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THE WHITE HOUSE
WASHINGTON

Norm Date: 10 / 18 / 74

TO:

Mike Duval
MIKE DUVAL

FROM:

Warren K. Hendriks, Jr.
WARREN K. HENDRIKS, JR.

For your information:

xx

Comments:



THE DEPUTY SECRETARY OF STATE
WASHINGTON

To NSC
& Don Lumsdell

October 9, 1974

Dear Don:

The Department understands the House Agriculture Committee is very likely to report out favorably on Wednesday, October 9, H.R. 9419, the Foreign Dairy Quality Act, and H.R. 2933, the Filbert Bill.

This Department and HEW are on record before the Committee in opposition to the Foreign Dairy Quality Act. We also understand that USDA is now sending a letter to Chairman Poage opposing the bill. The bill would require that all dairy products imported into the United States be inspected for wholesomeness, and the farms and plants in which such products are produced or processed comply with sanitary standards established by USDA. The Department is opposed to the bill because:

--Under existing legislation, imported dairy products are inspected and are not permitted to enter the United States unless they conform to the standards that apply to similar domestic products.

--In addition to these product standards, some Federal process standards exist for dairy products, but they are voluntary, not mandatory. The mandatory Federal inspection and surveillance requirements which this bill would impose on imports would not apply to domestic products traveling in interstate commerce.

--The imposition of new mandatory process standards on imports, while domestic production is not covered by the same standards, is perceived by our foreign suppliers as a non-tariff barrier to trade. The tariff rates on the products covered by the bill have been bound, to many countries, in tariff negotiations. The bill, if enacted,

The Honorable
Donald Rumsfeld,
Assistant to the President,
The White House.



10/22

will be viewed as an impairment of those bindings in that, if the measure were truly required for health reasons, it would apply equally to domestic production as well as to imports.

Filberts

The House Agriculture Committee is scheduled to take up on October 9 legislation (H.R. 2933) which would result in the imposition of restrictions on the importation of filberts. The legislation is motivated by a desire on the part of the domestic filbert industry to reduce import competition. One of its subcommittees (Domestic Marketing and Consumer Relations) has reported the bill favorably to the full Committee. While the dollar amount of our import trade is relatively small (\$6 million) only Turkey, the principal supplier, would be affected in any meaningful way. The legislation is not needed as imported filberts are not adversely affecting the domestic trade as they are different and nuts which do not meet the strict United States standards for wholesomeness prescribed by United States pure food laws are prohibited from entry. Moreover, the bill would establish a new trade barrier contrary to our program of expanding trade, which is of special importance to American agriculture as a whole, and would have a detrimental effect on the impending multilateral negotiations to reduce and eliminate non-tariff and other trade barriers. Finally passage of this restrictive legislation would come at a delicate time for U.S.-Turkish relations and could be misinterpreted by the Turks as retaliation for other actions.

Both these bills have important foreign policy implications for us and do not in our view accord with our broad economic interests. Accordingly I hope the President through the White House congressional liaison staff will make an effort to head off the favorable reporting out of these bills by the House Agriculture Committee.

With best regards,

Sincerely,



Robert S. Ingersoll



October 21, 1974

Dear Mr. Jones:

I would like to acknowledge and thank you and your colleagues for your October 16 letter to the President.

The President is very much aware of the problems facing the dairymen and the livestock producers and feeders. He has indicated a number of actions that he is taking to deal with the disparity in the prices they receive as compared to those charged at the supermarkets. He also has announced that he will be meeting at the White House very soon with a representative group of farmers and ranchers so that he can obtain first-hand their suggestions as to appropriate government response to the cost-price situation.

The Department of Agriculture has just ended hearings regarding price support levels for fluid milk and it will be making an announcement soon on the basis of the evidence presented during those hearings.

I understand that, due to voluntary agreements which were worked out with major exporting nations, such as Australia, meat imports are running well below the Congressionally mandated ceiling at which point import quotas would be triggered. Meat imports during the quarter just concluded are expected to be lower than in the first two quarters.



I hope that this information will be helpful to you. I also would like to share with you the enclosed excerpt from the speech made by the President when he was in Sioux Falls on October 16.

With kindest personal regards,

Sincerely,

Max L. Friedersdorf
Deputy Assistant
to the President

The Honorable Ed Jones
House of Representatives
Washington, D.C. 20515

Enclosure

bcc w/ inc to William E. Timmons - FYI
bcc w/ inc to Warren Rustand - FYI
bcc w/ inc to Norm Ross - FYI

MLF:VCL(cleared with Ross):EF:ld



1824

BOB PRICE
MEMBER OF CONGRESS
TEXAS

AGRICULTURE COMMITTEE
SUBCOMMITTEES:
COTTON
LIVESTOCK AND GRAINS
GOVERNMENT OPERATIONS
ARMED SERVICES COMMITTEE

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

October 16, 1974

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PAMPA, TEXAS 79065
(806) 665-2351

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

As I discussed with you at our meeting last week, I would urge that you meet with a select group of reliable and knowledgeable cow-calf ranchers and livestock feeders so that they may convey to you, firsthand, the problems they face in the livestock industry. We have had numerous requests asking for such a meeting with you for this purpose.

I should appreciate your letting me know when your schedule would permit such a meeting and how many you would care to have attend the meeting.

Respectfully,

Bob Price
BOB PRICE, M. C.

Keith G. Sebelius
KEITH G. SEBELIUS, M. C.

Delbert Latta
DELBERT LATTA, M. C.

Clark Fisher
CLARK FISHER, M. C.

Don Brozman
DONALD BROTZMAN, M. C.
Tim Lee Carter
TIM LEE CARTER, M. C.

Billscherle
BILLSCHERLE, M. C.

Clem McSpadden
CLEM, McSPADDEN, M. C.

Harold Runnels
HAROLD RUNNELS, M. C.

Omar Buleson
OMAR BULESON, M. C.

Joe Skubitz
JOE SKUBITZ, M. C.
W. R. Poage
W. R. POAGE, M. C.



Bob Mathias

BOB MATHIAS, M.C.

Garner E. Shriver

GARNER E. SHRIVER, M.C.

Dick Shoup

DICK SHOUP, M. C.

William J. Randall

WILLIAM J. RANDALL, M.C.

Ed Jones

ED JONES, M. C.

Bill Alexander

BILL ALEXANDER, M. C.

Bob Bergland

BOB BERGLAND, M. C.



October 21, 1974

MEMORANDUM FOR: THE PRESIDENT

FROM: KEN COLE

SUBJECT: Dairy Import Quotas and
Countervailing Duties

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. On October 16, you announced 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.

The Secretary of Agriculture has previously submitted for your consideration a memorandum providing you with his recommendations on dairy import quotas and countervailing duties (Tab A).

While there was agreement with Secretary Butz's recommendation on the announcement on dairy import quotas, there was not agreement on his recommendation on countervailing duties. Bill Eberle has submitted for your consideration a decision memorandum on the countervailing duty issue (Tab B).



PRESIDENT'S MEETING WITH CONGRESSMAN HASTINGS

*prepared
for Bill
Gunnors
Oct 21*

Background

America's dairymen find themselves in a tremendous cost-price squeeze.

- 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.
- 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.



Recent developments and actions taken by this Administration should provide improvement in the outlook for dairy farmers who are faced with a severe cost-price squeeze at this time.

- October 8 the Department of Agriculture convened a national hearing to review minimum levels of Class I prices to be paid dairy farmers under all 61 Federal milk marketing orders. This hearing provided an opportunity for all interested persons to present their views on milk prices. Evidence presented at the hearing will be carefully considered to determine whether a "floor price" of up to \$7.50 per hundredweight should be placed under the basic formula used for computing Class I prices through March 1975. A decision will be issued as soon as possible after the hearing is completed.
- 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 countervailing duties.

One of the major concerns of dairy farmers has been the rapid escalation of feed costs over the past several months. The recent effort by President Ford to secure the cancellation of export sales contracts for \$500 million worth of corn and wheat to the Soviet Union indicates our determination to hold future price increases to a minimum. Further cooperation between Government and grain exporting companies is expected to benefit all Americans at this time of greatly reduced crop production caused by adverse weather.



We expect significant improvement in milk prices in the months immediately ahead as the seasonal decline in production continues. Indicative of this is the August to September increase in the Minnesota-Wisconsin manufacturing milk price from \$6.39 to \$6.69 per hundredweight. The M-W price is used in all Federal orders as a basis for fixing the minimum prices that processors must pay dairy farmers for their milk.

Talking Points

- I am aware of the cost-price squeeze in which America's dairymen find themselves. I recently met with a representative group of dairy farmers on the one hand and a group of Congressmen and Senators on the other. They outlined to me the practical problems that the dairy producers in their respective States are faced with.
- I understand the concern of the dairy producers that the United States dairy price system should not be allowed to be undermined by efforts of foreign dairy producers.
- I recently announced that no action will be taken to change the present system of dairy import quotas without a thorough review of market conditions and full opportunity for our dairy producers to be consulted at that time.
- I am disturbed by the disparity between the reduced earnings of the dairymen and the higher prices charged to consumers. I have asked the new Council on Price and Wage Stability to examine the reasons behind this gap which is paid to the farmer and what must be paid on the other end of the line by the individual consumer.



October 21, 1974

MEMORANDUM FOR: THE PRESIDENT

FROM: KEN COLE

SUBJECT: Dairy Import Quotas and
Countervailing Duties

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. On October 16, you announced 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.

The Secretary of Agriculture has previously submitted for your consideration a memorandum providing you with his recommendations on dairy import quotas and countervailing duties (Tab A).

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THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: W. D. Eberle

SUBJECT: 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 discontent surfaced in two areas: Senate deliberations on the Trade Reform Act; and, separately, the Federal Courts, where dairy producers pressed for Treasury action on a 1968 complaint alleging subsidization of EC dairy products. The court action sought to force Treasury to countervail against EC exports. Action on the complaint was suspended by Treasury with dairy industry consent, after quotas were imposed in the late 1960s.

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 suspend dairy export subsidies to the U.S. This temporarily removed the pressure for a court action against Treasury, but a court stay requires immediate action if the EC resumes subsidy payments.



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 export subsidy situations. Present law, written in 1897, provides no Executive discretion and does not require injury to a domestic industry. Treasury avoided countervailing only by delaying action 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. The statement you issued in Kansas City, promising consultations prior to any future quota liberalization, should allay this fear.

Alternatives

Option I - Continue present policy.

Follow existing trade policy; continue discussions with the European Community to try to avoid a trade war; attempt to "roll-over" court stay.

Option II - Take formal action under the countervailing duty law.

Since the EC is no longer subsidizing dairy exports, Treasury would issue a conditional negative determination which would result in the automatic levying of additional duties if the EC resumes subsidy payments.

Inflation Statement

Imposing countervailing duties 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 take formal countervailing duty action now even if no additional duties are actually imposed, 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, to proceed without quota liberalization is likely to cause an open US-EC confrontation and may result in EC retaliation 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 agencies agree with this course of action: State, Treasury, OMB, CIEP, and the Domestic Council. Secretary Butz agrees in principle.

Approve _____

Disapprove _____

Other _____



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.



September 6, 1974

DAIRY AND COUNTERVAILING DUTIES

*** 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.



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.

ATTACHMENT B - TAB B



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

H. B. Malmgren/Chairman
Citizen, Reading, Pennsylvania



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

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:mln

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.



October 23, 1974

MEMORANDUM FOR:

MR. L. WILLIAM SEIDMAN

FROM:

TERRY O'DONNELL

SUBJECT:

Jim Hastings Phone Call
re Dairy Prices

Bill Timmons asked me to sit in when the President talked to Jim Hastings and take notes on the phone call. The call was made at 11:30 a.m., Wednesday, October 23, and concluded at 11:50 a.m. The President first talked to Congressman Hastings, then to Jerry Milliman, and perhaps to one or two more dairymen and then concluded with Jim Hastings.

The President did more listening than talking, but a summary of his remarks follows:

- I am cognizant of and concerned about the cost-price squeeze regarding dairy products.
- I have had several meetings recently regarding this problem, including a meeting with the members of the House Dairy Subcommittee, and with a dairy farmer in Oklahoma.
- We are trying to help the situation through the Department of Agriculture, and an exhaustive study.
- The Commodity Credit Corporation has responded and has been helpful.
- We are flexible and we want to cooperate.
- Through our efforts, the EEC has taken favorable action regarding cheese subsidies.
- Regarding imports, no action will be taken to change the present system of dairy quotas in the near future. No action is contemplated, however, should such action as that taken last year be recommended to me, I guarantee the dairy farmers a day in court in the Oval Office.

261
10/31
4.1~



10/24

2.

- It appears to me the 70% parity is "inequitable" under today's environment.
- A study was shown me in Oklahoma that a dairy farmer with an 80-cow herd after all his expenses was earning only 35 cents per hour which is away below the minimum wage.

CC: Mr. Timmons



THE WHITE HOUSE

WASHINGTON

October 29, 1974

MEMORANDUM FOR THE PRESIDENT
FROM: KEN ^COLE
SUBJECT: Dairy Import Quotas and
Countervailing Duties

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. On October 16, you announced 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.

The Secretary of Agriculture has previously submitted for your consideration a memorandum providing you with his recommendations on dairy import quotas and countervailing duties (Tab A).

While there was agreement with Secretary Butz's recommendation on the announcement on dairy import quotas, there was not agreement on his recommendation on countervailing duties. Bill Eberle has submitted for your consideration a decision memorandum on the countervailing duty issue (Tab B).



A



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 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 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.



B

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: W. D. Eberle *WDE*

SUBJECT: 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 discontent surfaced in two areas: Senate deliberations on the Trade Reform Act; and, separately, the Federal Courts, where dairy producers pressed for Treasury action on a 1968 complaint alleging subsidization of EC dairy products. The court action sought to force Treasury to countervail against EC exports. Action on the complaint was suspended by Treasury with dairy industry consent, after quotas were imposed in the late 1960s.

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 suspend dairy export subsidies to the U.S. This temporarily removed the pressure for a court action against Treasury, but a court stay requires immediate action if the EC resumes subsidy payments.



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 export subsidy situations. Present law, written in 1897, provides no Executive discretion and does not require injury to a domestic industry. Treasury avoided countervailing only by delaying action 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. The statement you issued in Kansas City, promising consultations prior to any future quota liberalization, should allay this fear.

Alternatives

Option I - Continue present policy.

Follow existing trade policy; continue discussions with the European Community to try to avoid a trade war; attempt to "roll-over" court stay.

Option II - Take formal action under the countervailing duty law.

Since the EC is no longer subsidizing dairy exports, Treasury would issue a conditional negative determination which would result in the automatic levying of additional duties if the EC resumes subsidy payments.

Inflation Statement

Imposing countervailing duties 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 take formal countervailing duty action now even if no additional duties are actually imposed, 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, to proceed without quota liberalization is likely to cause an open US-EC confrontation and may result in EC retaliation 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 agencies agree with this course of action: State, Treasury, OMB, CIEP, and the Domestic Council. Secretary Butz agrees in principle.

Approve _____

Disapprove _____

Other _____



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.



September 6, 1974

DAIRY AND COUNTERVAILING DUTIES

*** 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.



20506

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.



ATTACHMENT B - TAB B

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

Malmgren, Harold B.
Chairman, Reading, 1961-1962



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

ATTACHMENT B - TAB C



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:mln

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.



Baker (202) 447-7587
McDavid (202) 447-4026

NEWS

U.S. DEPARTMENT OF AGRICULTURE

USDA ISSUES DECISION ON FLUID MILK PRICES TO FARMERS IN ALL FEDERAL ORDERS:

WASHINGTON, Nov. 13 --A recommended decision not to raise minimum "floor" prices for computing fluid milk (Class I) prices paid to farmers under all 61 federal milk marketing orders was issued by the U. S. Department of Agriculture (USDA) today.

USDA officials said the decision, made on the basis of evidence presented at a public hearing at Rosemont, Ill., Oct. 8-10, would continue present pricing procedures for fluid use (Class I) milk.

Under current pricing procedures, specific differentials are added to the Minnesota-Wisconsin manufacturing price to establish the fluid-use (Class I) minimum price in each order. The M-W price--which reflects average prices paid by processing plants in the two states for manufacturing grade milk--is now rising seasonally, reflecting an increase from \$6.29 per 100 pounds in July to \$6.82 in October. Officials said further seasonal rises are expected during the rest of this year and into early 1975. Wholesale butter and cheese prices have strengthened since midyear, although nonfat dry milk remains at Commodity Credit Corporation's (CCC) support purchase levels. Wholesale dairy product prices will likely show further seasonal increases into early 1975.

Officials said the decline in milk production, which has been occurring for some time, has slackened. Milk production was up almost 3 percent in September, the sharpest increase in almost a decade. This followed production gains during July and August. Larger marketings of milk by farmers in the third quarter, along with lower fluid milk sales, pushed more milk into manufacturing uses, particularly for butter and nonfat dry milk.

-more-



Fluid milk consumption has been hit hard by the rapidly rising retail milk prices, officials noted. Fluid milk sales in federal order markets fell about 5 percent in the first half of 1974.

Officials said the CCC has purchased substantial quantities of dairy products under the price support program this year. Purchases of nonfat dry milk continue sizable and some cheese is still being purchased. CCC inventories of nonfat dry milk are rising at a rapid rate, and reached about 135 million pounds at the end of October. A year ago, CCC had no stocks.

In announcing this recommended decision, USDA emphasized that there is no ceiling on prices received by farmers through the federal milk marketing order program. Minimum prices under present order provisions will likely increase and dairy farmers may freely negotiate for prices above those minimums.

Today's recommendations denying the proposed amendments will appear in the Federal Register Nov. 19. Until Dec. 4, comments may be filed, in four copies, with the Hearing Clerk, 112-A, U.S. Department of Agriculture, Washington, D.C. 20250, where anyone may review them.

Copies of the recommended decision may be obtained from the market administrators of the orders, or from the Dairy Division, Agricultural Marketing Service, U.S. Department of Agriculture, Washington, D.C. 20250.

USDA 3273-74



Baker (202) 447-7587
McDavid (202) 447-4026

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USDA 3273-74



copy sent to Doral & Lou.
+ N. Rose

40-441

file

THE WHITE HOUSE
WASHINGTON

November 27, 1974

MEMORANDUM FOR:

BILL BAROODY
DICK CHENEY
KEN COLE ✓
BILL SEIDMAN

FROM:

PHILLIP AREEDA P.A.

Neither the President nor his staff should see the milk people.

The relevant statutes entrust the milk marketing order decisions to the Agriculture Secretary, or his delegate, who must decide after a hearing and "upon the evidence introduced at such hearing." 7 U.S.C. 608(c)(4). Anything said to us would not be "evidence introduced at such hearing" and could not properly be considered by the Secretary; it would, therefore, be improper for us to communicate to him anything told us by the milk people. The milk interests would, of course, say that they just want to be sure that the President understands the gravity of their situation. But such understanding is relevant only insofar as it affects the Secretary's decision, and that decision must be made on the whole record made at the specified hearings and not on the basis of particular communications to the White House.

The statutory procedure is designed to give every affected interest, including consumers, an equal crack at involvement in the decision making process. Where a statute requires that a decision be made on the record of specified public hearings, then that is the only permissible procedure.

Beyond these statutory considerations, there is another reason for declining a visit from the milk people. The public impression would be that they and we were somehow engaged in the same improprieties suspected (and more?) of the previous Administration.



MILK PRICE SUPPORT PROGRAM OPTIONS

[ca. 11/29/74]

After a comprehensive review of the dairy situation, we have concluded there are two feasible courses of action at this time.

OPTION 1 - Take no action

Neither higher support prices nor higher Class I prices are needed to assure adequate milk supplies. Milk production is currently in excess of commercial requirements. Large quantities of dairy products are in commercial storage and the Commodity Credit Corporation (CCC) continues to buy nonfat dry milk and cheese under the price support program. Quantities of nonfat dry milk purchased by CCC are already greatly in excess of domestic requirements for school lunch and family feeding programs.

OPTION 2 - Increase support price for manufacturing milk to \$7.23 per hundredweight (80 percent of the December 1 parity price).

The support price of manufacturing milk for the 1974/75 marketing year (April 1, 1974-March 31, 1975) is \$6.57 per hundredweight (cwt.). This was 81 percent of April 1 parity and is 73 percent of December 1 parity. Raising the support price to \$7.23 per cwt., 80 percent of the current parity price, would increase both Class I and manufacturing milk prices. (Manufacturing milk prices averaged \$6.97 per cwt. in November.) It also would increase CCC's support purchase prices, the quantity purchased under price support operations and budget outlays.

While higher support prices are not necessary to assure adequate supplies of milk at the present time, the argument is made that higher support prices may be necessary to relieve the severe cost-price squeeze dairy farmers are now experiencing and to assure adequate supplies of milk in the future.

The pros and cons of these two options follow:

OPTION 1 - Take no action.

PRO

- (a) Supplies of both Class I and manufacturing milk for commercial market needs are adequate at this time. CCC's price support purchases represent quantities surplus to commercial market needs, and through November 29 totalled 219 million pounds of nonfat dry milk, 63 million pounds of cheese and 31 million pounds of butter (Table 2). CCC is currently buying nonfat dry milk and cheese and some further purchases are anticipated.
- (b) Milk production, compared with a year ago, has increased the last four months -- reversing the results experienced during the previous 21 months (Table 1).
- (c) Average prices received by farmers for manufacturing milk have risen from a low of \$6.41 per cwt. in July 1974 to \$6.97 in November (Table 3). Prices normally increase further during the winter months, but because of recent decline in market prices for cheese, may not increase further in next several months.



CON

- (a) This ignores the severe cost-price squeeze dairy farmers are now experiencing. Some argue that an immediate increase in the support price is necessary to meet rising production costs, prevent wholesale liquidations of dairy herds, and thereby assure the adequate future supply mandate of the 1973 Farm Act. This action, it is argued, will help prevent later, larger price increases than would likely result from the immediate increase in support price.
- (b) Increasing the support price would result in only a relatively small increase in net Government outlays since the nonfat dry milk could be used to substitute for other commodities shipped under the P. L. 480 programs.

OPTION 2 - Increase support price for manufacturing milk to \$7.23 per cwt. (80 percent of the December 1 parity price).

PRO

- (a) An increase in the support price is recommended by nearly every segment of the dairy industry.
- (b) Would give/immediate relief to the present cost-price squeeze.
- (c) Would help assure production of adequate supplies of milk in the future.
- (d) Would indicate that Administration is genuinely concerned about dairy farmers' problem without being legislated into a change.

CON

- (a) Raising support prices would increase consumer prices for fluid milk and dairy products, leading to charges that the Government was taking an inflationary action.
- (b) Would increase consumer prices of fluid milk at a time when consumption is already lagging and more milk is being diverted to manufacturing uses.
- (c) Would raise CCC's purchase prices (and commercial market prices) of manufactured dairy products at a time when commercial stocks are at or near record levels and CCC is purchasing nonfat dry milk under the price support program. CCC purchases and outlays would be increased (Table 4).
- (d) Would give dairy farmers an advantage over other livestock producers, who have no price support program, in competition for reduced supplies of high-priced feed -- possibly leading to increased production of a product (milk) that is already in excess supply.



- (e) Would generate expectations and pressure for a continuation of dairy price support at 80 percent of parity in 1975/76.
- (f) Would set a precedent for the Administration voluntarily raising dairy support prices at a time when the manufacturing milk price was near support and CCC was buying significant quantities under price support operations. Previous increases in support prices during the marketing year occurred after Congressional action or, in one case, when milk supplies were tight and prices were well above the support level (Table 5).



11-29-74

Table 1. Milk Production on Farms--Percentage Change from Year Earlier

	<u>1972</u>	<u>1973</u>	<u>1974</u>
	<u>P e r c e n t</u>		
January	+ 1.5	- 1.4	- 3.2
February	+ 4.4	- 4.5	- 2.9
March	+ 2.3	- 2.3	- 2.7
April	+ 1.4	- 2.3	- 2.2
May	+ 1.0	- 2.4	- 1.9
June	+ 1.2	- 3.4	- .6
July	+ 1.5	- 3.8	+ .3
August	+ 1.2	- 5.1	+ 1.3
September	+ 1.1	- 5.8	+ 2.7
October	- .1	- 5.3	+ 2.2
November	- 1.0	- 3.4	
December	- .7	- 3.6	

Table 2. CCC's Purchases of Dairy Products, April 1-November 29

<u>Product</u>	<u>Million Pounds</u>
Butter	31
Cheese	63
Nonfat dry milk	219

Table 3. Manufacturing Grade Milk: Prices Per Hundredweight Received by Farmers, Adjusted to Average Annual Butterfat Test

	<u>1972</u>	<u>1973</u>	<u>1974</u>
	<u>Dollar per cwt.</u>		
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August	5.09	6.39	6.50
September	5.13	6.95	6.71
October	5.20	7.35	6.94
November	5.31	7.62	6.97
December	5.40	7.87	



ESTIMATED USDA PURCHASES OF DAIRY PRODUCTS 1974-75 MARKETING YEAR

Table 4. If Support is Continued at \$6.57 Per Hundredweight

Product	Purchases April 1-Nov. 29			Purchases Nov. 30-Mar. 31			Total Purchases	
	Quantity	Price	Cost	Quantity	Price	Cost	Quantity	Cost
	Mil. lbs.	Cents/ lb.	Mil. dol.	Mil. lbs.	Cents/ lb.	Mil. dol.	Mil. lbs.	Mil. dol.
Butter	31	60.6	18.8	0	-	0	31	18.8
Cheese	63	70.75	44.6	17	70.75	12.0	80	56.6
Nonfat dry milk	219	56.6	124.0	31	56.6	17.5	250	141.5
Total			187.4			29.5		216.9

If Support is Increased to \$7.23 Per Hundredweight (80% of Current Parity)

Butter	31	60.6	18.8	19	1/ 75.5	14.3	50	33.1
Cheese	63	70.75	44.6	37	77.5	28.7	100	73.3
Nonfat dry milk	219	56.6	124.0	56	1/ 56.6	31.7	275	155.7
Total			187.4					262.1
Difference								45.2

1/ The preliminary determination to place all of the increase in support on the butter purchase price (market prices are about 8.5 cents over support) and none on nonfat dry milk is subject to review.

ASCS/CMO/Dairy/11-29-74



Table 5. Previous Increases in Manufacturing Milk Support Price During Marketing Year

<u>DATE</u>	<u>AMOUNT OF INCREASE</u>	<u>REASON FOR INCREASE</u>
April 18, 1956	10¢ per cwt.	President increased after vetoing bill passed by Congress which would have increased support price.
September 16, 1960	16¢ per cwt.	By Act of Congress.
June 30, 1966	50¢ per cwt.	By administrative action. Milk supplies were tight and prices were well above support.
August 10, 1973	32¢ per cwt.	By Act of Congress, increasing minimum support price for 1973/74 and 1974/ to 80 percent of parity.

11/29/74



IMPLICATIONS OF RAISING MILK PRICE SUPPORT TO 80% OF PARITY

Many dairy farmers are currently caught in a severe cost-price squeeze as production costs, particularly feed costs, have been increasing much faster than milk prices.

This proposal would increase the milk support price to \$7.23 per 100 pounds, or 80 percent of the most recent parity (Nov.) level, through March 1975, compared with the current \$6.57 support price. This action would increase prices to all milk producers, rather than just fluid producers in Federal order markets. A final decision has not as yet been made relative to the October hearing which considered raising Class I prices in Federal order markets through March 1975. Milk price increases would help assure more adequate milk supplies in coming months.

I. Estimated USDA Purchases of Dairy Products and Associated Costs

Raising supports to \$7.23 would increase CCC purchases and costs under the dairy price support program in the 1974/75 marketing year (ending March 31) as follows:

<u>Product</u>	<u>Total purchases and costs at \$6.57 support</u>	<u>Additional purchases and costs at \$7.23 support</u>
	<u>Mil. lbs.</u>	<u>Mil. lbs.</u>
<u>A. Purchases</u>		
Butter	31	19
American cheese	80	20
Nonfat dry milk	250	25
	<u>Mil. dol.</u>	<u>Mil. dol.</u>
<u>B. Costs</u>	216.9	45.2

II. Estimated Net Cost to U.S. Government in FY 1974 Mil. Dols.

A. Total Dollar Requirement for School Lunch Program	412.0
Total Commodities Purchased or Committed as 11/19/74	316.6
Balance to be paid in cash or commodities	95.4
B. Of this \$95.4 million, \$45 million has tentatively been committed to the purchases of <u>additional</u> beef. If this beef is purchased, a total of \$50.4 million would remain for cash distribution or commodity purchases.	



C. If the price support level is raised to 80 percent of parity, it is estimated that additional quantities of butter and cheese worth \$31 million would be acquired in FY 1975. This can all be distributed to schools and will count toward the \$50.4 million remaining in II-B above. There would then be a remainder of \$19.4 million for cash distribution or additional commodity purchases.

D. The additional quantities of nonfat dry milk purchased cannot be used in the schools. Net government cost of raising the support price to 80 percent of parity can be reduced to the extent that nonfat dry milk acquired can be used to meet PL-480 commitments.

III. Estimated Inflationary Impact

This action would likely boost farm prices of manufacturing milk about 30-35 cents per 100 pounds from current projected levels during December through March 1975, assuming the action is effective in early December. Wholesale prices of butter would be increased about 6-1/2 cents per pound from the current 69 cent level and American cheese would be raised around 2-1/2 cents from the present 75 cent price. However, wholesale nonfat dry milk would not be changed. Because of the lag in calculating fluid milk prices, Federal order Class I prices would not be affected until February and March when minimum prices would be increased around 30-35 cents from current levels.

Retail dairy prices are likely to be rising seasonally in coming months even under current programs. This action would likely raise retail dairy prices about 2 percent from expected levels. For the average consumer, this would mean an increase in his food budget of around 0.3 percent. The largest impact would be on butter with retail prices likely to increase around 7 percent. However, margarine prices are likely to continue rising, and butter should remain favorably priced with margarine. Butter sales have increased in recent months because of its relatively favorable price. Cheese prices may rise around 2 percent, and ice cream will likely also go up although more because of rising sugar prices. Retail fluid milk prices could rise approximately 1 to 2 percent as a result of this action. However, since cooperatives in most markets have negotiated fluid milk prices above the Federal order minimums, the impact would likely be less than the full 30-35 cent increase at the farm level. Nonfat dry milk use has been down materially this year, and this action would not change nonfat dry milk prices.



MILK PRICE SUPPORT PROGRAM OPTIONS

[ca. 11/29/74] f.1

After a comprehensive review of the dairy situation, we have concluded there are two feasible courses of action at this time.

OPTION 1 - Take no action

Neither higher support prices nor higher Class I prices are needed to assure adequate milk supplies. Milk production is currently in excess of commercial requirements. Large quantities of dairy products are in commercial storage and the Commodity Credit Corporation (CCC) continues to buy nonfat dry milk and cheese under the price support program. Quantities of nonfat dry milk purchased by CCC are already greatly in excess of domestic requirements for school lunch and family feeding programs.

OPTION 2 - Increase support price for manufacturing milk to \$7.23 per hundredweight (80 percent of the December 1 parity price).

The support price of manufacturing milk for the 1974/75 marketing year (April 1, 1974-March 31, 1975) is \$6.57 per hundredweight (cwt.). This was 81 percent of April 1 parity and is 73 percent of December 1 parity. Raising the support price to \$7.23 per cwt., 80 percent of the current parity price, would increase both Class I and manufacturing milk prices. (Manufacturing milk prices averaged \$6.97 per cwt. in November.) It also would increase CCC's support purchase prices, the quantity purchased under price support operations and budget outlays.

While higher support prices are not necessary to assure adequate supplies of milk at the present time, the argument is made that higher support prices may be necessary to relieve the severe cost-price squeeze dairy farmers are now experiencing and to assure adequate supplies of milk in the future.

The pros and cons of these two options follow:

OPTION 1 - Take no action.

PRO

- (a) Supplies of both Class I and manufacturing milk for commercial market needs are adequate at this time. CCC's price support purchases represent quantities surplus to commercial market needs, and through November 29 totalled 219 million pounds of nonfat dry milk, 63 million pounds of cheese and 31 million pounds of butter (Table 2). CCC is currently buying nonfat dry milk and cheese and some further purchases are anticipated.
- (b) Milk production, compared with a year ago, has increased the last four months -- reversing the results experienced during the previous 21 months (Table 1).
- (c) Average prices received by farmers for manufacturing milk have risen from a low of \$6.41 per cwt. in July 1974 to \$6.97 in November (Table 3). Prices normally increase further during the winter months, but because of recent decline in market prices for cheese, may not increase further in next several months.



CON

- (a) This ignores the severe cost-price squeeze dairy farmers are now experiencing. Some argue that an immediate increase in the support price is necessary to meet rising production costs, prevent wholesale liquidations of dairy herds, and thereby assure the adequate future supply mandate of the 1973 Farm Act. This action, it is argued, will help prevent later, larger price increases than would likely result from the immediate increase in support price.
- (b) Increasing the support price would result in only a relatively small increase in net Government outlays since the nonfat dry milk could be used to substitute for other commodities shipped under the P. L. 480 programs.

OPTION 2 - Increase support price for manufacturing milk to \$7.23 per cwt. (80 percent of the December 1 parity price).

PRO

- (a) An increase in the support price is recommended by nearly every segment of the dairy industry.
- (b) Would give/immediate relief to the present cost-price squeeze.
- (c) Would help assure production of adequate supplies of milk in the future.
- (d) Would indicate that Administration is genuinely concerned about dairy farmers' problem without being legislated into a change.

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- (a) Raising support prices would increase consumer prices for fluid milk and dairy products, leading to charges that the Government was taking an inflationary action.
- (b) Would increase consumer prices of fluid milk at a time when consumption is already lagging and more milk is being diverted to manufacturing uses.
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- (e) Would generate expectations and pressure for a continuation of dairy price support at 80 percent of parity in 1975/76.
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May	+ 1.0	- 2.4	- 1.9
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	<u>Mil.</u> <u>lbs.</u>	<u>Cents/</u> <u>lb.</u>	<u>Mil.</u> <u>dol.</u>	<u>Mil.</u> <u>lbs.</u>	<u>Cents/</u> <u>lb.</u>	<u>Mil.</u> <u>dol.</u>	<u>Mil.</u> <u>lbs.</u>	<u>Mil.</u> <u>dol.</u>
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COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

December 3, 1974

MEMORANDUM FOR: NORM ROSS

Secretary Butz met with the EPB-Executive Committee this morning. Roger Porter can give you an "official" report of the outcome. It was my understanding that the entire Executive Committee (Ash, Eberle, Simon, and Greenspan) opposed taking any action. Al Rees and I both favored that too. Seidman and Cole were not present. Butz argued in favor of raising the support to 80 percent on the grounds that it could be left there next April 1. If it is not raised, Congress is likely to legislate an 80 percent minimum rather than letting it fall to 75.

Because of the diversity of views, it was agreed that Secretary Butz will have to take this to the President, which I assume he will do.

Gary

Gary L. Seevers
Member

Attachment



14/3

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

November 30, 1974

MEMORANDUM FOR: EPB-Executive Committee

SUBJECT: Milk Price Support

In October, USDA held public hearings on a dairy industry proposal to raise the "floor" under Class I milk prices to \$7.50 cwt. from the current floor of \$6.57 cwt. In mid-November, USDA announced a preliminary decision against the proposal and invited comments by December 4. From a procedural standpoint, the final decision must be made by the Secretary of Agriculture, based upon the public record.

The Department of Agriculture has raised the possibility of taking some action to support milk prices. The Executive Committee has been asked to examine the economic implications before any action is taken.

The attached paper prepared by USDA considers the pros and cons of two options. Option 1 would be to hold-fast with "no action." The major economic arguments in favor of this option are:

1. Milk supplies already exceed commercial demand at current prices and the CCC is purchasing substantial quantities of dairy products.

2. Taking action (Option 2) would raise dairy prices to consumers by an estimated 2 percent. Dairy products have a 3 percent weight in the CPI.

Option 2 would increase the support price to 80 percent of parity (it was set at 81 percent on April 1, but has since fallen to 73 percent) for all milk, not just Class I. The argument in support of this action is essentially equity. Dairy producers are being squeezed and have a serious cash-flow problem. To a



major extent their prices are Government-regulated and have been depressed partly because of earlier actions that allowed temporary increases in import quotas. Their problem is similar to the utilities (regulated price system and sharply higher costs) except in this case the market will not support higher prices.

Symbolism is important in this decision. The dairy industry claims that positive Government action is necessary to show that the U.S. Government cares (i.e., to keep up morale); otherwise, producers will go out of business and not be there to produce in the future. On the other hand, a positive action would be directly contrary to the anti-inflation program and especially to the efforts to eliminate Government restrictions that raise prices.

Gary L. Seevers

Gary L. Seevers



MILK PRICE SUPPORT PROGRAM OPTIONS

After a comprehensive review of the dairy situation, we have concluded there are two feasible courses of action at this time.

OPTION 1 - Take no action

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11-29-74

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1/ The preliminary determination to place all of the increase in support on the butter purchase price (market prices are about 8.5 cents over support) and none on nonfat dry milk is subject to review.

ASCS/CMO/Dairy/11-29-74



Table 5. Previous Increases in Manufacturing Milk Support Price During Marketing Year

<u>DATE</u>	<u>AMOUNT OF INCREASE</u>	<u>REASON FOR INCREASE</u>
April 18, 1956	10¢ per cwt.	President increased after vetoing bill passed by Congress which would have increased support price
September 16, 1960	16¢ per cwt.	By Act of Congress.
June 30, 1966	50¢ per cwt.	By administrative action. Milk supplies were tight and prices were well above support.
August 10, 1973	32¢ per cwt.	By Act of Congress, increasing minimum support price for 1973/74 and 1974/75 to 80 percent of parity.

11/29/74



IMPLICATIONS OF RAISING MILK PRICE SUPPORT TO 80% OF PARITY

Many dairy farmers are currently caught in a severe cost-price squeeze as production costs, particularly feed costs, have been increasing much faster than milk prices.

This proposal would increase the milk support price to \$7.23 per 100 pounds, or 80 percent of the most recent parity (Nov.) level, through March 1975, compared with the current \$6.57 support price. This action would increase prices to all milk producers, rather than just fluid producers in Federal order markets. A final decision has not as yet been made relative to the October hearing which considered raising Class I prices in Federal order markets through March 1975. Milk price increases would help assure more adequate milk supplies in coming months.

I. Estimated USDA Purchases of Dairy Products and Associated Costs

Raising supports to \$7.23 would increase CCC purchases and costs under the dairy price support program in the 1974/75 marketing year (ending March 31) as follows:

<u>Product</u>	<u>Total purchases and costs at \$6.57 support</u>	<u>Additional purchases and costs at \$7.23 support</u>
	<u>Mil. lbs.</u>	<u>Mil. lbs.</u>
A. <u>Purchases</u>		
Butter	31	19
American cheese	80	20
Nonfat dry milk	250	25
	<u>Mil. dol.</u>	<u>Mil. dol.</u>
B. <u>Costs</u>	216.9	45.2

II. Estimated Net Cost to U.S. Government in FY 1975 Mil. Dols.

A. Total Dollar Requirement for School Lunch Program	412.0
Total Commodities Purchased or Committed as 11/19/74	316.6
Balance to be paid in cash or commodities	95.4

B. Of this \$95.4 million, \$45 million has tentatively been committed to the purchases of additional beef. If this beef is purchased, a total of \$50.4 million would remain for cash distribution or commodity purchases.



C. If the price support level is raised to 80 percent of parity, it is estimated that additional quantities of butter and cheese worth \$31 million would be acquired in FY 1975. This can all be distributed to schools and will count toward the \$50.4 million remaining in II-B above. There would then be a remainder of \$19.4 million for cash distribution or additional commodity purchases.

D. The additional quantities of nonfat dry milk purchased cannot be used in the schools. Net government cost of raising the support price to 80 percent of parity can be reduced to the extent that nonfat dry milk acquired can be used to meet PL-480 commitments.

III. Estimated Inflationary Impact

This action would likely boost farm prices of manufacturing milk about 30-35 cents per 100 pounds from current projected levels during December through March 1975, assuming the action is effective in early December. Wholesale prices of butter would be increased about 6-1/2 cents per pound from the current 69 cent level and American cheese would be raised around 2-1/2 cents from the present 75 cent price. However, wholesale nonfat dry milk would not be changed. Because of the lag in calculating fluid milk prices, Federal order Class I prices would not be affected until February and March when minimum prices would be increased around 30-35 cents from current levels.

Retail dairy prices are likely to be rising seasonally in coming months even under current programs. This action would likely raise retail dairy prices about 2 percent from expected levels. For the average consumer, this would mean an increase in his food budget of around 0.3 percent. The largest impact would be on butter with retail prices likely to increase around 7 percent. However, margarine prices are likely to continue rising, and butter should remain favorably priced with margarine. Butter sales have increased in recent months because of its relatively favorable price. Cheese prices may rise around 2 percent, and ice cream will likely also go up although more because of rising sugar prices. Retail fluid milk prices could rise approximately 1 to 2 percent as a result of this action. However, since cooperatives in most markets have negotiated fluid milk prices above the Federal order minimums, the impact would likely be less than the full 30-35 cent increase at the farm level. Nonfat dry milk use has been down materially this year, and this action would not change nonfat dry milk prices.



MILK PRICE SUPPORT PROGRAM OPTIONS

After a comprehensive review of the dairy situation, we have concluded there are two feasible courses of action at this time.

OPTION 1 - Take no action

Neither higher support prices nor higher Class I prices are needed to assure adequate milk supplies. Milk production is currently in excess of commercial requirements. Large quantities of dairy products are in commercial storage and the Commodity Credit Corporation (CCC) continues to buy nonfat dry milk and cheese under the price support program. Quantities of nonfat dry milk purchased by CCC are already greatly in excess of domestic requirements for school lunch and family feeding programs.

OPTION 2 - Increase support price for manufacturing milk to \$7.23 per hundredweight (80 percent of the December 1 parity price).

The support price of manufacturing milk for the 1974/75 marketing year (April 1, 1974-March 31, 1975) is \$6.57 per hundredweight (cwt.). This was 81 percent of April 1 parity and is 73 percent of December 1 parity. Raising the support price to \$7.23 per cwt., 80 percent of the current parity price, would increase both Class I and manufacturing milk prices. (Manufacturing milk prices averaged \$6.97 per cwt. in November.) It also would increase CCC's support purchase prices, the quantity purchased under price support operations and budget outlays.

While higher support prices are not necessary to assure adequate supplies of milk at the present time, the argument is made that higher support prices may be necessary to relieve the severe cost-price squeeze dairy farmers are now experiencing and to assure adequate supplies of milk in the future.

The pros and cons of these two options follow:

OPTION 1 - Take no action.

PRO

- (a) Supplies of both Class I and manufacturing milk for commercial market needs are adequate at this time. CCC's price support purchases represent quantities surplus to commercial market needs, and through November 29 totalled 219 million pounds of nonfat dry milk, 63 million pounds of cheese and 31 million pounds of butter (Table 2). CCC is currently buying nonfat dry milk and cheese and some further purchases are anticipated.
- (b) Milk production, compared with a year ago, has increased the last four months -- reversing the results experienced during the previous 21 months (Table 1).
- (c) Average prices received by farmers for manufacturing milk have risen from a low of \$6.41 per cwt. in July 1974 to \$6.97 in November (Table 3). Prices normally increase further during the winter months, but because of recent decline in market prices for cheese, may not increase further in next several months.

CON

- (a) This ignores the severe cost-price squeeze dairy farmers are now experiencing. Some argue that an immediate increase in the support price is necessary to meet rising production costs, prevent wholesale liquidations of dairy herds, and thereby assure the adequate future supply mandate of the 1973 Farm Act. This action, it is argued, will help prevent later, larger price increases than would likely result from the immediate increase in support price.
- (b) Increasing the support price would result in only a relatively small increase in net Government outlays since the nonfat dry milk could be used to substitute for other commodities shipped under the P. L. 480 programs.

OPTION 2 - Increase support price for manufacturing milk to \$7.23 per cwt. (80 percent of the December 1 parity price).

PRO

- (a) An increase in the support price is recommended by nearly every segment of the dairy industry.
- (b) Would give/immediate relief to the present cost-price squeeze.
- (c) Would help assure production of adequate supplies of milk in the future.
- (d) Would indicate that Administration is genuinely concerned about dairy farmers' problem without being legislated into a change.

CON

- (a) Raising support prices would increase consumer prices for fluid milk and dairy products, leading to charges that the Government was taking an inflationary action.
- (b) Would increase consumer prices of fluid milk at a time when consumption is already lagging and more milk is being diverted to manufacturing uses.
- (c) Would raise CCC's purchase prices (and commercial market prices) of manufactured dairy products at a time when commercial stocks are at or near record levels and CCC is purchasing nonfat dry milk under the price support program. CCC purchases and outlays would be increased (Table 4).
- (d) Would give dairy farmers an advantage over other livestock producers, who have no price support program, in competition for reduced supplies of high-priced feed -- possibly leading to increased production of a product (milk) that is already in excess supply.



- (e) Would generate expectations and pressure for a continuation of dairy price support at 80 percent of parity in 1975/76.
- (f) Would set a precedent for the Administration voluntarily raising dairy support prices at a time when the manufacturing milk price was near support and CCC was buying significant quantities under price support operations. Previous increases in support prices during the marketing year occurred after Congressional action or, in one case, when milk supplies were tight and prices were well above the support level (Table 5).



11-29-74

Table 1. Milk Production on Farms--Percentage Change from Year Earlier

	<u>1972</u>	<u>1973</u>	<u>1974</u>
	<u>P e r c e n t</u>		
January	+ 1.5	- 1.4	- 3.2
February	+ 4.4	- 4.5	- 2.9
March	+ 2.3	- 2.3	- 2.7
April	+ 1.4	- 2.3	- 2.2
May	+ 1.0	- 2.4	- 1.9
June	+ 1.2	- 3.4	- .6
July	+ 1.5	- 3.8	+ .3
August	+ 1.2	- 5.1	+ 1.3
September	+ 1.1	- 5.8	+ 2.7
October	- .1	- 5.3	+ 2.2
November	- 1.0	- 3.4	
December	- .7	- 3.6	

Table 2. CCC's Purchases of Dairy Products, April 1-November 29

<u>Product</u>	<u>Million Pounds</u>
Butter	31
Cheese	63
Nonfat dry milk	219

Table 3. Manufacturing Grade Milk: Prices Per Hundredweight Received by Farmers, Adjusted to Average Annual Butterfat Test

	<u>1972</u>	<u>1973</u>	<u>1974</u>
	<u>Dollar per cwt.</u>		
January	5.02	5.45	8.00
February	5.05	5.50	8.10
March	5.06	5.59	8.12
April	5.03	5.62	7.82
May	5.00	5.66	6.98
June	5.00	5.70	6.50
July	5.04	5.83	6.41
August	5.09	6.39	6.50
September	5.13	6.95	6.71
October	5.20	7.35	6.94
November	5.31	7.62	6.97
December	5.40	7.87	



ESTIMATED USDA PURCHASES OF DAIRY PRODUCTS 1974-75 MARKETING YEAR

Table 4. If Support is Continued at \$6.57 Per Hundredweight

Product	Purchases April 1-Nov. 29			Purchases Nov. 30-Mar. 31			Total Purchases	
	Quantity	Price	Cost	Quantity	Price	Cost	Quantity	Cost
	Mil. lbs.	Cents/ lb.	Mil. dol.	Mil. lbs.	Cents/ lb.	Mil. dol.	Mil. lbs.	Mil. dol.
Butter	31	60.6	18.8	0	-	0	31	18.8
Cheese	63	70.75	44.6	17	70.75	12.0	80	56.6
Nonfat dry milk	219	56.6	124.0	31	56.6	17.5	250	141.5
Total			187.4			29.5		216.9

If Support is Increased to \$7.23 Per Hundredweight (80% of Current Parity)

Butter	31	60.6	18.8	19	<u>1</u> / 75.5	14.3	50	33.1
Cheese	63	70.75	44.6	37	77.5	28.7	100	73.3
Nonfat dry milk	219	56.6	124.0	56	<u>1</u> / 56.6	31.7	275	155.7
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NEWS

U.S. DEPARTMENT OF AGRICULTURE

USDA REAFFIRMS DECISION ON FLUID MILK PRICES TO FARMERS IN ALL FEDERAL ORDERS:

WASHINGTON, Dec. 9--The U.S. Department of Agriculture today reaffirmed its earlier recommended decision not to raise minimum "floor" prices for computing fluid milk (Class I) prices paid to farmers under all 61 federal milk marketing orders.

USDA officials said the decision was reached after careful consideration of exceptions made to the recommended decision, including oral exceptions received at the U.S. Department of Agriculture in Washington, D.C., Nov. 26.

USDA officials indicated that milk supplies continue to be running ahead of demand, and Commodity Credit Corporation (CCC) purchases of nonfat dry milk and cheese under the price support program continue to increase.

USDA reiterated that there is no ceiling on prices received by farmers through the federal milk marketing order program, and dairy farmers may freely negotiate for prices above the minimum prices set by the orders. Officials pointed out that since issuance of the recommended decision on Nov. 22, these negotiated prices have increased in many areas of the country.

The recommended decision was issued after a public hearing held in Rosemont, Ill., Oct. 8-10.

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USDA 3559-74

