated efforts, have decided to continue meeting together.

The books on the Cotton Marketing System that Mr. Pringle gave to us on our recent trip to Washington were the subject of discussion for the group at the last meeting.

While we have several hours of study in the books yet--we are passing them around so as many can study them as possible--we have come to the general conclusion that they do not give a true picture of what the producer receives for his product.

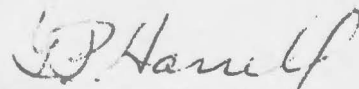
The spot market we feel does not give a realistic figure of what the farmer actually gets. No farmer ever seems to actually receive for his cotton what the spot market figures say he is; at least in this particular area, that seems to be true.

We also want to mention that the statement of Mr. Hilton L. Bracey, Vice-President, Midcontinent Farmers' Assoc., Portageville, Mo., on page 494, Apr., 22 through 29, 1974, seems to relate at least partially the producers side.

The crux of the matter is, the discussions in the books seem to bypass our immediate problem, which is that the cotton farmer has lost his very small margin of profit from 1973, and now must operate in the red if he can operate at all. The problem has assumed crisis proportions during the course of the last few weeks because backers are not loaning money for a crop that has no assurance of break-even compensation. Most farmers here will be unable to produce cotton in the coming year (1975) without some kind of guarantee as to the price it will bring (\$.45 to \$.50 lb. and/or a break-even point).

We continue to feel that the loan price is the most important and immediate consideration. If it can be changed to \$.45 to \$.50 lb., then we most respectfully urge you and your colleagues to encourage Secretary of Agriculture Butz to do so, and as soon as possible.

Sincerely,



G. P. Harrell, President



Roy Koonce, Secretary
Martin County Cotton Farmers' Committee



FROM THE DESK OF

CARL C. CAMPBELL
NATIONAL COTTON COUNCIL

13 / 1 / 75

Mr. Row

Norm,

This is a Xerox copy
of the page from the
Congressional Record

that Marion Edwards,
Wes McAden, and I
mentioned to you.

(over)

1/4

Many thanks for
your help.

Respectfully,

Case

The PRESIDING OFFICER. Who yields time?

Mr. BENNETT. Mr. President, I yield 2 minutes to the Senator from Arizona.

The PRESIDING OFFICER. The Senator from Arizona.

Mr. FANNIN. Mr. President, I wish to first of all commend the distinguished leader, the chairman of our committee, for his fine work in bringing this bill through a very difficult situation, and to the distinguished minority leader for the work that he did in cooperation with our colleagues.

I feel very keenly that we have accomplished much more than has even been discussed here today. The countervailing

duty and antidumping provisions of this legislation are far reaching and will be of great benefit to the work of this country.

Mr. President, at this time I do have a very serious matter that I want to discuss in the bill of the distinguished chairman of the committee regarding the situation with the contract to supply raw cotton to textile manufacturers in less-developed countries.

I would like to address this to the chairman of the committee.

We had sales of cotton last year where the price had gone from a very low price, when it was contracted to these countries, to a very high price, and we fulfilled those contracts. But now the price of cotton on the world market has declined and the manufacturers, in some instances, have repudiated these agreements.

Mr. President, it would seem to me that if a developing nation had contracted for the purchase of a product and then cancelled the contract, such country would not be providing equitable and reasonable access to its markets. Is it the understanding of the chairman that section 502(c)(4) of the bill would apply to cancellation or abrogation of contracts as previously discussed?

Mr. LONG. Yes.

Mr. President, I believe that if they break contracts, this provision should apply. We did not want to give the preference to countries.

Mr. FANNIN. I thank the distinguished chairman.

Excerpt from Senate debate on
Trade Bill Conference Report

JOHN SPARKMAN, ALA., CHAIRMAN
WILLIAM PROXMIRE, WIS. JOHN TOWER, TEX.
HARRISON A. WILLIAMS, JR., N.J. WALLACE F. BENNETT, UTAH
THOMAS J. MCINTYRE, N.H. EDWARD W. BROOKE, MASS.
ALAN CRANSTON, CALIF. BOB PACKWOOD, OREG.
ADLAI E. STEVENSON III, ILL. BILL BROCK, TENN.
J. BENNETT JOHNSTON, JR., LA. ROBERT TAFT, JR., OHIO
WILLIAM D. HATHAWAY, MAINE LOWELL P. WEICKER, JR., CONN.
JOSEPH R. BIDEN, JR., DEL.

DUDLEY L. O'NEAL, JR.
STAFF DIRECTOR AND GENERAL COUNSEL

United States Senate
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

January 14, 1975

Mr. Norman Ross
Assistant Director of the
Domestic Council
The White House
Washington, D. C. 20500

Dear Mr. Ross:

I am very aware and appreciative of your actions in behalf of international trade by working to assure foreign fulfillment of contractual obligations to U.S. shippers of cotton. I am also sure you are aware of the continued severity of the problem.

As of December 30, 1974, the total outstanding past due shipments to the four major countries involved amounted to 44.9 percent or 614,863 bales. A breakdown of individual countries' past due shipments is:

Korea.....	404,030	or	49.8	percent	past	due
Taiwan.....	114,035	or	34.0	percent	past	due
Philippines.....	69,748	or	61.8	percent	past	due
Thailand.....	27,050	or	24.7	percent	past	due

This December condition has deteriorated from the November 30, 1974 position of a total past due in the amount of 33.0 percent or 461,696 bales.

I will continue to have very serious concerns about the impact to the total international trade policy of this country if the sanctity of contracts is not preserved. It is imperative that we continue to work at the highest levels in order to rectify this situation. I offer any service which might be of assistance in this effort.

Sincerely yours,


John G. Tower

JGT:cas



NATIONAL COTTON COUNCIL OF AMERICA

1030 FIFTEENTH STREET, N.W., SUITE 700, WASHINGTON, D.C. 20005, PHONE (202) 833-2943

January 15, 1975

Mr. Norman Ross
The White House
Washington, D. C.

Dear Norm:

Thank you again for giving Wes McAden, Carl Campbell and me the time on Monday morning to report to you on the cotton contract problem.

As I mentioned, the situation is beginning to receive increasing attention in the trade and general press. I'm enclosing several articles which have appeared this week.

We continue to be grateful to you for the time and attention you have devoted to this most serious problem.

With kindest regards.

Sincerely,

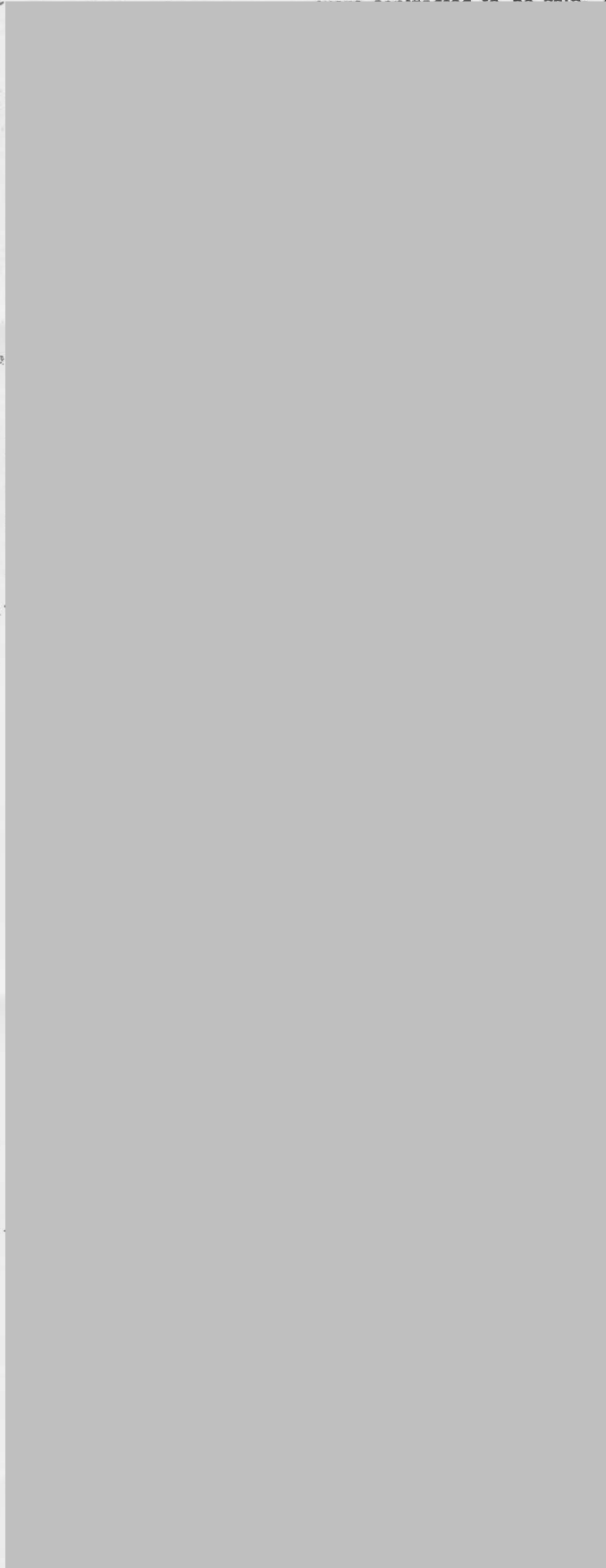
Macon T. Edwards
Washington Representative

MTE/jcw
Enc.



Contract Voiding Is Far East Threat

By GERALD DEARING 000 bales of cotton which



By FAS

Deferred Cotton Contracts Seen Around 70,000 Bales

By **SHIRLEY JACKEWICZ**
Commodity News Service

modity has eased, the textile
business has slowed, and
prices subsequently have de-



Series of Meetings Held

Delayed Cotton Exports Cause Serious Problems

Commodity News Service period November through



1-15-75

Summary

TOTAL UNshipped SALES:	12/30/74	
Korea	810,000	B/c
Taiwan	331,600	
Thailand	108,600	
Philippines	112,400	
	<u>1,362,600</u>	B/c

TOTAL Delinquent SALES:	12/30/74	
Korea	403,030	B/c
Taiwan	114,335	
Thailand	27,050	
Philippines	69,748	
	<u>614,163</u>	B/c

Delinquent SALES HAVE
 EST. Value @ \$300 per B/c = \$184,000.000,00



COUNTRY TAIWAN

During the month 11 shippers have received 23 Letters of Credit covering 6,420 bales

2 shippers have agreed with buyers to transfer 2,210 bales to later shipment months.

4 shippers have agreed to ~~cancel~~ 5,150 bales

-0- shippers have bought ¹back -0- bales.

1 shipper canceled 3 sales covering 800 bales due to bankruptcy

	<u>1973/74</u>	<u>1974/75</u>	<u>TOTAL</u>
December 4, 1974	15,524	65,611	81,135
January 6, 1975	13,404	98,931	112,335
NET <u>INCREASE</u> - DECREASE IN PAST DUE	<u>30,900</u>		

AMCOT

November 30, 1974 1,300

December 30, 1974 2,000

TOTAL

November 30, 1974 82,435

Total delinquent Sales December 30, 1974 114,335

% OF OUTSTANDING EXPORT SALES AS OF DECEMBER 22 - 331,600 = 34.48%

% OF SHIPMENTS SINCE AUGUST 1 vs. TOTAL PURCHASES 16.16%

Total purchases of 395,500



COUNTRY: PHILIPPINES

During the month 3 shippers have received 4 Letters of Credit covering 2,650 bales.

-0- shippers have agreed with buyers to transfer -0- bales to later shipment months.

-0- shippers have agreed to cancel -0- bales.

-0- shippers have bought back -0- bales.

	<u>1973/74</u>	<u>1974/75</u>	<u>TOTAL</u>
December 4, 1974	17,231	39,914	57,145
January 6, 1975	15,706	51,582	67,288
NET INCREASE IN PAST DUE	<u>10,143</u>		

AMCOT

November 30, 1974	2,410
December 30, 1974	2,460

TOTAL

November 30, 1974	59,555
-------------------	--------

Total delinquent Sales December 30, 1974 69,748

% OF OUTSTANDING EXPORT SALES OF DECEMBER 22 - 112,400 = 62.05%

% OF SHIPMENTS SINCE AUGUST 1 vs. TOTAL PURCHASES 25.66%

Total purchases of 151,200

COUNTRY: KOREA

During the month 9 shippers have received 20 Letters of Credit covering 10,495 bales.

1 shipper has agreed with buyers to transfer 1,000 bales to later shipment months.

-0- shippers have agreed to cancel -0- bales.

-0- shippers have bought back -0- bales.

	<u>1973/74</u>	<u>1974/75</u>	<u>TOTAL</u>
December 4, 1974	10,340	79,013	89,353
January 6, 1975	8,590	196,953	205,543
NET INCREASE IN PAST DUE	<u>117,190</u>		

AMCOT

November 30, 1974 205,087

December 30, 1974 197,487

TOTAL

November 30, 1974 294,440

Total delinquent sales December 30, 1974 403,030

% OF OUTSTANDING EXPORT SALES OF DECEMBER 22 - 810,000 = 49.76%

% OF SHIPMENTS SINCE AUGUST 1 vs. TOTAL PURCHASES 14.82%

Total purchases of 950,900

COUNTRY: THAILAND

During the month 1 shipper has received 2 Letters of Credit covering 600 bales.

1 shipper has agreed with buyers to transfer 866 bales to later shipment months.

-0- shippers have agreed to cancel -0- bales.

-0- shippers have bought back -0- bales.

	<u>1973/74</u>	<u>1974/75</u>	<u>TOTAL</u>
December 4, 1974	-0-	13,766	13,766
January 6, 1975	-0-	20,800	20,800
NET INCREASE IN PAST DUE	<u>7,034</u>		

AMCOT

November 30, 1974 11,500

December 30, 1974 6,250

TOTAL

November 30, 1974 25,266

Total delinquent - December 30, 1974 27,050

% OF OUTSTANDING EXPORT SALES OF DECEMBER 22 - 108,600 = 23.07%

% OF SHIPMENTS SINCE AUGUST 1 vs. TOTAL PURCHASES 16.33%

TOTAL PURCHASES OF 129,800

Status of Outstanding Export Contracts for U.S. Cotton for Shipment to Korea, Taiwan, Philippines and Thailand and Estimated Approximate Financing Needed for Opening Necessary Letters of Credit (L/C's) as of October 30, 1974

Year	Scheduled Month of Shipments a/	KOREA		TAIWAN		PHILIPPINES		THAILAND	
		Bales of Cotton	Estimated Approximate Financing Needed for Opening Necessary L/C's (\$1,000)	Bales of Cotton	Estimated Approximate Financing Needed for Opening Necessary L/C's (\$1,000)	Bales of Cotton	Estimated Approximate Financing Needed for Opening Necessary L/C's (\$1,000)	Bales of Cotton	Estimated Approximate Financing Needed for Opening Necessary L/C's (\$1,000)
1974	November and prior months for which L/C's are overdue as of October 30, 1974	208963	62689	70062	21019	59369	17811	32733	9820
1975	December	195287	58586	55398	16619	15183	4555	26233	7870
	January	209953	62986	53413	16024	12175	3652	19634	5890
	February	61100	18330	45790	13737	7800	2340	15583	4675
	March	40410	12123	31490	9447	5200	1560	19783	5935
	April	21283	6385	19935	5980	3050	915	13334	4000
	May	83567	25070	9450	2835	3550	1065	9050	2715
	June	5467	1640	4200	1260	2325	698	5650	1695
	July	2233	670	750	225	1450	435	1100	330
Grand Total		828263	248479	290488	87146	110102	33031	143100	42930

a/ According to contracts, L/C's must be opened at least seven days prior to month of shipment.

NCC/FO
1 November, 1974



DEPARTMENT OF STATE

Washington, D.C. 20520

LIMITED OFFICIAL USE
MEMORANDUM

December 18, 1974

MEMORANDUM FOR

William D. Eberle
Executive Director
Council on International Economic Policy

SUBJECT: Cotton Contract Problem

On December 12, Les Edmond presided over a meeting of State and Agriculture officials and representatives from the American Cotton Shippers Association (ACSA) and the National Cotton Council (NCC). The cotton contract problem was reviewed country by country on the basis of the overdue shipment lists for December.

While these lists are not encouraging (inasmuch as we are entering the peak shipping period of December, January, and February, and the number of past due bales is increasing), all the participants in the December 12 meeting agreed that three of the countries concerned were taking steps which, hopefully, should largely alleviate the problem. In Korea and the Philippines, CCC credit has just been redistributed to encourage contract compliance. In addition, the Republic of China is to put into effect a seven-point program which will aid and encourage Taiwan mills to honor their contracts for U.S. cotton. We feel, and the ACSA and NCC representatives agreed, that these programs should be allowed more time to take effect.

The situation with Thailand is less encouraging, but the U.S. shippers and we believe that the pressures we have been and now are bringing to bear on the Thai Government should be given more time to take root. Phil Habib personally discussed this problem with Ambassador Kintner during the recent Chiefs of Mission Meeting in Honolulu, and the Ambassador will again approach the RTG to emphasize the very high importance we attach to a prompt resolution of the contract problem.

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-2-

In sum, both the shippers and we feel it is premature to consider alternative steps we could take until we have a better idea, over the next week or ten days, to what degree movement has been made in the opening of letters of credit. Meanwhile, we and the Desk Officers involved are exploring possible alternative measures, should there be no significant improvement in the situation in the near future.

Julius L. Katz
Acting Assistant Secretary

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Drafted:EB/FTD:MBSmith:X20280:12/18/76:hm

Clearances: EA - Mr. Edmond
CIEP - Mr. Jurich

CC: Mr. Edmond
Mr. Jurich
Dr. Murphy
Mr. Ingersoll
Mr. Katz





DEPARTMENT OF STATE

Washington, D.C. 20520

LIMITED OFFICIAL USE

December , 1974

MEMORANDUM FOR MR. ROGER HEFFERAN
THE WHITE HOUSE

Subject: Memorandum on Cotton Contract Problem

Attached is the memorandum requested by your
office on the Cotton Contract Problem.

George S. Springsteen
Executive Secretary

Attachment:

Memorandum on cotton contract problem.



COTTON CONTRACT PROBLEM

In October and November, mills in Taiwan, Thailand, Korea and the Philippines which had contracted to buy United States cotton began to request later shipping dates or to refuse to open letters of credit. The price and the demand for American cotton have fallen dramatically since last spring when the contracts were written, and the mills find themselves committed to pay prices much above the current world market price for cotton which they cannot use. For the past two crop years, the price of cotton has risen after contracts were written -- last year the price rise was spectacular -- and the buyers profited richly because American merchandisers respected their contracts. This year prices have fallen, and East Asian mills are having second thoughts about accepting cotton at the contracted prices.

East Asian textile mills face a worsening world textile market, tight credit policies and mounting inventories. At the same time, United States merchandisers have, by their own account, covered their sales by either buying cotton on the cotton futures market or by writing a futures contract directly with the cotton farmer. If widespread defaulting by East Asian mills occurs, the U.S. cotton farmer, as well as the merchandiser, would almost certainly suffer heavy losses.

In mid-October, United States cotton shippers began to report that many East Asian mills were not opening letters of credit. Shipments to Taiwan were particularly slow. As a result, the following actions have been taken:

- 1) On October 30, Secretary Butz, Secretary Dent, and Deputy Secretary Ingersoll all expressed their concern about possible cotton contract defaults to Taiwan's Minister of Economic Affairs, Y.S. Sun, and requested that his government take whatever steps were necessary to see that Taiwanese mills fulfilled their contracts. In a separate meeting with Minister Sun, Mr. Philip Habib, Assistant Secretary of State for East Asian and Pacific Affairs, pressed Minister Sun to take action immediately to solve the contract problem.

- 2) On November 1, Assistant Secretary Habib cabled our Ambassadors in Taipei, Bangkok, Seoul and Manila requesting that they impress on their host governments

the importance which we attach to this problem.

3) The Taiwanese badly want a new textile agreement which is at least as generous as those negotiated with its neighbor competitors, such as Korea. We cancelled scheduled textile consultations and instead, a State Department representative visited Taipei on November 11 to discuss in detail steps which the ROCG might take to insure cotton contract compliance by Taiwan mills.

4) On November 22, the Department of State and USDA arranged for an additional 50 million dollars of CCC cotton credit for Korea, provided it was matched by 50 million dollars of private credit. This 100 million dollars of credit will be distributed only to Korean mills which agree to fulfill their contracts.

5) On November 25, a State Department representative visited Bangkok to discuss the contract problem in detail with the Embassy and Thai Government officials.

6) The USDA has organized a detailed reporting system with the cotton shippers which should allow us to follow the cotton contract problem day by day.

We should know by December 15 whether the representations described above were successful. If East Asian mills do not begin to open letters of credit during this period, only direct, specific pressure or additional aid will be likely to prevent mass contract defaulting.

We recommend that no further action be taken immediately. The problem will be kept under close watch, and, if it appears to be worsening, we will consider further steps which might be taken to support the sanctity of these contracts.





DEPARTMENT OF STATE
ACTION MEMORANDUM

S/S

JAN 21 1975

~~CONFIDENTIAL~~

To: The Deputy Secretary

From: EA - Philip C. Habib and EB - Thomas O. Enders

Cotton Contract Problem

Two earlier memoranda dealing with the cotton contract problem have been sent to the White House. In the last memorandum we stated that if the intense diplomatic pressure we were applying proved to be insufficient, we would explore possible alternative measures to support the sanctity of these contracts.

It now is clear that Thailand, the Philippines, the Republic of China, and possibly Korea are still reluctant to take the necessary (and costly) measures required if the mills in their respective countries are to fulfill their contractual obligations.

The enclosed memorandum to Bill Eberle summarizes the problem, sets forth the options we have considered, and states we have decided to follow a course of action consisting of various elements from some of these options such as the withholding or granting of CCC credits, EXIM Bank loans, use of discreet pressure through the multi-fiber textile program, and continued diplomatic initiatives.

RECOMMENDATION:

If you agree with the presentation, we request that you send the paper on to Mr. Eberle.

Approve _____

Disapprove _____

Attachments:

- Tab A - Memorandum to Mr. Eberle
- Tab B - Memorandum to Mr. Eberle of December 18
- Tab C - Memorandum to the White House

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Drafted: EA:LEEdmond/EB:JKatz:hm
x20366:x27950:1/20/75

DECLASSIFIED
E.O. 12958, Sec. 3.5
State Dept. Guidelines
By 4421, NARA, Date 11/22/00



1/23

THE DEPUTY SECRETARY OF STATE
WASHINGTON

~~CONFIDENTIAL~~

January 20, 1975

MEMORANDUM FOR

William D. Eberle
Executive Director
Council on International Economic Policy

SUBJECT: Cotton Contract Problem

Your office has received two memorandums (attached) from the Department of State concerning the U.S. cotton industry's contract problem in four East Asian countries - Korea, Thailand, Taiwan and the Philippines. The memorandum indicated the problem had been raised directly with the President by Congressman Rhodes and described our attempts to press the mills to honor their contracts through diplomatic pressure and additional CCC credits. At this time only our Embassy in Korea is confident that the Korean mills will live up to their obligations. There are doubts about the validity of this assessment, especially if there is massive defaulting in the other three countries. In those it appears that the governments, despite our diplomatic pressures and offers of CCC credits, are incapable or unwilling to persuade the mills to honor their contracts.

The contracted value of advance sales of cotton to these four countries is approximately 440 million dollars. At current market prices, this cotton is worth roughly 277 million dollars, or 163 million less than the contracted price. In addition, East Asian mills have undoubtedly overbought in light of today's depressed textile market. As a result, an estimated additional 80 million dollars of sales, representing cotton which the mills do not need, will probably be cancelled if contract defaulting occurs. Thus approximately 240 million represents the potential loss to the U.S. balance of trade account and the U.S. cotton industry if mass defaulting occurs in East Asia.

This paper discusses options which we have considered to support the sanctity of these contracts and concludes by setting forth the course of action we will now follow.

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E.O. 12958, Sec. 3.5

State Dept. Guidelines

Rv W/Hm, NARA, Date 11/22/00

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OPTIONS

1. Maintain diplomatic pressure on the governments concerned.

PRO: This option is relatively low in cost

CON: Diplomatic pressure has already reached the point of diminishing returns.

2. A visit by a high level official to the capitals involved to discuss the problem.

PRO: Again, this is a low cost option, and it will indicate the Administration's deep concern about the situation.

CON: We are in the process of exercising one form of this option. USDA Assistant Secretary Yeutter and FAS Administrator Hume will be visiting Seoul, Manila, and Taipei (but not Bangkok) beginning January 13, and they will, once again, communicate our concern to these governments. This is not, however, the main purpose of their trip. Essentially, this is an escalation of diplomatic pressure, and it is doubtful if the returns will be great. Another version of this approach which is given more chance of success is discussed as Option 10 below.

3. Additional grants of CCC for cotton or EXIM loans.

PRO: This is a relatively low cost option, and it goes directly to the heart of the problem: the liquidity position of the mills. It would not require legislation.

CON: a) CCC loans. OMB has put a ceiling on CCC loans. The ceiling would have to be lifted if additional loans are to be made. More importantly, if the mills believe that their interests are better served by defaulting on their contracts (or by awaiting possible renegotiation), they may not choose to utilize the CCC credits even if they are available. We believe this may now be happening in some cases.

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-3-

b) EXIM Bank loans. As in the case of CCC grants, it is not certain that EXIM Bank loans would be effective. No government of a country whose mills are threatening to default on cotton contracts has so far requested an EXIM Bank loan for the purchase of cotton.

This option would probably be most effective as a part of a "package of options". This alternative is discussed under option 10 below.

4. Use the export limitation levels of the textile program to bargain for contract compliance.

PRO: The textile mills which are refusing to open letters of credit on raw cotton will be directly affected by any increase or decrease in their country's textile quota. In addition, the U.S. textile industry, and particularly the apparel industry and its unions, are putting heavy pressure on the U.S. Government to negotiate more restrictive textile agreements. The quid pro quo for the foreign mills is a direct one: textile imports vs. sanctity of cotton contracts.

In the case of Korea and Taiwan, we are in the process of negotiating new textile agreements. However, even at this stage, it would be possible to delay exchanging the diplomatic notes which would put the new agreements into effect. Such a delay is not in the interest of either Korea or Taiwan.

In the case of Thailand and the Philippines, negotiations for a new agreement have not begun. Cotton contracts would be made a discreet factor in these negotiations or in discussions held prior to the negotiations. In all four of these countries marginal amounts of yardage could be added to the agreement levels in non-sensitive categories.

CON: The U.S. is a party to the Arrangement Regarding International Trade in Textiles (MFA) negotiated under GATT auspices and laying down the ground rules for textile agreements. Disputes are mediated by the Textile Surveillance Body (TSB). Under the MFA, bilateral textile agreements are negotiated only in an effort to prevent the

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threat of disruption to the importing country's domestic textile market, and they are not to be used for other purposes such as extracting concessions on other trade matters.

In the past, textile exporting countries have asked for higher textile quotas on the grounds that they are importing large quantities of American cotton. We have always denied there was a connection between our raw cotton exports and our textile imports. To change this, as this option would imply, could cause us very serious problems before the TSB and in our ongoing bilateral textile negotiations.

Even if we were to exercise this option, unless it were very carefully handled, the country involved might refuse to conclude an agreement, citing the fact (as an example) that its raw cotton imports from the U.S. were far more costly to them than the amounts of their finished textile products the U.S. was willing to import. This, in turn, would mean that in order for the U.S. to restrict such imports, we would have to impose unilateral restraints. Such unilateral restraints must pass review by the TSB on market disruption grounds alone, and if we could not present very convincing evidence that market disruption exists we would be under very heavy pressure to terminate them. This is not an attractive prospect either internationally or in terms of domestic reaction from the textile industry and its labor unions.

Likewise, we could not induce the countries by means of sweetening the bilateral agreements (increased quotas, larger annual growth, etc.) without raising serious equity problems with other nations whose textile exports to us are under tight restraint. Those nations could legally insist on our sweetening their quotas, thus, in essence, undoing our bilateral restraint program.

5. A freeze or slow-down on EXIM Bank loans or future CCC loans in those countries where such loans exist on the grounds that the credit worthiness of the countries involved have been placed in question.

PRO: This option would unquestionably demonstrate that we consider the problem a serious one, and since the

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-5-

countries concerned are capital deficient, any reduction in capital loans would be taken very seriously.

CON: Freezing EXIM Bank loans would affect industries other than the textile mills directly concerned. It would presumably reduce U.S. exports and adversely affect other U.S. firms at a time when American industry is suffering from considerable excess capacity and high rates of unemployment.

In Thailand, which has not been a heavy beneficiary of EXIM loans, this may be of doubtful effect. The other countries may also view it as a temporary measure which we ourselves may want to abandon after a while unless we are able to demonstrate our resolve by denying a loan of some importance to them at an early opportunity.

6. The granting of GSP to a given country could be tied to performance on cotton contracts.

PRO: If a government did not take steps which would encourage textile mills to open letters of credit, we could refuse to grant that country GSP. The President has this authority under the Trade Bill. All four of the countries concerned can expect a number of advantages from GSP, and they would certainly be reluctant to see these advantages withheld.

CON: The United States would undoubtedly draw heavy criticism for withholding or threatening to withhold GSP to enforce cotton contracts. It would certainly mean a postponement or cancellation of the U.S./Philippine negotiations of an economic treaty and would most likely bring forth retaliation on the part of the Philippine government which could revoke the temporary decrees benefitting U.S. businesses on issues of land tenure, retail trade, etc. It would also create a highly undesirable precedent of using GSP as a pressure device in disputes beyond those already mandated in the law. It would escalate the issue to an extent that U.S. political relationships with the countries concerned would seriously suffer.

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-6-

7. Increase or reduce economic or military aid.

PRO: Any action tying cotton contract difficulties to economic and military aid would indicate that we consider cotton contracts a major issue in our relations with the country concerned, and should provide sufficient leverage to solve the problem.

CON: Relations with the countries concerned would turn sufficiently bad as to adversely affect overall political and economic interests. The cotton contract problem is not important enough to risk jeopardizing programs which carry the weight of a number of important priorities in our foreign relations with these countries.

8. A domestic support program could be organized which would ease the shock in the cotton industry. Cotton purchases could probably be made under existing CCC legislation, or legislation could be requested which would activate the price support mechanism in the current agricultural act. A number of other support programs could be implemented. One such program could be modeled on the two billion dollar loan support bill for beef growers which was passed several months ago.

PRO: The domestic cotton industry is going to be hard hit if mass cotton contract defaulting occurs. A domestic support program could cushion the blow to the farmer and the shipped.

CON: This would be an expensive solution. It is impossible to put a price tag on it without considerable study, but it would not be cheap. In addition, such a program would place the government squarely back in the farm price support business.

9. Indicate to the shippers that there is nothing further we can do and let them consider arbitration and/or renegotiation of their cotton contracts (e.g. to grant the mills better terms).

PRO: This is the normal course for the settlement of most commercial disputes. It may be in the end the most realistic avenue of salvaging what can be salvaged. ~~CH~~

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The U.S. Government could make a case that it has gone as far as it can in support of the cotton shippers short of employing measures which can have serious foreign policy costs or costs to be paid by other segments of the U.S. economy and which may still prove ineffective in the end.

CON: The potential effect of this solution on the U.S. cotton industry and the U.S. balance of payments has been described earlier. The shippers and their political backers are not likely to accept the judgments that all reasonable remedies available to the U.S. Government have been exhausted.

10. This option might be labeled the "package option" with a package solution being put together from elements of the options listed above.

Depending on the country concerned, the package would include the continuation (and escalation, if necessary) of diplomatic initiatives, use of additional CCC loans if appropriate, extension or denial of EXIM Bank loans, and discreet pressure through the multifiber textile program. Inasmuch as the contract problem varies in each of the four countries, the "package" will be tailored to fit the particular circumstances involved.

PRO: It is unlikely that any single option listed above will resolve the problem. Furthermore, options 6 through 9 are unacceptable for other, overriding political and economic reasons. The package option gives us flexibility within reasonable constraints of budget and foreign policy, first to find a solution other than renegotiation (if one exists) and, then, to implement it within a reasonable period of time.

CON: The package option may only prolong the inevitable, i.e., renegotiation, and continues to involve the Administration in a problem which traditionally has been the concern of the private companies involved.

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CONCLUSION:

There is no simple solution to the contract problem. We believe the Department should continue to attempt to solve the problem in view of its economic impact on our country's cotton farmers and exporters. In seeking a solution, we believe we should utilize flexible courses of action which can be readily adjusted to fit the situation in the countries involved. Option 10 provides this flexibility and timeliness while demonstrating to our domestic interests and the foreign countries alike the Administration's determination to solve the matter in a reasonable, equitable fashion. Consequently we are proceeding along the lines set forth in Option 10.

Robert S. Ingersoll

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Drafted: EB/FTD:AJWilliams/EA/P:AGeber:ac

Clearances: *copy for*
EA:LEEdmond
EB:JKatz

copies: CIEP: Dr. Murphy
WH: AJurich





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MACON EDWARDS

WASHINGTON REPRESENTATIVE

**NATIONAL
COTTON COUNCIL OF AMERICA**

**1030 - 15TH STREET, N.W.
SUITE 700
WASHINGTON, D. C. 20005 U.S.A.**

RETALIATORY MEASURES PLANNED IF COTTON SHIPMENTS
DO NOT PICK UP BY MONTH'S END

COMMODITY NEWS
SERVICE

File

WASH--JAN 21--CNS--IF COTTON SHIPMENTS TO FAR EASTERN NATIONS WHICH HAVE BEEN HOLDING BACK ON TAKING DELIVERIES OF FORWARD CONTRACTED COTTON DO NOT PICK UP BY THE END OF JANUARY, THE UNITED STATES PROBABLY WILL TAKE RETALIATORY MEASURES. A STATE DEPARTMENT OFFICIAL SAID TODAY.

WHILE HE DECLINED TO SAY EXACTLY WHEAT RETALIATORY MEASURES ARE BEING CONTEMPLATED, THE OFFICIAL SAID A PACKAGE OF MEASURES IS BEING DEVELOPED AND THAT A PUSH IS ON TO GET THE MEASURES APPROVED FOR USE IN THE EVENT COTTON SHIPMENTS DO NOT PICK UP SUBSTANTIALLY.

THE STATE DEPARTMENT OFFICIAL TOLD CNS THE PROBLEM OF THE DELAYED COTTON SHIPMENTS TO THE PHILIPPINES, THAILAND, TAIWAN AND KOREA IS VERY SEVERE AND HAS DRAWN THE ATTENTION OF HIGH LEVEL OFFICIALS AT THE AGRICULTURE AND STATE DEPARTMENTS AND AT THE WHITE HOUSE. BUT BECAUSE THESE OFFICIALS HAVE NOT YET APPROVED THE CONTINGENCY PLANS, THE OFFICIAL SAID HE COULD NOT DETAIL THE RETALIATORY MEASURES.

ADMINISTRATION OFFICIALS INVOLVED IN GIVING APPROVAL TO THE CONTINGENCY PLANS ARE CLAYTON YEUTTER, ASSISTANT AGRICULTURE SECRETARY; THOMAS ENDER, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS; JULIUS KATZ, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL RESOURCES AND GOOD POLICY; PHILIP HABIB, ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC TRUST AFFAIRS; AND WILLIAM EBERLE, WHITE HOUSE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, THE STATE OFFICIAL SAID.

AT PRESENT, YEUTTER IS TOURING THE FAR EAST, STRESSING TO LEADERS THERE THE NECESSITY OF THEIR TAKING THE 500,000 BALES THAT THEY CONTRACTED FOR AT A PRICE OF ABOUT 60 CENTS PER POUND BEFORE COTTON PRICES FELL TO PRESENT LOW LEVELS.

DEPUTY ASSISTANT AGRICULTURE SECRETARY RICHARD BELL TODAY SAID BOTH TAIWAN AND KOREA HAVE PROMISED YEUTTER THEY WILL HONOR COTTON CONTRACTS HELD WITH U.S. EXPORTERS. THE FOREIGN AGRICULTURAL SERVICE HAS SAID THOSE AMOUNTS ARE 114,035 BALES FOR TAIWAN AND 464,393 FOR KOREA.

YEUTTER, WHO HAS BEEN IN TELEPHONE CONTACT WITH USDA, HAS MET WITH PHILIPPINE OFFICIALS AND SHOULD REPORT ON THOSE DISCUSSION TODAY, BELL SAID. YEUTTER WILL RETURN HERE THIS WEEKEND FOLLOWING TALKS ON OTHER MATTERS WITH JAPAN. HE IS NOT SCHEDULED TO VISIT THAILAND.

END

YEUTTER ON US GRAIN STOCKPILING

TOKYO, JAN 23 - US UNDER SECRETARY OF AGRICULTURE CLAYTON YEUTTER SAID THE US WILL NEVER AGAIN STOCKPILE GRAIN ON ITS OWN ACCORD AT THE TAXPAYERS EXPENSE FOR EVENTUAL SHIPMENT OVERSEAS.

ANSWERING QUESTIONS AT A NEWS CONFERENCE HERE YEUTTER SAID THE EXPENSE OF STOCKPILING WILL HAVE TO BE BORNE BY THE IMPORTING NATION, AND HE ESTIMATED THE COST OF STOCKPILING GRAIN IN THE US AT BETWEEN 10 AND 15 CENTS A BUSHEL PER MONTH.

YEUTTER, AT THE END OF A TWO WEEK ASIAN TOUR, SAID THERE ARE STILL SOME DOUBTS IN JAPAN ABOUT THE RELIABILITY OF THE US AS A FOOD SUPPLIER.

YEUTTER ON US GRAIN STOCKPILING (2)

YEUTTER SAID THERE CAN BE NO IRON CLAD GUARANTEE THE US WILL NEVER IMPOSE EXPORT RESTRICTIONS ALTHOUGH THE PROBABILITY OF SUCH RESTRICTIONS WAS ALMOST NEGLIGIBLE. HE SAID JAPAN COULD HELP INSURE ITSELF AGAINST SUCH A POSSIBILITY THROUGH LONG-TERM CONTRACTS AND BY BUILDING UP STOCKPILES EITHER IN JAPAN, THE U.S OR BOTH.

ASKED ABOUT THE RELUCTANCE OF ASIAN COTTON BUYERS TO HONOUR THEIR 1974 CONTRACTS WITH U.S SELLERS, YEUTTER SAID HE HOPES A SOLUTION WILL BE FOUND WITHIN THE NEXT FEW WEEKS.

HE TOLD REUTERS HE EXPECTS THE SOLUTIONS TO THE COTTON PROBLEM, WHICH HE DISCUSSED WITH OFFICIALS IN SOUTH KOREA, TAIWAN AND THE PHILIPPINES, TO BE IN THE FORM OF GOVERNMENT FINANCING TO HELP BUYERS WEATHER THE RECESSION AND ALSO IN TARIFF CUTS.

REUTER 0745



YEUTTER ON US GRAIN STOCKPILING (3)

ASKED ABOUT AGRICULTURAL EXPORTS TO CHINA AND THE SOVIET UNION, YEUTTER SAID IT IS HIS PERSONAL OPINION CHINA WILL NOT SUCCEED IN ITS GOAL OF FOOD SELF-SUFFICIENCY BECAUSE THE INCREASE IN DEMAND WILL CONTINUED TO OUTRUN PRODUCTIVITY.

YEUTTER SAID HE HOPES THE U.S. WILL GET SOME OF THE CHINESE MARKET, BUT HE SAID HE DOES NOT EXPECT IT WILL BE A SIGNIFICANT MARKET (FOR THE U.S.) FOR THE NEXT FEW YEARS.

HE SAID HE EXPECTS THE SOVIET UNION TO REMAIN A MAJOR CUSTOMER IN SOME YEARS, A MINOR CUSTOMER IN OTHERS DEPENDING ON CROP PRODUCTION AND WEATHER.

REUTER 0747



January 29, 1975

Dear Senator Tower:

Thank you for your January 14 letter concerning the serious international trade problem created by the failure of certain countries to fulfill their contractual obligations of cotton to U.S. shippers.

I agree with you in the severity of this problem, and with your assistance I am certain a workable solution can be developed.

Sincerely,

Norman E. Ross, Jr.
Assistant Director
Domestic Council

Honorable John G. Tower
United States Senate
Washington, D. C. 20510

CC/WH files (incom ltr retain for final reply later on)
ROSS/pt 1029-75



File
Hamm SAVE

Statement of Chauncey L. Denton, Jr.
President, National Cotton Council of America
Before the House Agriculture Subcommittees
on Cotton, Livestock and Grains
February 18, 1975

We testified before this Committee two years ago when the Agriculture and Consumer Protection Act of 1973 was being considered. Our position at that time was that the market-oriented approach of the 1970 Act be continued with some relatively minor modifications. Much of what was embodied in the Act of 1973 received our full support. Some sections, of course, were disappointing. Among our recommendations included in the 1973 Act were:

- A loan related to three-year average market prices.
- Payments that were expected to help cover production costs and a reasonable return when the market failed in this respect.
- A minimum base allotment.
- A boll weevil eradication program.

The 1973 Act was contrary to our recommendations in some respects, such as the \$20,000 payment limitation and continuing to base the loan on M-1" rather than SLM 1 1/16", which is the base quality for spot and futures quotations.

While there are many features of the 1973 Act that the cotton industry likes, under present conditions it is not working well for cotton. Our recommendations will be for needed adjustments in the 1973 Act which will permit its market-oriented approach to work in a way that will lead toward greater stability and continuity of operations.

Almost as soon as the 1973 Act became law, unforeseen events began occurring that crippled its usefulness for cotton. Inflation and the increase in the federal minimum

wage had already begun to have greater effect on farm costs. On top of this, the Arab oil embargo sent fuel and farm chemical prices sky-rocketing. In addition, the Economic Stabilization Program was beginning to interfere with production, causing shortages of various products and thus fueling further inflation.

The resulting sharply higher production cost is the main reason that the Act of 1973 is not working well for cotton.

The average cost of producing cotton, as determined by USDA, rose sharply from 32½ cents per pound in 1972 to more than 50 cents in 1974. We recognize, of course, that the extremely poor 1974 yields in some regions made 1974 costs abnormally high. But even if average yields had been attained all across the Cotton Belt, the cost per pound would have averaged about 43 cents. Inflation has not yet been checked, so even under conditions of normal yield, it would be reasonable to expect 1975 costs to be above 43 cents.

A target price well below the average cost of production obviously renders the law's payment provision almost meaningless. We should say at this point that regardless of the target price level, the \$20,000 limit has an extremely serious impact on many cotton growers who produce a very large part of the U. S. crop. But to those not subject to limitations, the payment provision is a vital aspect of the cotton program, needed to provide the incentive to grow the cotton requirements of our domestic mills and export customers.

The growers who are affected by payment limitations have mainly the expected market price as an incentive to grow cotton, and for all growers this is the only incentive to plant more than the base allotment. The loan provision of the 1973 Act, therefore, is highly important as an indicator of the minimum market price.

The 1974 loan level of 27.06¢ for SLM 1 1/16" has little meaning when the cost is in the mid-forties. Almost no producer can cover out-of-pocket expenses by putting cotton in the loan. And when the USDA announces, as it did in 1973 and 1974, that even this low level may be lowered still further just before harvest, the

production incentive coming from the law is completely nullified.

Mr. Chairman, we have great difficulty believing that the Congress intended the kind of interpretation USDA has made of the loan provision of the 1973 Act. It seems to us that the law clearly states that the loan rate is to be made final by November 1 prior to the planting of the crop. When this is not done, planning is made much more difficult, and private production financing cannot be secured by the loan, as has been a common practice in the past.

Just as U.S. cotton production costs have been affected by inflation and higher crude oil prices, so have the costs of the fibers with which our cotton competes. This is reflected in the price increases for man-made fibers that have occurred in the last year or two. Polyester staple prices, for example, are averaging about 49¢ today, compared with the low or middle thirties a couple of years ago; and rayon staple has moved up even more to around 56¢. Some man-made fiber companies are stating publicly that they expect higher prices later this year.

Foreign cotton growers have costs more and more similar to ours. This is indicated by the reduced plantings in Southern Hemisphere countries last summer and fall in response to cotton prices that were declining, but which at that time were still substantially higher than at present.

Thus, there is solid evidence that cotton prices at present levels are well below what is required to meet competition from man-made fibers and also well below the general price range that would encourage foreign cotton production.

Beyond this, cotton prices apparently are too low to compete effectively with other crops for land and other production resources in many areas of our own country. At the same time that cotton production costs were rising rapidly and prices were declining, the prices of alternative crops were moving up sharply because of weather problems last year and the rising demand for food and feed crops. As a result, growers indicated in January that they intended to cut back 1975 cotton acreage 32% from last year to a level which is even below the national allotment.

In addition to the more attractive prices of alternative crops, a number of other factors are discouraging the planting of cotton and creating a very negative environment for a market-oriented government cotton program:

- Use of DDT has been banned, and other essential pesticides threatened.
- Overly stringent regulations concerning worker safety, the handling of petroleum products and the application of pesticides have been imposed or proposed.
- Research and market development funds authorized by the 1973 Act have been severely reduced.
- Because of extreme cotton price fluctuation, some sales contracts have been broken and fulfillment of many others threatened.
- Export controls are frequently proposed by some members of the Congress and other persons of national prominence.
- Disaster payments authorized by the 1973 Act have been denied or greatly reduced in many cases by USDA regulations that serve to nullify payments in many hard pressed areas. USDA has promised to act on changes we suggested, and we are hopeful that a meaningful program will result very soon, since planting of the 1975 crop has already begun in South Texas.
- The Federal Power Commission and some local distributors have refused to give nitrogen fertilizer manufacturers a higher priority for natural gas, accentuating the fertilizer shortage and resulting in higher prices.
- Federal regulatory requirements intended to protect textile workers from byssinosis and consumers from flammable textiles have already cost cotton substantial chunks of its market and threaten a far larger part.

The cumulative result of all these discouraging factors is to reduce greatly the incentive for growing cotton, making it entirely possible that the 1975 and some future crops could be enough smaller than market requirements to place us again at

a serious competitive disadvantage.

We recognize that the main reason for today's low cotton price is economic recession all over the world. One result has been that export contracts for about a million bales sold to several Far Eastern countries have thus far not been honored, and the uncertainty as to whether this cotton will be shipped is seriously depressing prices. But this fact doesn't help the producer. Recessions will continue to occur from time to time. Mother Nature sometimes smiles rather broadly at us, producing unusually large cotton crops here or abroad, and this can temporarily drop prices very low. She also frowns at us --several times recently --and we have had very poor crops. One of the basic purposes of a government cotton program is to help smooth out to some degree the extremely wide price fluctuations that can result from these temporary forces that are beyond control. Without it, we tend to get over-reaction that results in too little or too much production. Our recommendations are pointed toward making the Agriculture and Consumer Protection Act of 1973 meet this basic purpose more effectively.

Some comments and interpretations concerning our recommendations are in order. The heart of the present government cotton program is the price support loan and the target price. As we mentioned earlier, tremendous production cost increases have been imposed by inflation and energy prices, both on cotton growers and their competitors. Target prices and loan levels that were adequate when the 1973 Act was passed are no longer adequate.

While our recommendations do not specify a figure, Mr. Chairman, one possible procedure for arriving at a more realistic target price has occurred to a number of our people. When the 38¢ target price was established in 1973, we were working with an average production cost of 32½¢. Perhaps a similar relationship between production cost and target price might be maintained, based on 1974 cost of 43¢ per pound if yields had been more normal.

You may wonder about the meaning of our recommendation that increases in the

Prices Paid Index during 1974 be included in target price calculations. This represents a bare minimum increase, Mr. Chairman. Certainly the extremely large price increases of 1974 at the very least ought to be reflected in the target price adjustment, effective for 1975.

One of our recommendations points out that payment limitations create serious inequities among producers and asks that the program minimize those inequities to the greatest extent possible. This would be accomplished by keeping the market price from dropping too great a distance below the target price.

In our recommendation concerning the loan, Mr. Chairman, we recognize that the four criteria we present tend, to some extent, to pull in different directions. For example, a loan level that fully assured adequate U.S. production might unduly encourage an increase in foreign production. But this is the kind of tension that always exists when pricing decisions are made. Every businessman wants to price his product high enough to make a profit, but he recognizes that his profit also depends on doing a satisfactory volume of business. Therefore, his price has to be low enough to compete for the volume he needs. The cotton industry finds itself in just this position.

We recognize, too, Mr. Chairman, that because of unusually good yields or temporary economic problems, prices can fall far below normal competitive requirements. The loan level should be such that growers can pay off a substantial part of their production credit from the proceeds of the loan in order to get financed for another crop year and avoid dumping cotton on the market when prices are unduly depressed.

On the matter of forward contracting, Mr. Chairman, our industry has worked hard to facilitate this relatively new marketing practice. A Council committee has developed a model contract, and is still working on its improvement. But the committee has found no practical way to assure performance by the parties to contracts.

Therefore, we supported in the last Congress a bill by Senator Bellmon that would have required USDA to encourage private insurance companies to form an associa-

tion for that purpose, with the government covering a portion of extraordinary losses in the early years. We hope this Committee will see fit to move on this bill again.

Many growers were hard hit by unfavorable weather last year and have been unable to pay off production loans. For them, additional credit to farm in 1975 is simply unavailable from private sources. Senators Eastland, Stennis, Dole, Allen, and Young have offered S.555, which would give such people greater access to Farmers Home Administration loans. We hope that this bill will receive favorable consideration.

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31. Recognize that research and promotion programs now under way are essential to increasing cotton consumption and reducing the cost of production, and that they should be expanded and fully funded each year;

FARM PROGRAM

32. Recognize that the current target price level is less than adequate to insure a profitable return to a significant number of cotton producers and should be raised to a level that will insure an adequate supply of cotton to maintain a viable U.S. cotton industry;

33. Recommend that the target price calculations of the 1973 law include increases in the index of prices paid by farmers for production items, interest, taxes, and wage rates during the calendar year 1974;

34. Favor a long-range government cotton program which will:

- a. Protect net farm income;
- b. Assure dependable supplies of American cotton at more stable and competitive prices, fully adequate to meet the needs of our customers both here and abroad;
- c. Maintain the competitive one-price system;
- d. Recognize that a farmer's benefits from a price support or payment program should not be limited; and support and work for those farm program provisions and administration policies which will to the greatest extent possible minimize the inherent inequities of payment limitations, because limitations on program payments at any level create serious inequities between regions and between individual growers within regions and such inequities are highly detrimental to the industry and to all cotton producers regardless of size or location;
- e. Recognize that payments under the Disaster Section of the 1973 Act should not be subjected to payment limitations;

- f. Authorize the transfer of allotments among farms within a state by sale or lease;
- g. Allow release of farm allotments for reapportionment by county ASC committees in order to preserve allotment history;
- h. Provide for the determination of farm yields for payment purposes based on a moving three-year average for the farm, adjusted for abnormal conditions beyond the control of the farm operator;
- i. Provide for the protection of individual farm cotton allotment history only through the planting of cotton, the release or transfer of the allotment, or other provisions of the present law;

CCC LOAN AND RESALE PROGRAM

35. Work for a Commodity Credit Corporation program to:

- a. Strengthen, to the greatest extent possible, industry advice and participation in the administration of the cotton loan program and management of CCC stocks;
- b. Provide for a more realistic loan program which will (1) promote the orderly marketing of cotton, (2) assist in crop financing, (3) assure adequate U.S. production at competitive prices, and (4) not unduly encourage an increase in foreign production;
- c. Improve data and procedure under which the loan rate is calculated;
- d. Determine and announce as final a loan level by November 1 of the calendar year preceding the marketing year for which the loan is to be effective;
- e. Establish CCC interest rates which will not be at a level that will discourage use of the loan by producers.



NATIONAL COTTON COUNCIL OF AMERICA

1030 FIFTEENTH STREET, N.W., SUITE 700, WASHINGTON, D.C. 20005, PHONE (202) 833-2943

May
29 1975

Mr. Norman Ross, Jr.
Assistant Director
Domestic Council
The White House - Executive Office Bldg.
Washington, DC 20500

Dear Mr. Ross:

As you know, the letter of credit problems that arose in respect to forward sales of U.S. cotton to Korea, the Republic of China, and the Philippines are being settled on a mutually satisfactory basis under the arrangements which the U.S. Government negotiated with the governments of those countries. While little progress was made in solving the problems with Thailand, we are confident that the work that you and others did will assist materially in future efforts to resolve these problems. The settlement of most of these problems will enhance our 1974-75 exports, and will enable our industry to avoid some serious economic problems.

On behalf of the U.S. cotton industry, I want to especially thank you for your personal efforts in obtaining the resolution of these trying problems.

With best wishes,

Cordially,

C. L. Denton, Jr.
President

mbs



Mr. G. P. Huell

Mr. Roy Koonce -

met w/ 4800 12/6 - 10:00.

Cotton Farmers from Texas.



Topics for Discussion - Cotton Problems of Martin County, Texas

1. To inform you of the actual price we are receiving for our cotton. This includes the proof such as buyers' sheet (sheet he goes by to pay us for our cotton), grade cards, etc.

2. The present cost of producing this cotton in our particular area.

Item	Approx. cost per acre
Prepare land for planting	\$21.10
a. weed control	\$8.00
b. fertilizer	\$4.50 8.50
c. pre-watering (includ. labor and elec.)	\$7.50
d. fuel for tractors	\$1.10
Planting procedures	\$52.60
a. seed	\$6.80
b. fuel	\$1.10
c. labor	\$1.50
d. miscellaneous hoeing (chopping)	\$10.00
e. crop hail insurance	\$9.90 for \$100.00 cover.
f. irrigation (includ. labor, elec. - 3 times across)	\$22.50
g. repairs	\$.80

If land is deep-broken in the preparing process, the cost would increase by about \$4.50 per acre.

Total
~~\$73.70~~
\$77.70

Equipment costs and land costs not included

3. Disaster payment
4. Review the "target price" (\$.38) nationally.
 - a. variations in types of cottons
 - b. difference in land area - Texas arid, ^{3 in Texas} Arizona, Mississippi delta, etc.
 - c. have a closer or smaller area for "target price" averages, such as county-wide, or maybe regional.
5. Loan price should be at "break-even" point at least. This year that point would be from \$.40 to \$.50 a pound; to show a profit, it would be from \$.50 to \$.60 a pound.
6. Foreign markets should be kept open if at all possible.
7. In fairness to everyone, retain or keep the same "green card" specifications and grades that the farmer (producer) received. This means from the gin to the mill wherever that may be.



STANTON CHEMICAL & SEED CO.

PHONE 756-3365

P. O. BOX 387

STANTON, TEXAS 79782

December 4, 1974

To Whom It May Conern:

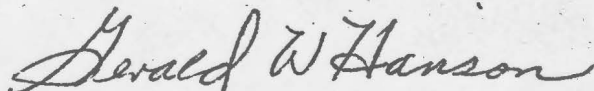
Following is a list of comparative prices of farm products I handle from fall of 1973 to fall of 1974:

Fertilizer	Fall 1973	Fall 1974
16-20	120.00 ton	188.00 ton
Insecticides		
M. Para	5.25 gal.	7.50 gal.
Herbicides		
Treflan & Planavin	25.00 gal.	30.00 gal.
ANSAR529	4.50 gal.	8.25 gal.
Cotton Seed	21.00 CWT.	34.00 CWT.

I could go on and on with different items but this is a represenative sample. As you can see, these prices have increased 50% or more and the price of cotton from the fall of 1973 to 1974 has decreased 50% or more, from 60¢ to 30¢, and in some cases considerable less depending on grade.

So you can see that the farmer cannot operate under these conditions and in turn the retailer or merchant cannot operate under these conditions.

Sincerely,



Gerald W. Hanson
Owner & Manager



50075 - FRMRS COOP-STANTON
PRODUCER B/C

LOT BOOK NUMBER 1
12/03/74

PAGE

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024-	12	00002 00003 00004 00005 00006 00007 00008 00009 00010 00011 00012 00013	30.11
034-	9	00025 00026 00027 00028 00029 00030 00036 00037 00038	30.00 <i>acala</i>
052-	14	00052 00053 00054 00055 00056 00057 00062 00063 00064 00065 00066 00080 00081 00082	22.73
053-	27	00104 00105 00106 00107 00108 00109 00110 00111 00112 00113 00114 00115 00116 00117 00118 00128 00129 00130 00131 00135	27.62
079-	23	00033 00034 00035 00039 00040 00041 00042 00043 00044 00045 00046 00047 00048 00051 00067 00068 00069 00070 00071 00072	27.23
081-	6	00087 00088 00089 00090 00091 00092	27.22
090-	8	00094 00095 00096 00124 00125 00126 00127 00132	23.44
102-	16	00149 00150 00151 00152 00153 00154 00155 00156 00157 00158 00159 00160 00161 00162 00163 00164	26.64
137-	21	00058 00059 00060 00061 00074 00075 00083 00084 00085 00086 00097 00098 00099 00100 00101 00102 00103 00119 00120 00121	27.15
182-	11	00014 00015 00018 00019 00020 00021 00022 00023 00024 00031 00032	27.03
257-	2	00016 00017	-29.65 <i>acala</i>
258-	3	00049 00050 00076	26.64
303-	1	00001	33.50

GIN TOTAL 153

1974 Loan Average

Jim Robertson

Grade - Stage	Total Bale	35-49	33-34	30-32	27-29
42-31	1		1		
52-31	9	1	4	2	2
-32	1				1
43-30	7	1	6		
-31	7	1	6		
53-30	6	3	2	1	
-31	3	2	1		
	34	8	20	3	3

1 - 21.80

9 - 20.25

1 - 20.85

7 - 19.60

7 - 20.00

6 - 18.30

3 - 18.70

20 - 70 -

3 - 190 -

3 - 325 -

Loan Average

18.78

1974 Loan Average Howard : Howard

Grade - Staple	Total Bales	35-49	33-34	30-32
51-30	1	1		
42-30	2	2		
-31	3	3		
-32	2	2		
	8			

1 - 20.85
2 - 21.15
3 - 21.80
2 - 22.55

Loan Average 21.70

