

**The original documents are located in Box 2, folder “Milk Prices (1)” of the
Norman Ross Files, 1974-75
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DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

dairy

November 29 1973

The President
The White House

Dear Mr. President:

The importation of certain dairy products is limited by quotas established by Presidential Proclamation pursuant to the provisions of Section 22 of the Agricultural Adjustment Act, as amended, which quotas are set forth in Part 3 of the Appendix to the Tariff Schedules of the United States Annotated (TSUS). These quotas were proclaimed to prevent imports from interfering with the price support program conducted by the Department of Agriculture for milk.

Among these quotas are a quota for Cheddar cheese, and cheese and substitutes for cheese containing or processed from Cheddar cheese (TSUS item 950.08A) in the amount of 10,037,500 pounds per year. Earlier this year, this quota along with the other import quotas for cheese were temporarily increased by fifty percent for a period ending July 31, 1973, by Presidential Proclamation 4213 of April 25, 1973. However, despite the authorization of additional imports, no recent purchases of cheese by the Commodity Credit Corporation under the support program have been made. The last such purchase of cheese was 2 million pounds in March 1973; prior to that, there had been no such purchases since June 1972. No price support purchases of cheese are anticipated in the remainder of 1973 or in 1974.

It had been expected that the additional importations would meet our supply needs until production increased seasonally, and that the amounts authorized would be sufficient to supplement domestic production for the remainder of 1973. Milk production, however, has been below expectations and is continuing to decline. Cheese production, after showing moderate increases early in the year, subsequently fell below the level of last year's production; in recent weeks, there has been some recovery, but it does not appear that this will be enough to regain the lost ground. Prices for Cheddar cheese, the principal type produced in the United States, are now at a record level of 20 cents or more per pound above the Commodity Credit Corporation purchase price of 65 cents.

Most importantly, cheese production is not keeping pace with demand. The using industry, including producers of processed cheese, are having difficulty in obtaining supplies and, in some cases, are finding it necessary to allocate their products to their customers.



I am hopeful that the present tight supply situation for cheese is a temporary situation which will be overcome during the coming spring season of higher milk production. As you know, the Department's price support program for milk is structured so as to encourage the production of cheese.

In view of the foregoing, I believe that additional quantities of Cheddar cheese, and cheese and substitutes for cheese containing or processed from Cheddar cheese, as provided for in TSUS item 950.08A, may be entered for a temporary period without rendering or tending to render ineffective, or materially interfering with, the price support program now conducted by the Department of Agriculture for milk or reducing substantially the amount of products processed in the United States from domestic milk.

Accordingly, I recommend that you direct the Tariff Commission to make an investigation under Section 22 of the Agricultural Adjustment Act, as amended, to determine whether 100,000,000 pounds of Cheddar cheese, and cheese and substitutes for cheese containing or processed from Cheddar cheese, as provided for in TSUS item 950.08A, may be imported, in addition to existing quota quantities, during a temporary period ending March 31, 1974, without rendering or tending to render ineffective, or materially interfering with, the price support program for milk now conducted by the Department of Agriculture, or reducing substantially the amount of products processed in the United States from domestic milk.

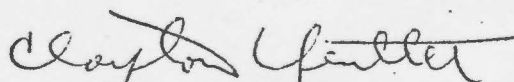
I believe that a condition exists which requires emergency treatment and that you should take immediate action in accordance with the provisions of Section 22(b) of the Agricultural Adjustment Act, as amended, to authorize the importation of the aforementioned additional amount of cheese provided for in TSUS item 950.08A during a temporary period ending March 31, 1974, without awaiting the formal review and recommendations of the Tariff Commission. I recommend that the additional quantity be allocated among supplying countries as follows: New Zealand, 55,000,000 pounds; Australia, 12,000,000 pounds; Other Countries, 33,000,000 pounds. The recommended country allocations are intended to encourage full and prompt utilization of the additional import authorization; because of their distance from the United States, New Zealand and Australia must have assurance that their shipments will be permitted entry upon arrival in United States ports. Other supplying countries, which are comparatively close, can compete for the remaining 33,000,000 pounds on a global basis; such competition should encourage prompt utilization of that allocation. I also recommend that, in order to facilitate the equitable distribution of the additional quantity of cheese, importations by any single importer be limited to a maximum of 2,500,000 pounds.

No change in the regular import quota for the aforementioned cheese is recommended.



A draft of a suggested letter to the U.S. Tariff Commission and a draft proclamation are enclosed.

Respectfully,



CLAYTON YEUTER
Acting Secretary

Enclosures



[1/2/74] *large*

~~THE WHITE HOUSE~~

PROCLAMATION AMENDING PART 3 OF THE APPENDIX TO THE
TARIFF SCHEDULES OF THE UNITED STATES WITH RESPECT TO THE
IMPORTATION OF AGRICULTURAL COMMODITIES

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS, pursuant to section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624), limitations have been imposed by Presidential proclamations on the quantities of certain dairy products which may be imported into the United States in any quota year; and

WHEREAS the import restrictions proclaimed pursuant to said section 22 are set forth in part 3 of the Appendix to the Tariff Schedules of the United States; and

WHEREAS the Secretary of Agriculture has reported to me that he believes that additional quantities of Cheddar cheese, and cheese and substitutes for cheese containing, or processed from, Cheddar cheese provided for in item 950.08A of part 3 of the Appendix to the Tariff Schedules of the United States (TSUS) may be entered for a temporary period without rendering or tending to render ineffective, or materially interfering with, the price support program now conducted by the Department of Agriculture for milk or reducing substantially the amount of products processed in the United States from domestic milk; and

WHEREAS, under the authority of section 22, I have requested the United States Tariff Commission to make an investigation with respect to this matter; and

WHEREAS the Secretary of Agriculture has determined and reported to me that a condition exists with respect to such cheese provided for in item 950.08A of the TSUS which requires emergency treatment and that the quantitative limitation imposed on such cheese should be increased during the period, ending March 31, 1974, without awaiting the recommendations of the United States Tariff Commission with respect to such action; and

WHEREAS I find and declare that the entry during the period ending March 31, 1974, of an additional quantity of 100,000,000 pounds of the cheese provided for in item 950.08A of the TSUS will not render or tend to render ineffective, or materially interfere with, the price support program which is being undertaken by the Department of Agriculture for milk and will not reduce substantially the amount of products processed in the United States from domestic milk; and that a condition exists which requires emergency treatment and that the quantitative limitation imposed on such cheese should be increased during such period without awaiting the recommendations of the United States Tariff Commission with respect to such action;

NOW, THEREFORE, I, RICHARD NIXON, President of the United States of America, acting under and by virtue of the authority vested in me as President, and in conformity with the provisions of section 22 of the Agricultural Adjustment Act, as amended, and the Tariff Classification Act of 1962, do hereby proclaim that subdivision (vii) of headnote 3(a) of part 3 of the Appendix to the Tariff Schedules of the United States is amended to read as follows:

(vii) Notwithstanding any other provision of this part, 100,000,000 pounds of the articles described in item 950.08A may be entered during the period beginning January 3, 1974, and ending March 31, 1974, in addition to the annual quota quantity specified for such articles under item 950.08A, and import licenses shall not be required for entering such additional quantity. No individual, partnership, firm, corporation, association, or other legal entity (including its affiliates or subsidiaries) may during such period enter pursuant to this provision an aggregate quantity of such articles in excess of 2,500,000 pounds. The 100,000,000 pound additional quota quantity authorized to be entered during the period ending March 31, 1974, shall be allocated among supplying countries as follows:

<u>Supplying Country</u>	<u>Quantity in pounds</u>
New Zealand	55,000,000
Australia	12,000,000
Other Countries	33,000,000

The additional quota quantity provided for herein shall continue in effect pending Presidential action upon receipt of the report and recommendations of the Tariff Commission with respect thereto.

IN WITNESS WHEREOF, I have hereunto set my hand this second day of January in the year of our Lord nineteen hundred and seventy-four, and of the Independence of the United States of America the one hundred and ninety-eighth.

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August 27, 1974

Dear Mr. Cooper:

This is in reply to your July 29 letter to President Nixon. You expressed concern over the recent decline in milk prices and the sharp rise in the price of feeds and other items involved in the cost of producing milk. I appreciate the opportunity to discuss this matter with you.

We have received requests from dairy farmer cooperatives throughout the country for hearings to increase Class I prices, and to increase the price support level to 90 percent of parity. The Department of Agriculture shares your concern for maintaining an appropriate level of income for dairy farmers. Not only do we recognize their need for a level of dairy farm income commensurate with other sectors of the economy, but we are aware that such income must provide an incentive for the production of adequate supplies of milk.

Increasing the dairy price support level to 90 percent of parity would bring higher consumer prices for milk and milk products, reduced consumption, and increased purchases by the Commodity Credit Corporation (CCC). We believe such action would be inappropriate at this time when there is strong consumer resistance to higher retail prices.

In spite of higher production costs, milk supplies are generally adequate. July production nationally was 0.2 percent above a year ago, compared with the 3.2 percent drop at the beginning of the year. July was the first month since September 1972 that milk production was above the same month a year earlier. At the same time that supplies have been increasing, demand fell as a result of consumer resistance to higher milk prices. Federal order Class I sales, for example, are down about five percent.



Although recent Class I prices (which are based on the Minnesota-Wisconsin manufacturing milk prices) have declined significantly from earlier levels, they remain substantially above prices of last year. Class I prices should increase in the months ahead as production declines seasonally. It is reasonable to expect that the M-W price in the coming fall months will reach the \$7.49 "floor" that many producers have been proposing for use in setting Class I prices.

In view of the above stated considerations, the Department of Agriculture has concluded that there is no need for our making any adjustment in the normal operation of the order pricing. Accordingly, the requests for a Class I price hearing have been denied.

Thank you for taking the time to give us your views.

Sincerely,

Norman E. Ross, Jr.
Assistant Director
Domestic Council

Mr. Charles F. Cooper
President
The Central Ohio Co-operative
Milk Producers, Inc.
519 E. Eleventh Avenue
Columbus, Ohio 43211

NROSS/pt 8-27-74
cc: Ross - Agri/gen
White House central files



NEWS

U. S. DEPARTMENT OF AGRICULTURE

HEARING PLANNED ON FLUID MILK PRICES TO FARMERS IN ALL FEDERAL ORDERS:

WASHINGTON, Sept. 17--Secretary of Agriculture Earl L. Butz today announced that a decision has been reached to call a national hearing to review minimum levels of fluid milk (Class I) prices to be paid dairy farmers under all 61 milk orders.

USDA officials said that the number of milk cows on farms and milk production for the first eight months of this year are both below year ago levels, and that to assure a continuing supply of milk adequate to meet consumer needs consideration of minimum prices to be paid dairy farmers, particularly during the coming fall and winter months, is necessary. Milk production is now declining seasonally while feed costs are becoming less and less favorable to milk production, this at the season of the year when heavier feeding is necessary because of normal short pasture during fall and winter.

Plans for the hearing are now being made, and announcement of the exact time, place, and scope of the hearing agenda will be announced within the next few days.

USDA 2676-74



file
Meeting took
place 10/11
9-24

The White House
Washington

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PMS HON GERALD FORD

WHITE HOUSE DC

AS MEMBERS OF CONGRESS WHO ARE ACUTELY CONCERNED ABOUT THE
DISTORTED COST/PRICE RATIOS CONFRONTING AMERICA'S DAIRYMEN, WE
RESPECTFULLY URGE THAT YOU IMMEDIATELY CALL A MEETING, IN THE
WHITE HOUSE, TO DISCUSS THE PROBLEMS INVOLVED AND ALTERNATIVE
COURSES OF ACTION THAT MIGHT BE TAKEN.

THIS NATION'S DAIRY COMMUNITY FACES A SEVERE MORALE PROBLEM.
DAIRYMEN ARE GOING OUT OF BUSINESS WITH INCREASING REGULARITY.
THIS IS NOT A SCARE TACTIC OR IDLE THREAT USED BY FARMERS TO GET
ATTENTION FOR THEIR CAUSE IT IS HAPPENING ALL ACROSS THE UNITED
STATES AND WITH PARTICULAR FREQUENCY IN OUR GREATEST DAIRY
PRODUCING STATES.



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20 THERE IS A CRISIS, MR PRESIDENT A VERY SERIOUS ONE.
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25 WHATEVER INPUT YOU DESIRE AS WELL AS A DISCUSSION OF THOSE POINTS
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19 GEORGE E BROWN JR

20 RICHARD W MALLARY

21 JOHN M ZWACH

22 KEITH G SEBELIUS

M CALDWELL BUTLER

GOODLOE E BYRON

GLENN R DAVIS

HAROLD V FROEHLICH

ORVAL HANSEN

ROBERT C MCEWEN

BOB BERGLAND

JERRY LITTON

DAVID R BOWEN

LLOYD MEEDS

ANCHER NELSEN

DAVID R OBEY



STEVEN B SYMMS

JAMES ABONOR

JOHN B ANDERSON

MARK ANDREWS

LES ASPIN.

ALBERT H QUIE.

HOWARD W ROBISON

VERNON W THOMSON

BOB TRAXLER

NNNN



f/c

September 24, 1974

Dear John:

I would like to acknowledge and thank you for the telegram to the President of September 23 expressing concern about the problems facing America's dairymen, and urging that the President meet with a delegation comprised of Members of Congress from the leading dairy states to discuss the situation.

Let me assure you that your message will be called to the early attention of the President and his Appointments Secretary, and you will hear further as soon as possible.

With kind regards,

Sincerely,

Max L. Friedersdorf
Deputy Assistant
to the President

The Honorable John M. Zwach
House of Representatives
Washington, D.C. 20515

MLF:EF:ets

bcc w/inc to Mr. Timmons - FYI
bcc w/inc to Warren Rustand - for further action
bcc w/inc to Norm Ross - FYI



received Sept 26

The White House
Washington

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UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

October 10, 1974

TO: Richard L. Feltner, Assistant Secretary

FROM: Ervin L. Peterson, Administrator *ELP*

SUBJECT: Current Facts About the Dairy Situation

Current trends in the milk production are:

- Milk production for the calendar year is projected to be 1-1/2 percent below 1973's 115.6 billion pounds.
- The number of milk cows on farms has declined from 11,259,000 in January to 11,139,000 in July. There were 11,599,000 milk cows on farms in January 1973, 2.9 percent more than in January 1974.
- The Minnesota-Wisconsin price for manufacturing milk rose through late 1973 and early 1974 to a high of \$8.15 cwt. in March and then dropped \$1.86 to \$6.29 cwt. in July. The current M-W price is \$6.69 cwt. compared to \$6.91 cwt. in September 1973.
- The current milk-feed ratio, the pounds of feed a pound of milk will buy, is 1.2. A ratio of 1.7 has been historically necessary to maintain milk production.

Government actions that have been taken:

- The USDA has just concluded a national public hearing in Chicago on setting a minimum floor price of \$7.50 cwt. for computing fluid milk (Class I) prices in all 61 Federal milk marketing orders. This floor price would extend through March 1975, the close of the current marketing year.
- The CCC during this marketing year has purchased 31 million pounds of butter, 39 million pounds of cheese, and 169 million pounds of nonfat dry milk, or slightly more than one billion pounds of whole milk equivalent. Butter and cheese purchases have ceased while nonfat dry milk purchases continue.
- To alleviate a temporary surplus of barrel cheese, the CCC for the first time has purchased 35 million pounds of processed cheese since June.
- Through negotiations, the EEC has suspended its export subsidies on cheese shipped to the United States to prevent the likely imposition of counter-vailing duties.



- Secretary Butz has assured the dairy industry that he will oppose any further temporary increases in import quotas as long as the dairy industry is in a severe cost-price squeeze.

Talking points about the dairy situation:

- Due to shortages of dairy products in 1973 and increasing demand, emergency action was taken to import nonfat dry milk, cheese and butter or 3.9 billion pounds milk equivalent, compared to average annual imports of 1.7 billion pounds milk equivalent per year during the 1968-72 period. Imports in 1973 accounted for 3.3 percent of our total milk production, but have returned to the normal rate of 1.5 percent of milk production since April 1974.
- Reflecting consumer resistance to high retail milk prices, consumption of fluid milk was down 5 percent for the first half of this year compared to a year ago. Fluid milk sales are currently 1.1 percent below 1973 levels. Declines in fluid milk sales released more milk for use in processed dairy products. Stocks of dairy products have increased, prices dropped, and the USDA made substantial purchases under the price support program.
- A late, wet spring, dry summer and early frost have reduced expected grain yields and have caused a bullish market for feed grains and soybeans. This creates problems for the entire livestock industry, including dairymen, until the next harvest season. Since feeds represent 45 to 50 percent of the cost of producing milk, the unfavorable milk-feed ratio of 1.2 will cause hardships for milk producers. Milk prices are currently 70 percent of parity.



[ca. 10/10/74]

STATEMENT ON THE DAIRY SITUATION

I recognize the tremendous cost-price squeeze in which America's dairymen find themselves. I have met with a group of representative dairy farmers, as well as with Congressional leaders who presented the case of this sector of the agricultural economy very effectively. I am very sympathetic with their situation.

I understand the concern of domestic dairy producers that the U.S. dairy support price system should not be allowed to be undermined by efforts of foreign dairy producers to shift the burden of their own cost-price problems onto the U.S. market, especially by artificial governmental incentives.

Because of my concern about the economic difficulties dairymen are facing, I am today announcing that no action will be taken to change the present system of import quotas without a thorough review of current market conditions, and a chance for our dairy producers to be consulted on this issue.

I feel that over the longer term the American farmer can compete against any farm producer in the world, and look forward to trade negotiations with other governments which could bring about an undistorted, fairer dairy market world-wide.



October 10, 1974

MEMORANDUM FOR: MAX FRIEDERSDORF
FROM: NORM ROSS
SUBJECT: Background - Meeting on Dairy

Current trends in the milk production are:

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- The current milk-feed ratio, the pounds of feed a pound of milk will buy, is 1.2. A ratio of 1.7 has been historically necessary to maintain milk production.
- Reflecting consumer resistance to high retail milk prices, consumption of fluid milk was down 5 percent for the first half of this year compared to a year ago. Fluid milk sales are currently 1.1 percent below 1973 levels. Declines in fluid milk sales released more milk for use in processed dairy products. Stocks of dairy products have increased, prices dropped, and the USDA made substantial purchases under the price support program.



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Government actions that have been taken:

- The USDA has just concluded a national public hearing in Chicago on setting a minimum floor price of \$7.50 cwt. for ~~computing~~ fluid milk (Class 1) prices in all 61 Federal milk marketing orders. This floor price would extend through March 1975, the close of the current marketing year.
- The Commodity Credit Cooperation during this marketing year has purchased 31 million pounds of butter, 39 million pounds of cheese, and 169 million pounds of nonfat dry milk, or slightly more than one billion pounds of whole milk equivalent. Butter and cheese purchases have ceased while nonfat dry milk purchases continue.
- To alleviate a temporary surplus of barrel cheese, the CCC for the first time has purchased 35 million pounds of processed cheese since June.
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NEROSS/ee



DAIRY SITUATION--SUMMARY AND RECOMMENDATIONS
PRESENTED TO PRESIDENT GERALD R. FORD

October 11, 1974



DAIRY SITUATION--SUMMARY AND RECOMMENDATIONS
PRESENTED TO PRESIDENT GERALD R. FORD
October 11, 1974

Mr. President, On September 24 and 25 public hearings were held on the dairy price situation before the House Subcommittee on Dairy and Poultry. Almost forty dairymen explained in their own words and from their own experience the plight of American dairymen. They were joined by eight Members of Congress and numerous other spokesmen.

In summary, American dairymen are facing a financial crisis of the utmost gravity. Dairymen are threatened with bankruptcy if they stay in the business under the current circumstances and American consumers will not have adequate supplies of milk if dairymen are forced out of business.

Briefly, there are three Executive actions which combined would lend support and stability to this situation. They are:

1. Increase the support price for manufacturing milk to \$7.31 per hundredweight which equals 90% parity of April, 1974, data;
2. Establish a \$7.50 per hundredweight floor for Class I milk as a follow-up to the October 8 Federal Order hearings in Rosemont, Illinois;
3. Give your personal assurance that importation of dairy products will not be increased above the quota levels for the next 12 months.

There is a real need for the immediate implementation of these proposals. The price of manufacturing milk dropped from \$8.11 in March 1974 to a low of \$6.32 in July 1974 and increased slightly to \$6.41 in August. By any measure this drop is extreme, but it does not tell the whole story.

Costs of production have continued to rise in agriculture as in other industries. The Minnesota Department of Agriculture estimates that dairymen's costs of production have increased by 39 percent in the past year. Of course, the price of many inputs has gone up, but dairymen consider the milk/feed ratio to be one of their best gauges. The ratio tells how many



pounds of feed could be purchased from the sale of one pound of milk. Generally, 1.7 lbs. of feed to 1 lb. of milk is considered to be a normally profitable ratio. A ratio of 1.5 to 1 is about the break-even point. In August the ratio was 1.1 to 1, and in September it had risen slightly to 1.17 to 1. Dairy-men have been well below the break-even point for several months and this ratio does not include many other costs of production.

Costs in the dairy industry have been driven up by a number of factors. In addition to general inflationary pressures, costs have escalated due to grain exports, low crop yields due to drought or frost, shortages of fertilizer, farm fuels, baling twine, and even farm machinery, and the uncertainty of wage-price controls.

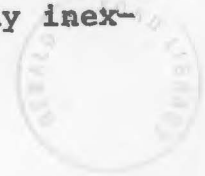
Milk prices, however, could not follow normal adjustment patterns due to the tremendous increase in imports of nonfat dry milk in August 1973, butter in November 1973, and cheese in January 1974. The decision to import dairy products at a level well over established quotas was quite possibly the single most harmful contributor to present pricing problems. Thus, an assurance that their markets will not soon be flooded with unnecessary imports will go a long way toward restoring confidence among dairymen.

However, at the present time farmers all over the country are losing money every time they sell 100 pounds of milk. Unless they are assured an adequate price for their milk, through increased support levels and floor prices, they will undoubtedly continue to sell their herds and use poorer quality, less expensive feed--thus cutting production per cow. Milk production is now about 4-1/2% below two years ago. There is the threat of a major milk shortage in coming months.

An increase in the price support level to 90% of parity will protect dairymen, especially in the Mid-West, who we rely on to provide the major supply of non-fluid milk which this nation needs.

At the same time, setting a \$7.50 floor under Class I milk is a virtual necessity in the fight to get the dairy farmer out of the red and to ultimately maintain a dependable domestic supply of fresh milk.

Implementation of these three measures will accomplish two things. First, it will help dairy farmers avert a financial crisis. And, second, it will provide a psychological boost that we hope will convince dairymen to stay in business. The ultimate result will be the assurance of a dependable, relatively inexpensive and wholesome supply of dairy products.



October 15, 1974

MEMORANDUM FOR: THE PRESIDENT
FROM: KEN COLE
SUBJECT: Dairy Import Situation

The Secretary of Agriculture has submitted for your consideration a memorandum providing you with his recommendations on the dairy import situation (Tab A).

Secretary Kissinger, Secretary Simon and Ambassador Eberle do not concur with Secretary Butz's recommendation that you go on record on the countervailing duty issue at this time. We will provide you with a decision memorandum on the dairy import issue on Wednesday, October 16.

NEROSS/ee



MEMORANDUM FOR: THE PRESIDENT
FROM: EARL L. BUTZ
SUBJECT: Dairy Import Situation

A. Imports

Background

The past two years, for well known reasons, were not normal. During this period milk production declined, prices rose and spot shortages of dairy products occurred. To deal with these recurring situations, U.S. dairy import quotas were temporarily increased. The nonfat dry milk quota was increased through four separate actions in 1973 by 265 million pounds. Between March 4 and June 30, 1974, it was increased by another 150 million pounds; however, only 114 million pounds were actually imported. The cheese quotas were increased by 50 percent in 1973, and a further import of 100 million pounds of cheddar cheese was authorized during the first quarter of this year. The quotas for butter and butter oil were increased in late 1973 by 34 million pounds, butter equivalent.

The U.S. dairy situation has changed radically since the spring of 1974; manufacturing milk supplies turned upward as a result of falling fluid consumption, and dairy prices fell to near support levels. CCC began to acquire dairy products under the price support program. In mid-June I announced that I was advising the President that further increases in the import quota for nonfat dry milk were not



necessary or advisable and asked that no further action on the report of the Tariff Commission be taken at this time.

Recommendation

Given the current dairy situation, any further increase at this time in U.S. dairy import quotas would almost certainly result in interference with the Department's price support program for milk. No action should be taken on the Tariff Commission report at this time. However, recognizing the possibility that dairy supplies might again be tight, the situation should be followed closely and reviewed in early 1975.

B. Countervailing Duties

Background

Last July, faced with the threat of countervailing duty action, the European Community--which is by far the largest foreign supplier of dairy products--indefinitely suspended subsidies on dairy exports to the United States. The EC, however, reserved the right to reinstate the subsidies after 90 days. Previous commercial contracts were, of course, not affected, and some shipments under them are still coming in. But they are tapering off and will soon be finished. If the EC resumes dairy export subsidies, the Treasury Department will react promptly to countervail.

As far as other smaller suppliers are concerned, it appears that some of them also subsidize, although the facts are not entirely clear. The Treasury Department is currently looking into some such cases, in the manner prescribed by the law.

On October 8, the Treasury Department informed the Government of Switzerland and Austria that a complaint has been received alleging that exports to the U.S. of Emmenthaler and Gruyere cheeses from those countries are receiving bounties or grants within the meaning of the countervailing duty law. A preliminary inquiry is currently underway.



Recommendation

The Federal Government has the authority to nullify foreign subsidies by the imposition of additional duties--called countervailing duties--equal to the amount of the subsidy. This Administration is pledged to use that authority, as the Treasury Department has publicly stated. This action would apply to imports of subsidized dairy products, particularly from the European Community and other Western European countries.

cc: Dr. Hullander, CEIP



dairy

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[10/15/74]

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file

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NEROSS/ee





max

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

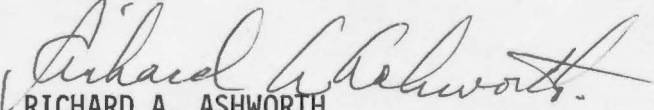
October 15, 1974

MEMORANDUM TO:

FRANK ZARB
Office of Management
and Budget

Per Secretary Butz' discussion with you, I am enclosing two optional press statements along with background information on both options. Also enclosed is a background paper from our Office of General Counsel explaining why no action can be taken at this time to increase Class I prices for milk.

Please note there is no reference to increasing prices in the news releases since hearings have just been completed and a decision as a result of these hearings has not yet been made.


RICHARD A. ASHWORTH
Deputy Under Secretary

Enclosures

cc: Norm Ross



10/15

A. Foreign Dairy Section

1. Imports:

a. Recommendation:

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2. Countervailing Duties:

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UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, D.C. 20250

October 15, 1974

SUBJECT: Information on Recently Completed Federal
Milk Marketing Order Hearing to Provide a
Floor to Class I Prices Under All Milk
Orders. Docket Nos. AO-361-A12, et al.

TO: General Counsel

The hearing on the above captioned matter was held on October 8-11. The proposal at issue requested a minimum floor of the basic formula price in all milk orders of up to \$7.50; said basic formula price is the basis for Class I milk pricing. Each order uses the basic formula price plus a given differential in each order to set the Class I price. The differentials vary between markets reflecting transportation costs from major supply sources.

The basic formula price is based on the Minnesota-Wisconsin series which series reflects the prices prevalent in the open market on milk used for manufacturing purposes. By requesting a floor on this series price any future lowering of the series would not reduce the Class I prices. Farmers appeared to have serious concern that the series price would not hold up to the \$7.50 level in the ensuing months. It is to be noted that the proposal sought this minimum price only through March 1975.

A total of 62 witnesses testified including Congressmen Taylor, McDay and McEwen of Missouri, Pennsylvania and New York, respectively. Testimony was heavily in favor of immediate emergency action by the Secretary no later than November 1, 1975. Several witnesses, i.e., the Milk Industry Foundation; Bordens, Inc.; Fairmont Foods, Inc.; and Oberweiss Dairy were against the proposal. Generally this testimony was to the effect that if relief for dairy farmers is to be effected such should be through raising the support prices rather than Class I prices in milk orders. These parties also opposed emergency action which would eliminate a recommended decision and they also stated that if any action should ensue handlers should be given at least 25 days notice. This would entail a decision to be



effective sometime after November 1, 1974. A large number of dairy farmers appeared from all parts of the country and testified that costs of feeds, equipment and other dairy farmer needs have increased to the point that dairy farmers will be forced out of business absent immediate relief.

One consumer representative testified in opposition. Ms. Eileen Gorman of the National Consumers Congress testified that her organization was generally opposed to any price increases.

John H. Sandor.
JOHN H. SANDOR
Acting Director
Marketing Division



OPTION NO. 1

The President recognizes the tremendous cost-price squeeze in which America's dairymen find themselves. He has met with a group of representative dairy farmers, as well as with Congressional leaders who presented the case of this sector of the agricultural economy very effectively. The President is very sympathetic with their situation.

Because of his concern about the economic difficulties dairymen are facing, the President today is announcing that he does not intend to lift import quotas for imported dairy products as long as the current cost-price squeeze for America's dairymen exists.

The President recognizes also that any further increase at this time in U. S. dairy import quotas would almost certainly interfere with marketing of U. S. dairy products.

He realizes that there were abnormal production problems which created spot shortages of dairy products which had to be relieved through emergency actions to temporarily increase dairy imports. However, the U.S. dairy situation has changed radically since this spring, with falling prices as well as diminishing demand for milk products. For that reason, the President advises that he will not take any action to increase dairy imports at this time so long as our dairymen continue to face the cost-price situation they now face. He intends to follow the situation closely and review it again in early 1975.



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"The President understands the concern of domestic dairy producers that the U.S. market should not be left unprotected to low cost foreign suppliers, which sometimes are subsidized, thus undermining the U.S. support price system at a time when domestic producers are caught in a difficult cost/price situation. They can be sure that no action will be taken to change the present system of import quotas without a thorough review of current market conditions, and a chance for our dairy producers ~~are~~ to be heard on this issue. The President feels that over the longer term the American farmer can compete against any farm producer in the world, and looks forward to trade negotiations with other governments which could bring about an undistorted, fairer dairy market world-wide.



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THE WHITE HOUSE

WASHINGTON

October 18, 1974

MEMORANDUM FOR: JOHN CARLSON
FROM: NORM ROSS
SUBJECT: CALF SLAUGHTER (Wisconsin)

Here are some typical comments that we have received concerning the slaughter of the calves in Wisconsin: (from private individuals mostly).

"Stop brutal inhuman slaughter of calves now. This is truly un-American. Please act now."

"You cannot win with shooting and burial of cattle".

"If any more farmers kill calves, don't count on my vote for Republicans, or you."

"Outraged at killing of calves with world starvation rampant. Tax farmers, no aid for 1 year".

"My family finds the Wisconsin calf slaughter revolting. Shortages result in higher prices. This does not help inflationary prices. First they slaughtered baby chickens, then pigs and now beef. What next? It's not our spending, Mr. President, it's supply and demand."

"May we encourage the use of all the powers of your office to stop immediately the unnecessary slaughtering of calves in the U.S. when there is hunger and famine in all parts of the world. We feel this is tragic. We support you in the distribution of the calves to Honduras." signed: Pastors of the Minnetonka District Minn. Synod Lutheran Church

We have received 105 telegrams expressing their opinions along the same lines as indicated above.



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DAIRY SITUATION--SUMMARY AND RECOMMENDATIONS
PRESENTED TO PRESIDENT GERALD R. FORD
October 11, 1974

Mr. President, On September 24 and 25 public hearings were held on the dairy price situation before the House Subcommittee on Dairy and Poultry. Almost forty dairymen explained in their own words and from their own experience the plight of American dairymen. They were joined by eight Members of Congress and numerous other spokesmen.

In summary, American dairymen are facing a financial crisis of the utmost gravity. Dairymen are threatened with bankruptcy if they stay in the business under the current circumstances and American consumers will not have adequate supplies of milk if dairymen are forced out of business.

Briefly, there are three Executive actions which combined would lend support and stability to this situation. They are:

1. Increase the support price for manufacturing milk to \$7.31 per hundredweight which equals 90% parity of April, 1974, data;
2. Establish a \$7.50 per hundredweight floor for Class I milk as a follow-up to the October 8 Federal Order hearings in Rosemont, Illinois;
3. Give your personal assurance that importation of dairy products will not be increased above the quota levels for the next 12 months.

There is a real need for the immediate implementation of these proposals. The price of manufacturing milk dropped from \$8.11 in March 1974 to a low of \$6.32 in July 1974 and increased slightly to \$6.41 in August. By any measure this drop is extreme, but it does not tell the whole story.

Costs of production have continued to rise in agriculture as in other industries. The Minnesota Department of Agriculture estimates that dairymen's costs of production have increased by 39 percent in the past year. Of course, the price of many inputs has gone up, but dairymen consider the milk/feed ratio to be one of their best gauges. The ratio tells how many

*Phil → did participate need him the (Import import)
→ counterbalancing duties on imports
→ Executive order to handle quotas
→ Simon has responsibility to monitor (Price)
Grain matters (Quality, feed lab.) Proposed to do
dell has done that.*



pounds of feed could be purchased from the sale of one pound of milk. Generally, 1.7 lbs. of feed to 1 lb. of milk is considered to be a normally profitable ratio. A ratio of 1.5 to 1 is about the break-even point. In August the ratio was 1.1 to 1, and in September it had risen slightly to 1.17 to 1. Dairy-men have been well below the break-even point for several months and this ratio does not include many other costs of production.

Costs in the dairy industry have been driven up by a number of factors. In addition to general inflationary pressures, costs have escalated due to grain exports, low crop yields due to drought or frost, shortages of fertilizer, farm fuels, baling twine, and even farm machinery, and the uncertainty of wage-price controls.

Milk prices, however, could not follow normal adjustment patterns due to the tremendous increase in imports of nonfat dry milk in August 1973, butter in November 1973, and cheese in January 1974. The decision to import dairy products at a level well over established quotas was quite possibly the single most harmful contributor to present pricing problems. Thus, an assurance that their markets will not soon be flooded with unnecessary imports will go a long way toward restoring confidence among dairymen.

However, at the present time farmers all over the country are losing money every time they sell 100 pounds of milk. Unless they are assured an adequate price for their milk, through increased support levels and floor prices, they will undoubtedly continue to sell their herds and use poorer quality, less expensive feed--thus cutting production per cow. Milk production is now about 4-1/2% below two years ago. There is the threat of a major milk shortage in coming months.

An increase in the price support level to 90% of parity will protect dairymen, especially in the Mid-West, who we rely on to provide the major supply of non-fluid milk which this nation needs.

At the same time, setting a \$7.50 floor under Class I milk is a virtual necessity in the fight to get the dairy farmer out of the red and to ultimately maintain a dependable domestic supply of fresh milk.

Implementation of these three measures will accomplish two things. First, it will help dairy farmers avert a financial crisis. And, second, it will provide a psychological boost that we hope will convince dairymen to stay in business. The ultimate result will be the assurance of a dependable, relatively inexpensive and wholesome supply of dairy products.

* * *



MEMORANDUM FOR THE PRESIDENT

From: W. D. Eberle

Subj: Dairy Import Quotas and Countervailing Duties

Background

Dairy producers have for some time been unhappy with Administration policy, particularly in regard to domestic milk-price supports and dairy imports.

On the trade side, their unhappiness began with the periodic emergency actions taken in 1973 and 1974 to increase dairy imports for anti-inflationary reasons as recommended by the Cost of Living Council. This unhappiness surfaced in two areas: Senate deliberations on the Trade Reform Act; and, separately, the Federal Courts, where dairy producers pressed a 1968 complaint against the Treasury Department to force countervailing against subsidized dairy imports from the European Community, as required under law.

Rather than face a political showdown with the U.S., the European Community warned that a trade war could be in the offing but agreed to a temporary suspension of dairy export subsidies to the U.S. This temporarily removed the pressure for a court action against Treasury.

In the meantime, the Administration was working with the Senate Finance Committee on the Trade Reform Act to gain adequate discretion to negotiate longer-term solutions in countervailing duty cases. Present law, written in 1897 provides no Executive discretion. Treasury avoided countervailing only by delaying a determination on complaints.



Administration officials have negotiated a delicately balanced settlement of dairy countervailing duties and Section 22 quotas in the context of the Trade Bill, worked out with representatives of the major farm and dairy organizations and the Senate Finance Committee. (Section 22 contains the import quota provisions of the Agricultural Adjustment Act of 1933.) Commitments in that settlement are consistent with the CIEP decision to preserve maximum flexibility for Administration actions in order to help prevent trade wars from developing with other dairy producing nations. The compromise package is summarized in Attachment A.

Dairy producer groups and the Senate Finance Committee have accepted this package as a reasonable compromise on dairy trade policy. However, they remained worried about possible future emergency actions (for anti-inflationary reasons) to liberalize dairy import quotas. Your speech in Kansas City, promising consultations prior to any future quota liberalization, should allay this fear.

Alternatives

Option I - No further action now.

Follow existing trade policy; continue discussions with the European Community to try to avoid a trade war.

Option II - Institute formal countervailing duty action now.

Requires the U.S. to impose countervailing duties immediately if the EC resumed export subsidies, and would not permit any opportunity to negotiate a solution.

Inflation Statement

The option of immediately countervailing while keeping



quotas results in excessively high U.S. dairy prices and will subject the Administration to criticism that it is working against its own anti-inflationary program.

Discussion

To go forward with countervailing duty action now, without simultaneously announcing Tariff Commission examination of Section 22 quotas, ensures a political confrontation, since a number of European Ministers would consider such action a direct threat to their own political positions.

However, any quota liberalization would offend dairy producers who consider Section 22 quotas important to their welfare. Thus, any domestic political gain of countervailing would be offset by domestic criticism of Section 22 liberalization. Moreover, any commitment to aid the dairy industry is likely to be criticized at this time. Also, your principal advisors agree that to proceed with an open US-EC confrontation (without quota liberalization) is likely to cause the EC to retaliate on other American agricultural products, such as tobacco, citrus, and soybeans. This in turn would split the farm organizations and lead to indeterminate, but probably negative, domestic political effects.

Recommendation

That we proceed on our present course: no formal action on countervailing duties, and your statement on quotas. The following officials agree with this course of action: Kissinger, Simon, Ash, Eberle, and Cole. Butz agrees in principle.

Approve _____

Disapprove _____



ATTACHMENT A

Component of Settlement Accepted by Senate Finance Committee
and Major Farm and Dairy Organizations

The compromise package includes commitments by Treasury, my deputy (Harald Malmgren) and the Administration. Attachment B includes a memorandum and letters from David Macdonald, Assistant Secretary of the Treasury and Harald Malmgren, Deputy STR, to Senators Nelson and Mondale. The commitments involve:

- ...elimination of the House provision which allowed the Administration to withhold countervailing action if import quotas were in effect.
- ...new assurances, to be supplied in legislative history, that the Administration would not implement major quota program changes resulting from international negotiation without positive action by Congress, even though the Administration presently has considerable flexibility under existing law
- ...elimination of the wide-open House provision that the Administration could withhold countervailing duty action in all fields for up to four years, and replacing this provision with a new, very tightly circumscribed discretion provision.



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for Honor

430-6857



CONFIDENTIAL

OPTIONS PAPER

DAIRY TRADE ISSUES

BACKGROUND

On July 12, 1974, the EC suspended its subsidies on dairy exports to the U.S. for 90 days. This action was taken to avoid the imposition of countervailing duties by the U.S., an action the U.S. would likely have been forced to take as the result of a suit brought by the National Milk Producers Federation. On July 16, 1974, the District Court granted a 120-day stay in the case. The plaintiff agreed to the stay with the stipulation that, if the EC resumes the subsidies during the period of the stay, the Treasury will issue immediately a countervailing duty proceeding notice and will make a determination within two weeks thereafter whether such payments constitute a "bounty or grant."

The suspension of subsidies by the EC has put EC cheeses in an unfair position vis-a-vis, cheeses from other countries which maintain subsidies. Also, the suspension by reducing the competitiveness of EC cheeses vis-a-vis domestically produced cheeses will relieve present and potential pressure on our price support program.

DISCUSSION

The August holiday period and the fact that the suspensions are in effect for 90 days makes it highly unlikely that the United States will be required to take any further action with regard to the EC in the immediate future. To prepare for the fall when the effect of the suspension may begin to bite on EC cheese trade, and when the EC will be deciding its action after the 90-day suspension, Ambassador Malmgren, Deputy Special Trade Representative, has already begun discussions in Geneva with Theodore Hijzen, Director of EC Trade Policies. These discussions will be continued in September. If these discussions are not successful in coming to an agreement, internal EC pressure could result in overt retaliation or indirect countermeasures which could seriously hurt our broader agricultural interests.

CONFIDENTIAL

DECLASSIFIED

E.O. 12958, Sec. 3.5

NSC Memo, 11/24/98, State Dept. Guidelines
By WAM, NARA, Date 11/22/00



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EC officials know that discretion is provided for in the TRA pending before Congress. They assume the Administration will fight to retain maximum discretion and work within that framework.

It is possible and indeed likely that the Treasury Department may receive subsidy complaints which could result in countervailing against dairy export subsidy practices by other countries.

An interagency meeting was held on July 23, 1974, to sound out the opinion of the various agencies concerned with this matter. The principle issues addressed were:

- (1) What should our short-term position be with respect to emergency quota action?
- (2) What issue should be addressed to the Tariff Commission and when?
- (3) What action should be taken with respect to non-EC subsidizing countries?

OPTIONS

- I. Prior to resuming discussions with the EC in September, the U.S. can:

A. Take no action.

Pro: The EC would prefer that we not stir up the issue and get other subsidizing countries involved.

Con: We do not have a good bargaining position with the EC in September. We lose the opportunity to involve other subsidizing countries with the intention of eliminating all dairy export subsidies and rationalizing trade in dairy products.

B. Take emergency action to increase or reallocate U.S. dairy import quotas.

Pro: We could compensate for the EC's price disadvantage on some cheeses by increasing their quotas on other dairy products thereby relieving some of the internal pressure on the EC.

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Con: There does not appear to be sufficient justification as required by law to take this action. Any increase in quotas would further disturb the U.S. dairy industry.

C. Initiate discussions with non-EC subsidizing countries with the intention of convincing them to cease all direct subsidies of dairy products.

Pro: We improve our bargaining position with the EC. We take advantage of an opportunity to rationalize trade in dairy products.

Con: We risk the political displeasure of those countries not interested in ceasing their subsidies.

D. Request a Tariff Commission investigation for the purpose of increasing or suspending Section 22 quotas on dairy products.

Pro: There is general agreement that a good case can be made for lifting quotas on specialty cheeses (blue-mold, Edam and Gouda, hard Italian-type). There is some possibility the quotas on cheddar and nonfat dry milk could be increased. These quota increases would benefit the EC. To be able to say that the Tariff Commission has already begun its investigation would improve our bargaining position with the EC in September.

Con: It would irritate the American dairy industry which would then have less to lose by filing complaints against non-EC subsidizing countries. (See Section II on Tariff Commission Investigation.)

E. Initiate CVD action against other subsidizing countries without the existence of any formal complaints.

Pro: The point would be forcefully made to other countries that now is the time to re-think dairy trade policy. The EC would be pleased that it was not being discriminated against.

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Con: We would undermine the credibility of the argument used in all major previous CVD cases that the United States acted only upon the presentation of formal complaints.

We would be seen taking a "political" action in a field where up to now we had consistently argued action was only taken under judicial pressures.

We would be seen wielding the CVD law as a protectionist tool in a situation where our law does not conform with international guidelines because of its lack of an injury requirement.

We would run the risk of setting off a series of thrusts and counterthrust retaliatory moves which could undermine the chances for the MTN and, in a broader sense, add a further element of instability to an international economic structure already seriously burdened with problems stemming from the rapid rise in energy and raw materials' costs.

RECOMMENDATION

Prior to resuming discussions with the EC in September, it is recommended that the U.S. initiate discussions with non-EC subsidizing countries and request a Tariff Commission investigation. If these two actions are taken, the U.S. will be in a better bargaining position. First, the U.S. can tell the EC that we are well under way in our discussions with other subsidizing countries to convince them to drop their direct subsidies thereby removing the current disadvantage of EC cheeses. Second, the U.S. can tell the EC that the Tariff Commission investigation is well under way with the expectation that the findings will result in the increase or suspension of some of our dairy import quotas. If the EC restores its cheese subsidies, the U.S. will be forced to countervail, a sequence of events which could easily escalate to further unfortunate actions. Thus, it is in our interest to convince the EC to continue its suspension of dairy export subsidies. In return, the U.S. is seeking to eliminate the current EC disadvantage by convincing other countries to

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discontinue their dairy export subsidies. Also, in return, the U.S. intends to allow increased imports from the EC in other dairy products to compensate the EC for its expected loss of trade in certain cheeses.

II. TARIFF COMMISSION INVESTIGATION

Modification or suspension of Section 22 quotas requires a prior investigation by the Tariff Commission. The scope and timing of that investigation have the following options.

Scope Option #1:

To investigate the impact of the removal of subsidy or countervailing duty action on all dairy products. The Tariff Commission should be asked to conduct its investigation in the context of two possible situations: (1) a continuation of the current situation, but with continued suspension of EC subsidized dairy products, and (2) a situation where no countries are subsidizing their dairy exports to the U.S.

Pro: To get as complete a picture as possible on the total impact of subsidized dairy imports on the domestic economy.

Resolve disagreement on which dairy product quotas can be increased or suspended.

Con: The Tariff Commission may find it difficult to complete an investigation of this magnitude within the desired time frame (to coincide with EC talks).

Scope Option #2:

Assess the feasibility of a variable fee system and any other mechanism as alternatives to the quota system.

Pro: Determine which system fits the needs of the domestic economy.

Con: Same as con above.

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Scope Option #3:

To give priority to reassessing the dairy quotas for those specialty cheeses supplied largely by the EC.

Pro: Provides a basis for granting relief to the EC if necessary.

Improves the bargaining position with the EC.

If quotas were removed on specialty cheeses and subsidized exports from non-EC countries flooded the market, U.S. dairy interests would be likely to file CVD complaints against the subsidizers allowing a subsequent broadening of the Tariff Commission investigation.

Con: No specific problem.

Timing Option #1:

Recommended that the Tariff Commission begin its investigation of possible modifications of the Section 22 quota system now on the basis of the EC action and the possibility of CVD complaints being initiated against other dairy export subsidizers.

Pro: We have only 80 days in which to find a workable solution to the problem. The Tariff Commission needs time to gather data, etc. We can furnish information on any other CVD action or subsidy removals as and if they arise.

If we do not begin Tariff Commission work now, we run the risk of not having any alternatives in hand in 80 days' time except to impose countervailing duties and being subject to possible EC retaliation.

Early initiation of Tariff Commission work could permit us to take the equivalent of "emergency action" on specialty cheeses of particular interest to the EC.

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Con: EC action alone is insufficient grounds for requesting a Tariff Commission investigation. We need CVD action against all subsidizers before the Tariff Commission can either be asked to initiate an investigation or expect to come up with definitive findings.

The EC may not consider the removal of quotas sufficient grounds for continuing the suspension of subsidies.

Failure to act against other countries could lead the EC to charge it was being discriminated against with adverse political consequences.

Timing Option #2:

Do nothing and hold off the recommendation to the Tariff Commission until or if complaints were in hand.

Pro: We are under no pressure at the moment and have plenty of time to initiate and complete Tariff Commission studies if complaints are received against other dairy export subsidizers.

Short-term political advantage with the milk industry.

Con: See pros under option #1.

The EC will argue that they are being discriminated against unless CVD action is taken against other subsidizing countries.

RECOMMENDATION

That the President request the Tariff Commission to undertake immediately an investigation of all Section 22 dairy import quotas, including a review of the mechanism itself, as suggested above. A draft letter from the President to the Tariff Commission outlining the scope of the investigation should be sent to the President with a cover memorandum explaining the rationale for the request and recommending that he sign it.

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The basic problem as I see it is to develop a strategy ~~for~~ in the immediate future for dealing with the American domestic dairy industry and with the possible EC reaction to the continued suspension of the dairy quotas ~~for~~, in case of their reimposition, a countervailing duty action by the United States. Until now, the EC has been pretty quiescent on the subject. ~~They~~ have ^Perhaps their quiescence will end come the fall when the EC leaders are reinvigorated from their summer rest or the remaining dairy licenses dry up or ^{are} used up and cheese that would ordinarily be destined for the United States begins to be added to the EC stock. →

Option 1 → would provide no U.S. Government decision, no Tariff Commission investigation, no more countervailing duty investigations of other countries' subsidies practices until ~~the~~ at least the STR representative has had an opportunity to discuss the matter with the EC in September. These can be exploratory talks. The advantage of not having a Tariff Commission investigation before exploratory talks with the EC is that although we can have a great influence over a Tariff Commission investigation we cannot determine its outcome, and it is possible that a Tariff Commission investigation will tie our hands. Also, if the EC is threatening retaliatory action either overt or covert which could seriously endanger our general export interests, specifically our agricultural trade interest, we could then be in a position to take emergency action. The emergency action can be justified both on the



basis of the necessity to protect our other agricultural exports and the plain and simple fact that the EC is at a disadvantage ~~vis-a-vis other countries vis-a-vis competing countries~~ countries which compete with their dairy with ~~their~~ cheese exports but are not subject to subsidies. ^{the} Second alternative would be to immediately request a Tariff Commission investigation. This alternative is also based upon the fact that there ~~no~~ repeat no countervailing duty investigations on other countries' export subsidies. The Tariff Commission investigation should be completed within four or five months and can be based on the possibility of increasing EC cheese imports based on the fact that without subsidies they are not likely to materially interfere with our domestic support program. During our exploratory discussions with the EC in September, we can explain that ~~the~~ ^a Tariff Commission investigation is going on and we will act as soon as feasible thereafter. The advantage of this approach is that the onus for increasing quotas falls more on the Tariff Commission than on the executive and is, ~~not likely~~ therefore, less likely to raise the eye of the many dairy Senators and Representatives in Congress. Alternative three is based on the assumption ~~that we will~~ that the Treasury Department will have instituted countervailing duty investigations of all dairy subsidies either as a result of autonomous dairy complaints ^{into} by the dairy industry or encouraged export subsid~~ity~~ complaints by the dairy industry. In such a case, it is a foregone conclusion, and Agriculture has agreed, that ~~at the time the Tariff~~



~~Commission~~^R at the time the Treasury Department beings its countervailing duty complaints ~~it should at the same time~~ the Tariff Commission should at the same time begin a Tariff Commission investigation. We can then assure the EC that the discriminatory effects of them being the only country to have suspended subsidies will end perhaps soon after September perhaps October or November. The Tariff Commission could well decide after it has completed its investigation that most of the Section 22 program and particularly those quotas affecting ✓ dairy can be lifted, and those quotas affecting cheese can be lifted. The fourth alternative is to do absolutely nothing. This alternative ~~involves the~~ involves waiting until September. If the community asks us to begin consultation, offer to do so but ~~point out that our countervailing duty~~ point out that export subsidies are not acceptable practices on exports to the United States and also take the tough line that our Section 22 program is sanctioned by GATT and ~~does not~~ and does prevent material interference with our price support program. We can point out to the EC that our system for dairy is still probably more liberal than their general CAP. The advantage of this system is that it will present a strong position for Congress and the U.S. Executive will not be libel^a to criticism for soft enactment for softness in the dairy ^{sector} section. It will increase the possibility of passages of any trade bill favorable to ~~the~~ giving the Administration more discretion in the trade field. The disadvantage, of course, of this approach is it is libel^a to lead to a trade war, retaliation by the EC, and perhaps even



spill over and ~~poison~~ our political relationship with the EC.



DAIRY AND COUNTERVAILING DUTIES

A

*** Major changes in the concept of the countervailing sections of the Trade Reform Act have been introduced in the Senate Finance Committee and tentatively accepted by the Administration. These changes are all designed to meet the special problems of the dairy industry, but without fundamental damage to the broader trade objectives of the Administration in relation to other agricultural sectors and industry. These changes include:

- elimination of the House provision which allowed the Administration to withhold countervailing action if import quotas were in effect
- new assurances, to be supplied in legislative history, that the Administration would not implement major Section 22 program changes resulting from international negotiation without positive action by Congress, even though the Administration presently has considerable flexibility under existing law
- elimination of the wide-open House provision that the Administration could withhold countervailing duty action in all fields for up to four years, and replacing this provision with a new, very tightly circumscribed discretion provision.

*** Why is any discretion necessary? The Administration points out that the European Community already faces quotas on entering the U.S. market, and considers countervailing action on top of quotas as protectionist overkill. Restitution payments, or as we call them, export subsidies, are a fundamental part of their agricultural system, related directly to their dairy price support levels as our quotas are related to our price supports. They are able politically to negotiate their export payment program in the context of overall trade negotiations and/or in the context of a new international solution to the world dairy trade problems many countries face. But the EC is not politically willing to give up its whole export payment system unilaterally, without a broad negotiating cover, and is prepared to fight the U.S. to protect its political position in relation to U.S. farmers.

The EC has offered to be reasonable, by suspending the present export subsidies as of mid-July, and has offered to discuss longer term solutions. They have also warned they will attack other American farm interests if the U.S. is not reasonable in its approach. (They can retaliate in many ways, without necessarily harming themselves politically or without acting illegally -- e.g. in tobacco, soybeans, canned fruits.)



In sum, the Administration wants to avoid a form of dairy action which will lead to damage to other farm interests, but the Administration negotiators are determined to reduce the pressures of unfair subsidies on the American dairy market.

The Administration also wants to negotiate a basic improvement in the international rules and practices regarding subsidies and countervailing duties, in connection with all of world trade. This is one of the major objectives of the Trade Reform Act. To negotiate effectively, the Administration wants a degree of leeway in how it conducts countervailing duty policy during the period of upcoming negotiations.

*** How would this discretion provision affect dairy? Right now, EC subsidies have been suspended.*

- ... If these subsidies are resumed in the present situation, Treasury will definitely countervail.
- ... If the new trade bill becomes law, and the EC resumed subsidies Treasury could theoretically withhold countervailing action for up to six months. However, Treasury has assured me they will not exercise this discretion if the EC simply resumes doing what it did before without substantial modification of its export program as it applies to the U.S.
- ... If the EC proposes a major change in its export program, such as establishment of a minimum export price program for the U.S. market, the Executive Branch would engage discussions with the EC to determine whether an adequate remedy could be found for the transition period during broader trade negotiations. The adequacy of this remedy would be subject to Congressional review, and therefore subject to the dairy industry's review. The new draft provision would provide for a Congressional override (by either House or Senate) if the exercise of discretion by the Executive Branch was based on an alternative remedy which was judged to be inadequate by the Congress. The Administration, knowing this possibility of override exists,

* Some prefixed subsidies, set before mid-July, may still be operable, but time is rapidly running out on what is believed to be a small-scale problem.

would have to work closely with the dairy industry in any of its negotiations on interim remedies for dairy imports. Moreover, the Administration has assured the Congress it will voluntarily consult with the dairy industry on any negotiated transitional compromises.

*** Advantages of a compromise:

- ... avoidance of damage to other American farm interests
- ... development of a new, cooperative, continuous relationship between the dairy industry, Congress, and the trade negotiators
- ... avoidance of fundamental damage to other trade negotiating objectives of the Executive Branch, and avoidance of undue delay of the Trade Bill, which is vital to a wide range of American agricultural as well as national interests.



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20306

October 2, 1974

The Honorable Gaylord Nelson
United States Senate
Washington, D.C. 20510

Dear Senator Nelson:

You have asked about the status of any discussions between officials of the U.S. government and the European Community as regards the resolution of the problem of E.C. dairy export subsidies. When the E.C. suspended its restitution payments, Treasury and the Court determined that no further Treasury action was called for under those circumstances. The E.C. has asked what would be done in the future in the light of possible changes in the law (under revisions incorporated in the Trade Reform Act), and we have said that we shall have to wait to see what the Congress will provide. I can assure you that there have been no private or public agreements regarding resolution of the problems arising out of the pending countervailing duty case in relation to imports from the E.C. In particular, we have not made any assurances, or even raised hopes, of any adjustments in the dairy import quota situation in connection with the proposed compromise package which S.T.R. and you and Senator Mondale have been discussing. The compromise package, as we have outlined it to you, composed of the attached memorandum and draft Treasury letter, represents a comprehensive approach to meeting the special problems of the dairy industry.

Moreover, the Special Trade Representative's Office would not recommend any changes in quotas in connection with trade policy without prior consultation with you and the representatives of the dairy industry whatever the elements of such a settlement insofar as they affect dairy farmers.

The compromise proposal which results from our common effort with you is a package with which we can live and to which we can give support in conference if it is agreeable to the Senate.



I recognize the real problems and special circumstances of the dairy industry. It is in relation to this recognition of the problems, and of your own concerns, that we have made a major effort to tailor this special approach to dealing with a most delicate problem without prejudice to the interests of other American farmers or to our national economic interests. This latter point is important because we are very much concerned with the need to avoid possible spillover effects on other American economic interests, particularly agricultural interests, of a confrontation with our trading partners.

Sincerely,

Harald B. Malmgren

HBMalmgren/chw
Chron, Reading, Official



C
11

October 3, 1974

Dear Senators Nelson and Mondale:

I have been asked for the views of the Treasury Department concerning how proposed amendments to the countervailing duty law relating to a limited conditional discretionary authority in the Treasury Department not to apply countervailing duties during the period of negotiations under the Trade Reform Act might affect the pending Treasury investigation of dairy imports from the European Community and what future action can be expected regarding this case.

As you know, we are committed to proceeding immediately under the countervailing duty law should the EC reinstitute the export payments on dairy products they suspended on July 12 on cheese and previously on other products. I do not believe that this commitment would be affected in any way by enactment of any of the amendments to the law now being contemplated by the Senate Finance Committee.

Any attempt to avoid or delay the imposition of countervailing duties by the mere subterfuge of substituting one incentive program for another, with no significant differences between the two, would, in our opinion, be treated as though the above-described export payments had been resumed. In this event, a rapid determination could be made within the time limits set forth in the July 13 stipulation between the Treasury and the complainant in the EC dairy case.

Should the Europeans propose to put in place a new export policy or program, an appraisal of the factual situation would need to be made and matched to the criteria set forth in the law, as amended. Such an appraisal would be given high priority. Assuming this new scheme were found to constitute a bounty or grant within the meaning of the countervailing duty law, the EC would be required to take steps to substantially reduce or eliminate the

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effects of the program on the U.S. dairy industry to avoid the imposition of offsetting additional duties. The finding relating to those steps would be made only after very close consultations by the Executive Branch with domestic industry and concerned Members of Congress. It would need to be clearly shown that the problems of U.S. producers had been substantially relieved. Any determination not to impose additional duties because of the steps taken to reduce or eliminate the effects of the incentive program would be appropriate only if it appeared that the imposition of such duties would seriously jeopardize trade negotiations and would be subject to Congressional override under the provisions of the amendment.

- I believe that the proposed amendment would provide an excellent tool for achieving the equally important objectives of protecting domestic industry from foreign unfair trade practices, while at the same time providing sufficient flexibility during the period of negotiation.
- The Treasury Department would support an additional amendment making countervailing duty orders effective immediately. That is, additional duties would be imposed on the day after publication in the Federal Register of a final affirmative determination. This change would provide for the immediate offsetting of any bounty or grant being bestowed on the merchandise in question, rather than permitting such merchandise to continue to enter the U.S. free of additional duties for a significant period following such a final determination.

You can be sure that whatever the amendments to the countervailing duty law, they will be applied during this period in such a way as to prevent injurious subsidized dairy imports from the European Community.

Sincerely,

/s/David R. Macdonald

David R. Macdonald
Assistant Secretary
(Enforcement, Operations,
and Tariff Affairs)

The Honorable Gaylord Nelson
The Honorable Walter F. Mondale
United States Senate
Washington, D. C. 20510

OS:EOTA:DRMacdonald:min

cc: Leg. Affairs, Mr. Suchman



Tentative Finance Committee
Decision on Countervailing Duties

1. Strike permanent provision allowing discretion to avoid countervailing where quantitative restrictions are an adequate substitute for countervailing duties.
 2. Time limits on countervailing:
 - within 6 months from filing of petition, tentative decision is issued on whether bounty or grant exists.
 - within 12 months from filing of petition final decision is issued on whether bounty or grant exists.
 3. Temporary provision while negotiations are in progress:
 - a. after issuance by Treasury of tentative decision that bounty or grant exists, negotiations are entered into with foreign country on substantial reduction or elimination of adverse effect of the bounty in the U.S.
 - b. final countervailing decision is still issued no later than 12 months from filing of complaint.
 - c. the imposition of countervailing duties may be suspended
 - for the remainder of the period of negotiations under section 102. (a maximum of four years if dealing with a petition filed the day that the trade bill is enacted, a shorter time in the case of all subsequent petitions)
- only if two conditions are met:
- (1) adequate steps have been taken to reduce substantially or eliminate the adverse effect of the bounty or grant as a barrier to or distortion of trade in that merchandise in the U.S. for the period of the negotiations; and
 - (2) there is a reasonable prospect that successful trade agreements will be entered into under section 102 to reduce and eliminate foreign barriers to trade, and to countervail would seriously jeopardize the satisfactory completion of the negotiations.



d. the suspension may be ended at any time but must be ended if the above two conditions do not continue to be met.

e. the suspension decision is subject to veto by either house of Congress by majority vote, resulting in the mandatory imposition of countervailing duties.

4. Where there is a negative determination -- that no bounty or grant exists -- that determination is subject to judicial review. If the court determines that, contrary to the Secretary's finding, in its view a bounty or grant exists, the final countervailing duty order must be issued.



COUNCIL ON INTERNATIONAL ECONOMIC POLICY
WASHINGTON, D.C. 20500

October 16, 1974

MEMORANDUM FOR FILE

SUBJECT: Dairy Import Situation

The following describes the events surrounding Secretary Butz' recommendations on dairy import policy:

- ° Last week the President met with representatives of the dairy industry. While the President did not promise anything, he did indicate that he would see what could be done to aid the dairy industry.
- ° In a later conversation between the President and Secretary Butz (in which Frank Zarb was present), Secretary Butz recommended that the President announce two policy actions during his swing through the midwest. The two policy actions were: (1) no increase in dairy import quotas; and (2) initiate countervailing duty action against subsidized imports.
- ° Secretary Butz made these recommendations from a "dairy opinion" paper prepared by USDA. The President asked if he could see the opinion paper.
- ° Frank Zarb took one page of the opinion paper, the one containing both opinions mentioned above. He had Eric Robinson of OMB to coordinate the opinion with concerned agencies.
- ° CIEP, STR, Treasury, and State had serious reservations about both the opinions and the process by which these decisions were being made. The above recommended that the decision be deferred for cabinet-level review (either by CIEP or the Committee on Food). Dave McDonald drafted a paper to short stop this process.



In an attempt to resolve this problem, I met with John Hill, Eric Robinson (OMB), and Norm Ross (Domestic Council) in Frank Zarb's office. It was evident that: (1) the President wanted to see Secretary Butz' dairy opinion paper and it had to be forwarded that day; (2) also that there was serious disagreement with Secretary Butz' recommendations. Norm Ross drafted a cover memorandum to the opinion paper stating the reservations by State, Treasury, CIEP, and STR. He also indicated that a decision memorandum on the opinions would be submitted Wednesday, October 16.

Action

The Domestic Council will draft the pros and cons on the dairy import recommendations and have Jerry Jones coordinate it first thing Wednesday morning. The countervailing duty recommendations will be drafted by CIEP and OMB, and be coordinated by noon. The decision memorandum will be submitted to the President by COB, Wednesday. (I will see that all drafts are coordinated with STR.)

Comment

- (1) The question on countervailing duty is not for or against CVD, but the advisability of the President going on the record at this time.
- (2) The recommendations for not raising import quotas did not create as much concern as CVD.

Attachments:

- #1: Memo/President, 10/15/74, Cole
- #2: Memo/Zarb, 10/15/74, Treasury
- #3: USDA Opinion Paper
- #4: Suggested Presidential statement

Copy to:

Amb. Eberle
Gen. Dunn



October 15, 1974

MEMORANDUM FOR: THE PRESIDENT
FROM: KEN COLE
SUBJECT: Dairy Import Situation

The Secretary of Agriculture has submitted for your consideration a memorandum providing you with his recommendations on the dairy import situation (Tab A).

Secretary Kissinger, Secretary Simon and Ambassador Eberle do not concur with Secretary Butz's recommendation that you go on record on the countervailing duty issue at this time. We will provide you with a decision memorandum on the dairy import issue on Wednesday, October 16.

NEROSS/ee



Attachment #1

prepared October 15, 1974

MEMORANDUM FOR; THE PRESIDENT
FROM; EARL L. BUTZ
SUBJECT: Dairy Import Situation

A. Imports

Background

The past two years, for well known reasons, were not normal. During this period milk production declined, prices rose and spot shortages of dairy products occurred. To deal with these recurring situations, U.S. dairy import quotas were temporarily increased. The nonfat dry milk quota was increased through four separate actions in 1973 by 265 million pounds. Between March 4 and June 30, 1974, it was increased by another 150 million pounds; however, only 114 million pounds were actually imported. The cheese quotas were increased by 50 percent in 1973, and a further import of 100 million pounds of cheddar cheese was authorized during the first quarter of this year. The quotas for butter and butter oil were increased in late 1973 by 84 million pounds, butter equivalent.

The U.S. dairy situation has changed radically since the spring of 1974; manufacturing milk supplies turned upward as a result of falling fluid consumption, and dairy prices fell to near support levels. CCC began to acquire dairy products under the price support program. In mid-June I announced that I was advising the President that further increases in the import quota for nonfat dry milk were not



necessary or advisable and asked that no further action on the report of the Tariff Commission be taken at this time.

Recommendation

Given the current dairy situation, any further increase at this time in U.S. dairy import quotas would almost certainly result in interference with the Department's price support program for milk. No action should be taken on the Tariff Commission report at this time. However, recognizing the possibility that dairy supplies might again be tight, the situation should be followed closely and reviewed in early 1975.

B. Countervailing Duties

Background

Last July, faced with the threat of countervailing duty action, the European Community--which is by far the largest foreign supplier of dairy products--indefinitely suspended subsidies on dairy exports to the United States. The EC, however, reserved the right to reinstate the subsidies after 90 days. Previous commercial contracts were, of course, not affected, and some shipments under them are still coming in. But they are tapering off and will soon be finished. If the EC resumes dairy export subsidies, the Treasury Department will react promptly to countervail.

As far as other smaller suppliers are concerned, it appears that some of them also subsidize, although the facts are not entirely clear. The Treasury Department is currently looking into some such cases, in the manner prescribed by the law.

On October 3, the Treasury Department informed the Government of Switzerland and Austria that a complaint has been received alleging that exports to the U.S. of Emmenthaler and Gruyere cheeses from those countries are receiving bounties or grants within the meaning of the countervailing duty law. A preliminary inquiry is currently underway.



Recommendation

The Federal Government has the authority to nullify foreign subsidies by the imposition of additional duties--called counter-vailing duties--equal to the amount of the subsidy. This Administration is pledged to use that authority, as the Treasury Department has publicly stated. This action would apply to imports of subsidized dairy products, particularly from the European Community and other Western European countries.

cc: Dr. Hullander, CEIP





ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

October 15, 1974

MEMORANDUM FOR: The Honorable Frank G. Zarb
Associate Director for Natural
Resources, Energy, and Science
Office of Management and Budget

FROM: David R. Macdonald *DRM*
Assistant Secretary (Enforcement,
Operations, and Tariff Affairs)

SUBJECT: Status of Dairy Product Countervailing
Duty Proceedings and Recommended Action

I. STATUS REPORT

On July 19, 1968, the National Milk Producers Federation filed a complaint with the Treasury Department alleging that the Common Market was subsidizing exports of dairy products and that such subsidies constituted a "bounty or grant". As you know, the Countervailing Duty Law requires the Secretary of the Treasury to impose an additional duty on imports which are found to have been subsidized by a foreign government, the amount of the additional duty to be equal to the amount of the bounty or grant. Although there was little question that the Common Market was granting export subsidy payments to exporters of dairy products, the Treasury Department determined, with the knowledge and consent of the complainant, not to proceed with the investigation at that time, in view of the fact that import quotas were to be imposed on some dairy products.

This state of affairs continued until 1973, when the U. S. market price for most dairy products soared well above the U. S. support price. As a result of this price rise, President Nixon, using emergency powers, with respect to some products suspended the import quotas and as to other products



Attachment # 2

enlarged the quotas. Following this action, dairy product prices dropped and the complainants in the countervailing duty case then sued the Treasury Department to force it to proceed to a decision on the countervailing duty complaint.

On May 1, 1974, Secretary Simon was confirmed by the Senate as Secretary of the Treasury and, in connection with his confirmation, was requested to and did give assurances that the Common Market dairy product countervailing duty investigation would proceed with dispatch. (Attached as Tab A are letters from Senators Mondale, Nelson and Dole to the Secretary and the Secretary's response.) Following Secretary Simon's confirmation, the Treasury intensified its investigation and in July was on the verge of issuing a Countervailing Duty Proceeding Notice, which would, in all probability, have been followed by a Countervailing Duty Order, when the Common Market offered to suspend its subsidies on cheese exports for at least ninety days and requested Treasury not to issue the Notice. Subsidies on nonfat dry milk and other dairy products had previously been suspended. Since the issuance of a Countervailing Duty Order is normally looked upon as a hostile act by foreign governments and often results in some form of retaliation against U. S. exports, we at Treasury, with the concurrence of State, STR and Agriculture, determined to accept the Common Market's offer to suspend subsidies in exchange for Treasury's foregoing the immediate issuance of a Countervailing Duty Proceeding Notice. We felt that this course of action minimized the chance of retaliation by, or other confrontation with, the Common Market. Simultaneously, Treasury committed to the U. S. District Court in which the litigation was pending that it would reinstitute the investigation and proceed to a decision within fifteen days should the Common Market reinaugurate export payments.

In the meantime, Treasury had worked out a proposal with Agriculture, State and STR, whereby the Secretary of Agriculture would recommend that the President review and liberalize, to the extent legally possible, quotas on imported dairy products in order to minimize any inflationary effect which the countervailing duty proceedings might cause. (Attached as Tab B is Agriculture's draft letter to the President recommending this action.) We recognized that under the present support system some type of protection would be



required against low cost producers such as New Zealand, who do not subsidize, and Australia, whose subsidies are low. Without protection, imports from these countries would cause additional dairy products to be purchased by the Commodity Credit Corporation, at considerable cost to the Government. We think, however, that a variable fee system might be a better form of regulation than the present quotas, and we are quite sure that the system could be liberalized in other respects. Our recommendation along the lines described above was to be submitted as soon as anticipated countervailing duty complaints were received from dairy groups concerning the other large dairy exporting countries which also subsidize their exports. We understand that virtually every country except New Zealand provides export incentives for its dairy exports. For reasons unknown to us, no complaints were ever received concerning any countries other than the Common Market until the American Farm Bureau Federation filed a complaint against dairy product subsidies from Austria and Switzerland on September 30, 1974. Treasury is actively processing these two complaints and expects to receive complaints regarding dairy products from other exporting countries in the near future.

II. PROPOSED POLICY REGARDING DAIRY PRODUCT TRADE

We believe, along with the American Farm Bureau Federation and other concerned groups, that the American farmer should not be forced to compete against subsidized competition throughout the world. We therefore believe that by countervailing against subsidies we place American farm producers in a better position with respect to their foreign competition. Having removed the adverse competitive effect of subsidies on dairy product imports, the continued existence of the present system of quotas under Section 22 of the Agricultural Adjustment Act is a form of protectionist overkill which can only have an inflationary effect.

We therefore recommend, in conjunction with the Treasury's countervailing duty proceedings against imported dairy products, that the President consider directing the Tariff Commission to



make an investigation under Section 22 of the Agricultural Adjustment Act to determine whether quotas can be liberalized or suspended, without rendering ineffective or materially interfering with support programs presently existing under the Agricultural Adjustment Act. We further recommend that the President direct the Tariff Commission to ascertain whether the imposition of "fees" (which are equivalent to additional duties) under Section 22 of the Act would not be more effective than the continuance of quotas, since the fees may be adjusted on a periodic basis to keep the landed cost of imported dairy products slightly higher than the support level for those products, and thus enable the Commodity Credit Corporation to avoid the purchase of more dairy products under the support programs. (Attached as Tab C is a graph showing the relationship between the U. S. market price, the U. S. support price, and the quantity of imports.) This course of action also enables the U. S. to enter into trade negotiations with the Common Market on a parity, pursuant to the Trade Reform Act of 1973, since the Common Market also has a "fee" system similar to that proposed above.

Attachments



U.S. SENATE, COMMITTEE ON FINANCE,
Washington, D.C., April 26, 1974.

RUSSELL B. LONG,
Chairman, Committee on Finance, U.S. Senate,
Dirksen Senate Office Building,

DEAR MR. CHAIRMAN: I respectfully request that this inquiry and the response to it be made part of the hearing record on the nomination of the Honorable William Simon to be the Secretary of the Treasury of the United States.

Section 303 of the Tariff Act of 1930 as amended provides: "Whenever any country, dependency, colony, province, or other political subdivision of government, person, partnership, association, cartel, or corporation shall pay or bestow, directly or indirectly, any bounty or grant upon the manufacture or production or export of any article or merchandise manufactured or produced in such country, dependency, colony, province, or other political subdivision of government, and such article or merchandise is dutiable under the provisions of this Act, then upon the importation of any such article or merchandise into the United States, whether the same shall be imported directly from the country of production or otherwise, and whether such article or merchandise is imported in the same condition as when exported from the country of production or has been changed in condition by remanufacture or otherwise, there shall be levied and paid, in all such cases, in addition to the duties otherwise imposed by this Act, an additional duty equal to the net amount of such bounty or grant, however the same be paid or bestowed. A Secretary of the Treasury shall from time to time ascertain and determine, or estimate, the net amount of each such bounty or grant, and shall declare the net amount so determined or estimated. The Secretary of the Treasury shall make all regulations he may deem necessary for the identification of such articles and merchandise and for the assessment and collection of such additional duties."

The past four years have been marked by increased importation of dairy products into this country from the European Economic Community which has openly published a schedule of payments it makes to its producers for these exports. In 1972 it is estimated that the European Economic Community paid export subsidies of over \$26 million on dry milk, cheese, butter, and butter oil shipped into the United States.

Despite the clear intention of Section 303 quoted above and despite the repeated representations of interested American citizens, the Treasury Department has continually refused to discharge its duties under the law to thoroughly investigate the matter of these payments and to collect countervailing duties where required.



Therefore, I respectfully request of the nominee for Secretary of the Treasury his response to the following question:

Would Mr. Simon, as Secretary of the Treasury, initiate an investigation into this matter, and if proper, would he oversee the collection of such countervailing duties as are required on dairy imports as described in Section 303?

The simple intent of this provision of the Tariff Act is to protect American industry and businesses from unfair competition with the economic might of foreign governments. I hope that Mr. Simon will agree that this protection legally is the right of the American dairy farmer as well.

Respectfully,

GAYLORD NELSON
WALTER F. MONDALE

EXHIBIT A

E.C.: EXPORT SUBSIDIES FOR DAIRY PRODUCTS, EFFECTIVE FEB. 15, 1974

[Cents per pound]

	United States		E.C.	
	New subsidy	Old subsidy	New* subsidy	Old subsidy ¹
Butter with fat content:				
62 percent but less than 78 percent	0	(28.95)	41.48	(45.47)
78 percent but less than 80 percent	0	(36.44)	53.40	(57.24)
80 percent but less than 82 percent	0	(37.37)	53.40	(58.71)
82 percent but less than 99.5 percent	0	(38.30)	54.72	(60.19)
Other:				
Not exceeding 99.5 percent (butter oil and ghee)		38.30	54.72	(60.19)
Exceeding 99.5 percent (anhydrous milkfat)		46.51	72.23	(77.70)
Cheese, Emmenthal and Gruyere:				
Zone D			7.55	(23.31)
Austria			16.31	(14.66)
Others			33.80	(27.25)
Blue Cheese, except Roquefort			27.62	(22.71)
Processed cheese up to 43 percent fat by weight of dry matter, 33 percent fat, but less than 33 percent: Others			12.19	(9.63)
Processed cheese:				
Less than 20 percent fat			12.19	(9.63)
More than 20 percent fat			17.32	(14.23)
40 percent fat or more:				
Zone D			28.29	(23.91)
Others				
Processed cheese over 43 percent fat with a dry milk content by weight:				
33 percent but less than 33 percent dry matter			12.19	(9.63)
38 percent but less than 43 percent dry matter			17.32	(14.23)
43 percent but less than 46 percent dry matter			28.29	(23.91)
46 percent but less than 55 percent dry matter:				
Zone D			17.89	(17.89)
Others			28.29	(23.91)
Switzerland				
55 percent or more:				
Zone D			20.79	(17.89)
Others			32.79	(27.91)
Switzerland				
Grana, Parmigiano, Reggiano			37.17	(28.24)
Fiore Sardo, Pecorino			45.38	(35.44)
Cheddar, Chester with a fat content by weight of dry matter of 50 percent or more:				
Aged less than 3 mo:				
Zone D				
Others				
Aged more than 3 mo:				
U.S.S.R. and satellite countries			8.20	(31.78)
Others			29.32	(31.78)
United States			18.06	(31.78)

See footnotes at end of table.



EXHIBIT A—Continued

E.C.: EXPORT SUBSIDIES FOR DAIRY PRODUCTS, EFFECTIVE FEB. 15, 1974¹—Continued

[Cents per pound]

	United States		E.C.	
	New subsidy	Old subsidy	New ^a subsidy ^a	Old ^a subsidy ^a
Tilsit with fat content by weight of dry matter over 39 percent up to 48 percent:				
Zone D.....				
Switzerland.....			6.46	(5.42)
Others.....			29.93	(23.97)
Asiago, Caciocavallo, Provolone and Ragusano:				
Switzerland.....			6.46	(5.42)
Others.....			29.93	(23.39)
Cantal, Edam, Fontina and Gouda:				
Zone D.....			21.72	(20.68)
Zone F.....			6.46	(5.42)
Switzerland.....			29.93	(23.97)
Others.....				
Butter Kase, Italco, Kerham, Saint Paulin Taleggio, Saint-Nectaire:				
Zone D.....			20.63	(18.59)
Zone F.....			6.46	(5.42)
Switzerland.....			27.26	(21.89)
Others.....				
Others, with fat content 19 percent to 39 percent with a water content up to 62 percent:				
Switzerland.....			6.46	(5.42)
Others.....			29.46	(24.35)
Unspecified cheese, grated or powdered, with 85 percent or more dry matter content by weight, over 20-percent fat content by weight, under 5-percent lactose content by weight: Others.....			27.63	(22.16)
Milk and cream, canned in 454 g without sugar:				
Evaporated milk.....			4.46	(2.65)
3-percent up to 7-percent fat.....			7.87	(6.29)
Over 7-percent up to 8.9-percent fat.....			9.04	(7.20)
Others.....				
Other canned milk with fat content up to 45 percent in containers up to 2 kg net weight:				
Over 3-percent up to 7-percent fat.....			4.46	(2.65)
Over 7-percent up to 8.9-percent fat.....			7.87	(5.29)
Over 8.9-percent up to 11-percent fat.....			9.04	(6.20)
Over 11-percent up to 15-percent fat.....			15.21	(15.98)
Over 15-percent up to 39-percent fat.....			33.87	(33.43)
Milk and cream, canned in 454 g with sugar (condensed milk): ³				
Up to 6.9-percent fat.....			3.98	(2.19)
Over 6.9-percent up to 9.5-percent fat.....			9.76	(7.93)
Nonfat dry milk up to 1.5-percent fat: ⁴				
Without sugar in packages up to 2.5 kg.....			5.47	(8.76)
Without sugar in bulk.....			4.37	(9.00)
With sugar added in packages up to 2.5 kg ⁵			5.47	(8.76)
With sugar added in bulk ⁵			4.87	(9.00)
To United States (all NFDN).....			0	(4.37 or 5.47)
Dried milk without sugar (prepared for retail sales):				
Over 11-percent to 17-percent fat content.....			19.45	(14.28)
Over 17-percent to 25-percent fat content.....			22.69	(17.31)
Over 25-percent to 27-percent fat content.....			26.81	(21.34)
Over 27-percent to 29-percent fat content.....			27.83	(22.35)
Over 29-percent to 41-percent fat content.....			27.83	(22.35)
Over 41-percent fat content.....			34.11	(29.41)
Dried milk with sugar added (prepared for retail sales): ⁶				
Over 11-percent to 17-percent fat content.....			19.45	(14.28)
Over 17-percent to 25-percent fat content.....			22.69	(17.31)
Over 25-percent to 27-percent fat content.....			26.81	(21.34)
Over 27-percent to 29-percent fat content.....			27.83	(22.35)
Over 29-percent to 41-percent fat content.....			27.83	(22.35)
Over 41-percent fat content.....			34.11	(29.41)

¹ Change of value for units of account U.C. = US\$1.2063 plus increases in export subsidies.² As of Jan. 15, 1974.³ Destined for consumption in this zone.⁴ 13.13 c/lb on bulk and small package, May 14–July 10, 1973.⁵ Additional subsidy for sugar to be added.⁶ Countries other than United States, Canada, Mexico, and Puerto Rico.

Source of change: E.C., Brussels 1128, Feb. 21, 1974

EC EXPORT SUBSIDY ZONES

Zone A	Mali
Burundi	Mauretania
Cameroon	Niger
Congo (Brazzaville)	Central African Republic
Congo (Kinsbasa)	Madagascar
Ivory Coast	Ruanda
Dahomey	Senegal
Gaboon	Tchad
Guinea	Afara and Issas
Upper Volta	Togo

Zone B

Mexico, States of Central and South America, Islands in the Pacific and Atlantic between 30 and 120 degrees longitude and 30 degrees latitude as well as the Islands Fernando-de-Noronha (Cliffs Sao Paulo and Reas-Atoll), Trinidad, Martin Vaz and the Southern Sandwich Islands.

Zone C

Asian States east of Iran including the Asiatic parts of the USSR and the Islands of the Indian and Pacific Oceans between 60 degrees and 150 degrees latitude except Australia, New Zealand and Japan.

Zone D

Spanish Territory of Iberian Peninsula and Baleares.

Zone E

European territory of United Kingdom and Northern Ireland (including the Isle of Man and Channel Islands) except Gibraltar.

Zone F

The territories of the United States situated on the American continent as well as Hawaii.

U.S. SENATE,
Washington, D.C., April 26, 1974.

HON. RUSSELL LONG,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: Attached is a letter inquiring about Mr. Simon's policy regarding countervailing duties on dairy imports.

It seems most appropriate that the Committee request his appraisal of the situation due to the problems facing the dairy industry in the United States today.

Sincerely yours,

BON DOLE, U.S. Senator.

U.S. SENATE,
Washington, D.C., April 26, 1974.

HON. WILLIAM E. SIMON,
Secretary of the Treasury Designate,
Washington, D.C.

DEAR MR. SIMON: The law calls for the levying of a duty on imports sold in the United States which have received a bounty or grant from the exporting country.

In the case of dairy products, particularly in the European Community, the facts in this regard not only seem quite clear but are also well publicized. The European Community establishes intervention



prices on manufactured dairy products, such as butter, cheese and nonfat dry milk powder. These intervention prices, analogous to our price supports, are at least a minimum price for these products in the European Community and generally are the actual prices there. At the time they are announced, such intervention prices are widely publicized.

Similarly, the European Community announces export subsidies for these dairy products, which are also widely publicized at the time they are announced. The Foreign Agriculture Service of the U.S. Department of Agriculture readily compiles them and makes this list available on request to interested parties. During 1973, for example, the announced export subsidies on nonfat dry milk shipped by the European Community to the United States were established at different levels at different times from zero to 13.13 cents per pound. For butter they were 37.37 cents per pound, for butteroil 38.3 cents per pound.

Yet in spite of the availability of this evidence and even in spite of the recommendations of Secretary of Agriculture Earl Butz that countervailing duties on these products should be imposed, the Department of the Treasury has taken no action, contending that the needed data are not available to make their findings.

With this brief background we are asking your views as to what your policy will be on enforcing the countervailing duty law on dairy products if you become Secretary of the Treasury.

Sincerely yours,

BOB DOLE, *U.S. Senator.*

THE SECRETARY OF THE TREASURY,
Washington, D.C., April 26, 1974.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This letter is written in response to a letter from Senators Nelson and Mondale, dated April 26, 1974, addressed to you, and a letter from Senator Dole, bearing the same date addressed to me with a copy to you. Both letters concern the enforcement of the countervailing duty statute against dairy products imported from the Common Market.

Matthew J. Marks, Acting Assistant Secretary for Enforcement, Tariff and Trade Affairs, and Operations, is currently responsible for this area. David R. Macdonald, Assistant Secretary of the Treasury-Designate for Enforcement, Tariff and Trade Affairs, and Operations, will, provided he is confirmed by the Senate, assume this responsibility. Mr. Marks reports that investigation of the countervailing duty statute as to dairy products is progressing, but has been complicated by the existence of drawbacks of duties and taxes paid on imports to the E.E.C. for cattle feed.

The complicated interplay that existing quotas, additional duties and other trade implements have on our dairy imports, and the possible repercussions which the application of these measures may have on other American agricultural interests, highlight the urgency of



immediate enactment of the 1973 Trade Reform Bill. This bill, with certain revisions which we intend to submit to your Committee, will provide a framework for a multilateral resolution of this problem over the long term, and will permit us the best possible posture to enter negotiations with the Common Market.

Prior to its enactment, however, I am ordering Mr. Marks and, provided he is confirmed, Mr. Macdonald, to intensify the investigation of dairy product exports from the Common Market to the United States and to report back to me concerning this Department's conclusions as to the applicability of the countervailing duty law with respect to these exports. In the event that the Department concludes as a result of their report that the countervailing duty law should be applied, all necessary action will be taken to enforce that law.

Sincerely,

WILLIAM E. SIMON,
Acting Secretary.



Handwritten:
x
Dairy Products
meeting

Handwritten: Final Document

6th DRAFT
REBe11:SEC.
7/19/74

July , 1974

The President
The White House

Dear Mr. President:

The importation of certain dairy products is limited by quotas established by Presidential Proclamation pursuant to the provisions of Section 22 of the Agricultural Adjustment Act, as amended, which quotas are set forth in Part 3 of the Appendix to the Tariff Schedules of the United States Annotated (TSUS). These quotas were proclaimed to prevent imports from interfering with the price support program conducted by the Department of Agriculture for milk.

→ A recent development leads me to believe that some of these quotas can be modified or suspended, either uniformly or selectively, without rendering or tending to render ineffective, or materially interfering with, the price support program now conducted by the Department of Agriculture for milk or reducing substantially the amount of products processed in the United States from domestic milk. I refer specifically to the announcement on July 12 by the European Community that it was suspending those restitutions still in force on dairy products exported to the United States. On July 16, the United States District Court for the District of Columbia agreed to the Treasury Department's request based on the European Community's action that the court stay any action on the case brought before it by the National Milk Producers Federation to force the Treasury to initiate a countervailing duty proceedings against



the European Community to determine whether bounties or grants were in fact being applied by the European Community on its dairy exports to the United States. The Secretary of the Treasury has further advised me that he considers it likely that complaints will be filed by American dairy producers against the alleged subsidy practices by other exporters of dairy products to the United States and that he plans to undertake an investigation of the possible existence of bounties or grants bestowed by any such foreign countries.

The effect of the countervailing duty actions should be to eliminate any price advantage over our domestic dairy products which has resulted, or could result, from the subsidization of exports. Neutralization of subsidized foreign competition will represent a significant step forward toward a rational trading world in dairy products.

Under the changed circumstances with respect to potential dairy imports which will be brought about by the countervailing duty actions of the Secretary of Treasury, I believe that a reassessment of our system of dairy import quotas under Section 22 should be begun immediately. It appears that some liberalization of the quotas may be possible without causing interference with the Department's price support program.

Accordingly, I recommend that you direct the Tariff Commission to make an investigation under Section 22 of the Agricultural Adjustment Act, as amended, to make findings and recommendations as to whether the annual import quotas for dairy products, as described in items _____ through _____ of Part 3 of the Tariff Schedules of the United States (TSUS), may be modified or suspended, without rendering or tending to render ineffective, or materially interfering with, the price support program for milk now conducted by the Department of Agriculture, or reducing

substantially the amount of products processed in the United States from domestic milk. I further recommend that, in the case of a finding that quotas could be increased, the Commission be directed to recommend the allocation of such quotas among supplying countries.

It is my judgment that in a reassessment of the dairy quotas, initial attention should be given to the quotas for the various cheeses as described in items 950.07 through 950.10E of Part 3 of the TSUS. Information available to me concerning relative prices of foreign and domestic cheeses suggests that the categories of cheese for which quotas can most likely be modified without materially interfering with the price support program are blue-mold cheese, Edam and Gouda cheese, and the hard Italian-type cheeses (TSUS items 950.07, 950.09A, 950.09B, 950.10 and 950.10A), and that the categories of cheese for which current controls may continue to be necessary to prevent such interference are Cheddar cheese and other American-type cheeses (TSUS items 950.08A and 950.08B).

A draft of a suggested letter of the Tariff Commission is enclosed.

Respectfully.

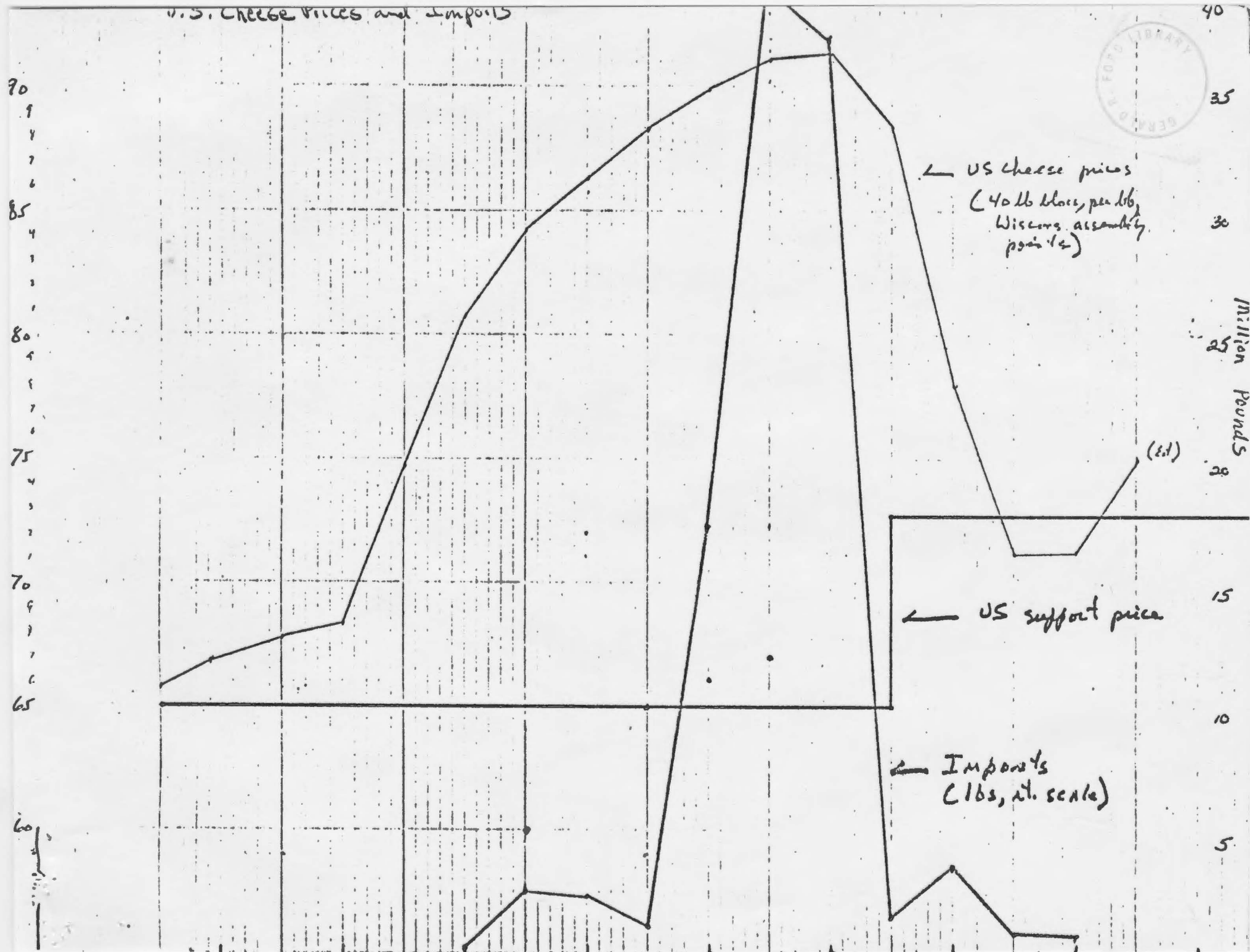
EARL L. BUTZ
Secretary

Enclosure

Contributor: Asst. Sec. Macdonald, Treasury
cc: Sec. Macdonald, Bor, Bullington, Fraser, Doering, Anderson & Nickerson



U.S. Cheese Prices and Imports



Spec Trade Reg
USDA Opinion Paper
(Circulated by OMB
for clearance)

The President recognizes the tremendous cost-price squeeze in which America's dairymen find themselves. He has met with a group of representative dairy farmers, as well as with Congressional leaders who presented the case of this sector of the agricultural economy very effectively. The President is very sympathetic with their situation.

Because of his concern about the economic difficulties dairymen are facing, the President today is announcing two decisions to deal with the problem:

(1) The President does not intend to lift import quotas for imported dairy products as long as the current cost-price squeeze for America's dairymen exists.

(2) The President intends to utilize the authority at his disposal to nullify foreign subsidies on dairy products imported into this country by the device of countervailing duties equal to the amount of the subsidy. This action would apply to imports of subsidized dairy products.

Through these actions, the President recognizes that any further increase at this time in U.S. dairy import quotas would almost certainly interfere with marketing of U.S. dairy products. There were abnormal production problems early this year which created spot shortages of dairy products which had to be relieved through emergency action. But the U.S. dairy situation has changed rapidly since this spring, with falling prices as well as diminishing demand for milk at a time of rising production costs.

In addition, the President is making it clear he does not feel he can allow subsidized products to be brought into the U.S. now without action on his part to counteract those subsidies.

Attachment # 3

"The President understands the concern of domestic dairy producers that the U.S. market should not be left unprotected to low cost foreign suppliers, which sometimes are subsidized, thus undermining the U.S. support price system at a time when domestic producers are caught in a difficult cost/price situation. They can be sure that no action will be taken to change the present system of import quotas without a thorough review of current market conditions, and a chance for our dairy producers are to be heard on this issue. The President feels that over the longer term the American farmer can compete against any farm producer in the world, and looks forward to trade negotiations with other governments which could bring about an undistorted, fairer dairy market world-wide.

* * * * *

Note: Suggested Presidential statement on the dairy situation, suggested by Hal Malmgren and Dave McDonald.



Attachment #4

file

THE WHITE HOUSE

WASHINGTON

October 16, 1974

MEMORANDUM FOR THE PRESIDENT
FROM: KEN COLE
SUBJECT: DAIRY IMPORT SITUATION

Background

On October 11, you met with Congressional leaders who presented a case for the dairy farmers on the agricultural economy. The Congressmen proposed three Executive actions that could be taken to lend support and stability to the cost-price squeeze in which the dairymen find themselves.

You requested further research on the third recommended action which is to give your personal assurance that importation of dairy products will not be increased above the quota levels for the next 12 months.

Recommendation

A recommended statement is provided for your consideration on the dairy import situation (Tab A). It has been cleared by OMB, State, Treasury, and Agriculture. Special trade negotiator has also concurred.



STATEMENT ON THE DAIRY SITUATION

I recognize the tremendous cost-price squeeze in which America's dairymen find themselves. I have met with a group of representative dairy farmers, as well as with Congressional leaders who presented the case of this sector of the agricultural economy very effectively. I am very sympathetic with their situation.

I understand the concern of domestic dairy producers that the U.S. dairy support price system should not be allowed to be undermined by efforts of foreign dairy producers to shift the burden of their own cost-price problems onto the U.S. market, especially by artificial governmental incentives.

Because of my concern about the economic difficulties dairymen are facing, I am today announcing that no action will be taken to change the present system of import quotas without a thorough review of current market conditions, and a chance for our dairy producers to be consulted on this issue.

I feel that over the longer term the American farmer can compete against any farm producer in the world, and look forward to trade negotiations with other governments which could bring about an undistorted, fairer dairy market world-wide.



"The President understands the concern of domestic dairy producers that the U.S. market should not be left unprotected to low cost foreign suppliers, which sometimes are subsidized, thus undermining the U.S. support price system at a time when domestic producers are caught in a difficult cost/price situation. They can be sure that no action will be taken to change the present system of import quotas without a thorough review of current market conditions, and a chance for our dairy producers ~~are~~ to be heard on this issue. The President feels that over the longer term the American farmer can compete against any farm producer in the world, and looks forward to trade negotiations with other governments which could bring about an undistorted, fairer dairy market world-wide.

