The original documents are located in Box C28, folder "Presidential Handwriting, 9/30/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

Digitized from Box C28 of The Presidential Handwriting File
at the Gerald R. Ford Presidential Library

ECONOMIC/ENERGY MEETING

Tuesday, September 30, 1975

2:00 P.M.

THE PRESIDENT HAS SEEN....

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

September 29, 1975

ECONOMIC AND ENERGY MEETING
September 30, 1975
2:00 p.m.
Cabinet Room

From: L. William Seidman

I. PURPOSE

A. To review the short term price and unemployment outlook.

B. To review tax reduction extension alternatives and the current legislative status and strategy on DISC.

C. To review the current world grain situation and sales to the Soviet Union and Eastern Europe.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The Economic Policy Board Weekly Report is attached at Tab A.

At the September 26 Economic and Energy meeting you reviewed a memorandum on extension of the 1975 tax reductions a copy of which is attached at Tab B. At that time you requested that a table be prepared indicating the tax burdens for various family sizes and incomes of the three options outlined in the memorandum. The Office of Tax Analysis of the Treasury has prepared this table which is attached at Tab C.

The Department of the Treasury has been informed that the House Ways and Means Committee is likely to accept a motion tomorrow to defer consideration of the foreign tax credit and tax deferral until Phase II or later. It is therefore possible that consideration of extension of the Tax Reduction Act of 1975 by the Ways and Means Committee could occur as early as Thursday of this week rather than early next week.

The Ways and Means Committee is also scheduled to vote this week on the repeal or substantial limitation of the DISC export tax deferral incentive. Secretary

Simon will meet with Republican members of the Committee Wednesday morning to discuss DISC and other tax matters. A status report prepared by the Treasury on DISC is attached at Tab D. Treasury officials are meeting this afternoon with Congressman Karth who heads the Ways and Means Committee's Ad Hoc DISC Task Force. Secretary Simon will report on the results of that meeting.

The Economic Policy Board/NSC Food Committee has reviewed the issue of additional grain sales to Poland. A memorandum on this issue is attached at Tab E.

B. Participants: The Vice President, William E. Simon, L. William Seidman, James T. Lynn, Alan Greenspan, John T. Dunlop, Rogers C.B. Morton, Frank G. Zarb, Donald Rumsfeld, Arthur F. Burns, Richard Dunham, Rod Hills.

C. Press Plan: White House Photographer.

III. AGENDA

A. Review of Short-Term Price and Unemployment Outlook

Alan Greenspan will briefly review the short-term price and unemployment outlook.

B. Tax Matters

Secretary Simon will review tax issues related to the extension of the 1975 Tax Reduction Act and DISC.

C. Grain Sales

Secretary Butz will review his proposal for reinstituting grain sales to Poland.

A

September 29, 1975

ECONOMIC POLICY BOARD WEEKLY REPORT

Issues Considered by the EPB During the Week of September 22

1. Grain Situation
   Reviewed an analysis of the latest USDA supply and demand forecast.

2. New York City
   Discussed Secretary Simon's draft testimony for his appearance before the Joint Economic Committee.

3. Cocoa Agreement Negotiations
   Approved instructions to U.S. delegation at cocoa agreement negotiations in Geneva.

4. Taxation of International Investment
   Approved Task Force recommendations that the EPB reaffirm the CIEP statement on U.S. policy and objectives on international investment and the general principles outlined in the Task Force report. Requested the Task Force to submit a second report on: (1) the treatment of tax free transfers of technology to foreign operating subsidiaries; and (2) the allocation of expenses for research and development against foreign source royalty and dividend income.

5. Report on International Economic Conditions
   Reviewed CEA report on international economic conditions.

Task Force Status Reports

1. Subcommittee on Economic Statistics

   - o Reviewing Consumer Price Index focusing on need for much more frequent monthly pricing.
   - o Reviewing wholesale price index focusing on need to move from posted prices to transaction prices.
   - o Upcoming projects include industrial capacity statistics, inventory figures, and the definition of full employment.

Major Upcoming Agenda Items

1. Reactivation of the suspended home ownership subsidy program.

2. Multilateral trade negotiations.

3. Report of Task Force on Antitrust Immunities.

4. Financial Conditions of major U.S. cities.

5. International Aviation Policy Statement.

6. Food Deputies Report.

B

THE WHITE HOUSE

WASHINGTON

September 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: Extension of 1975 Tax Reductions

The economic forecasts are now sufficiently complete to allow consideration of tax cuts for the coming year. This memorandum summarizes the economic and budgetary outlook as they relate to the issue of continuing the 1975 tax cuts and outlines options regarding the size, duration, and composition of a tax reduction extension.

Background

Two types of reductions were provided in the Tax Reduction Act of 1975. First, one-shot "stimulus" reductions:

	1975 Liabilities ($ billions)
Rebate	-8.1
Five percent House Credit	-0.6

Secondly, reductions resulting in changes in the tax structure.

Low income allowance and standard deduction	-2.5
$30 credit per exemption	-5.3
Changes in corporate surtax and rates for small business and in WIN credit	-1.5
Earned income credit	-1.5
Investment credit (expires January 1977)	-3.3
	-22.8

All of these reductions expire at the end of 1975, except for the increase in the Investment Tax Credit which expires at the end of 1976. Thus, the reductions that will lapse total $19.5 billion.

There is little apparent sentiment or reason for another rebate in 1976 or for an extension of the five percent housing credit.

The issue is whether to extend the structural changes outlined above. The changes in the low income allowance, the standard deduction, and the $30 exemption credit are built into the wage withholding tables. They account for a 1975 reduction in taxes of approximately $8 billion and if they expire at the end of 1975 there will be an immediate and substantial increase in withholding.

To a lesser extent, a reduction in take home pay will occur even if the provisions are simply extended since the entire 1975 reduction was concentrated in the last eight months of withholding. In order to keep withholding constant, the tax reduction would have to be increased to $12 billion, or 50 percent more than the $8 billion reduction provided by the 1975 Act.

The 1975 legislation provides that both the reduction in liabilities and the reduction in withholding will expire at the end of this year. Thus, unless some action is taken, withholding will increase and disposable incomes will decrease as of January 1976.

The possibility of administratively altering the amount of withholding has also been explored. The Treasury indicates that changes in rates of withholding are a legislative matter with very limited administrative discretion. In 1974, the rates were changed through administrative action under existing legislation. The IRS view is that "there is no room left in the statute for further administrative changes."

Economic Outlook

The Troika forecasting group in its most recent exercise projects roughly a seven percent real rate of growth of gross national product through mid-1976, with the growth rate then declining gradually to somewhat lower sustainable levels by the end of 1977. This should enable the unemployment rate to fall gradually to the 7 1/2 percent range or possibly even as low as seven percent by the end of 1976. This forecast assumed gradual oil decontrol and indefinite extension of the 1975 Tax Reduction Act (except that the tax rebates, payments to social insurance beneficiaries, and the home purchase credit were not expected to be extended).

Moreover, reductions in individual income tax rates were assumed, effective January 1976, so as to keep withholding rates at their current levels. This implies a total package of tax relief for individuals of roughly $12 billion, plus continuation of corporate tax relief for small business and the Investment Tax Credit. The earned income credit of $1.5 billion was also included in the Troika forecast.

To assess the effect of extending the Tax Reduction Act of 1975, the Troika forecasting group ran an alternative simulation with identical assumptions except that the tax cut was allowed to expire. A comparison of the two forecasts reveals that differences in real GNP are relatively small in 1976. (Real GNP is only 4/10 of one percent lower and unemployment 1/10 of one percent higher in the third quarter of 1976. This is because the Troika forecast assumes greater investment in late 1976 as businessmen rush to take advantage of the investment tax credit which is scheduled to be reduced at the end of 1976. In 1977, however, greater investment no longer offsets reduced consumption expenditures and the restraining effect on real GNP is increased. (By the third quarter of 1977 real GNP is 1.1 percent lower and unemployment is 4/10 of one percent higher). The simulation shows that the effect of extending the tax cut has only a negligible unfavorable short run impact on the rate of inflation during 1976 and 1977, although the longer run effects may be greater.

Fiscal policy matters are subject to wide disagreement and, therefore, the Troika estimates of the impact of a reversal of the tax cut may be disputed. Some feel that the prospect of a smaller deficit would have a salutary effect on business and consumer psychology and would moderate inflationary expectations so that the negative impact on real GNP may be lessened and perhaps even reversed. On the other hand, the psychological effect on consumers of an apparent tax increase through failure to extend the reductions may result in a greater decline in consumer spending than is shown in the Troika forecast.

Budget Outlook

With an extension of the tax cut that keeps withholding rates constant and keeps a ten percent investment tax credit through the end of 1977, the current estimates of the budget deficits in fiscal years 1976 and 1977 are $79 and $68 billions, respectively. If the tax cut is allowed to expire, the deficits are lowered to $73 billion in 1976 and to $51 billion in 1977,

if it is assumed that the expiration of the tax cut does not slow down the forecast economic recovery. If some slowdown does result from the expiration of the tax cuts, the 1976 deficit would not be affected perceptibly, but the 1977 deficit might be raised to the vicinity of $55 billion.

We are currently reexamining our revenue estimates for 1976 and 1977, and as a result of this exercise, the deficits might be lowered by $3 billion in 1976 and $5 billion in 1977. This would imply deficits in 1976 and 1977 of $76 billion and $63 billion if the tax cut is extended, and deficits of $70 billion and $50 billion if it is not extended and one assumes that the resulting tax increase slows down the recovery.

It should be emphasized that the deficit estimates are extremely sensitive to the underlying economic forecast. For example, an error of one percent in forecasting 1976-77 money GNP can result in a $4 to $5 billion error in our forecast of the 1977 deficit. Based on past experience, it is quite possible that errors in forecasting GNP will far exceed one percent.

Tax Reduction Extension Alternatives

Issue #1 - Should the Administration propose an extension of the 1975 tax reductions?

Option A: Propose no extension of the 1975 reductions.

Pros:

- Reduces the size of the FY 1976 and FY 1977 budget deficits.
- Reduces inflationary pressures.
- Eases Treasury financing difficulties.

Cons:

- Current congressional sentiment suggests that Congress will pass an extension and it may be difficult to sustain a veto.
- Failure to propose an extension of individual tax reductions may prompt criticism, in light of the Administration's capital formation tax proposals, that the Administration favors big business.

- Would be viewed as a tax increase and could have a negative psychological impact.

Option B: Propose a one year extension of the 1975 tax reductions.

By November 10, OMB must publish, in the Current Services Budget, a forecast of the economic and budget outlook for FY 1976 and FY 1977 which would reveal a marked difference in the deficits forecast if a one year only extension is passed.

Pros:

- Occasions reconsideration of the budget impact of further extension again next year.
- Permits more flexibility in dealing with the economy a year from now than would a permanent extension.
- Would enable the reduction in personal income tax, the expiration of the additional investment credit and the proposal for corporate integration to be considered next year as a single package enhancing the possibility of enacting the capital formation proposals.

Cons:

- Requires a consideration of tax legislation immediately prior to the 1976 election.
- Continues uncertainty of future tax rates which may inhibit personal and corporate spending.

Option C: Propose that the 1975 reductions be made permanent.

A permanent extension of the 1975 reductions is favored by the Labor-Management Committee in their statement attached at Tab A.

Pros:

- May help in applying pressure on Congress to restrain the growth of Federal expenditures.
- Would help sustain personal consumption essential to economic recovery.

- Represents a one-time reduction of tax rates to adjust for inflation.

- Consumers will be more likely to adjust their expenditure patterns, especially for durable goods, if the extension is made permanent.

Cons:

- Increases the size of the FY 1976 and FY 1977 budget deficits.

- Increases inflationary pressures.

- Increases Treasury financing difficulties.

Decision

Option A ____________ Propose no extension of the 1975 reductions.

Supported by: Treasury, Federal Reserve

Option B ____________ Propose a one year extension of the 1975 tax reductions.

Option C ____________ Propose that the 1975 reductions be made permanent.

Supported by: Labor, CEA, Commerce

Issue #2 - Tax Reductions for Individuals.

Option A: Extend only those items that affect the withholding schedules--the low income allowance, the standard deduction and the $30 exemption credit. This would reduce tax liabilities by about $8 billion.

Since a simple extension would spread the tax reductions over 12 months rather than over eight months as in 1975, withholding would increase accordingly in January.

Pros:

- o Entails a relatively simple approach to restructuring the whole tax schedule and therefore is less likely to encourage other structural changes.

- o Limits increase in budget deficit by $4 billion compared with a tax reduction which would maintain the present withholding rates.

Cons:

- o Withholding rates will increase by $4 billion at the beginning of January.

  Note: This will involve a small amount for the average family. For example, a couple with two children earning $15,000, or less would have between $1 and $2 per week more withheld.

Option B: Increase those items that affect the withholding schedules to match the current withholding rates. This would reduce tax liabilities by about $12 billion.

This option is favored by the Labor-Management Committee.

Pros:

- o Allows withholding to remain constant on average at the beginning of 1976.

Cons:

- o Implies larger deficits in 1976 and 1977 than a simple extension.

- o Congress may provide even larger cuts to show that they are more generous than the Administration.

Option C: Propose reductions in individual tax liabilities of $12 billion but redistribute the benefits over a wider range of income classes than is implicit in a simple extension of the 1975 reductions.

Pros:

- o Provides somewhat more benefit to the middle income taxpayers who bear the bulk of the tax burden.

Cons:

- o Only very small benefits are feasible for middle and upper income taxpayers if the tax cut extension is limited to $12 billion and if tax rate increases are avoided for lower income taxpayers.

Decision

Option A ____________ Extend only those items that affect the withholding schedules--the low income allowance, the standard deduction and the $30 exemption credit. This would reduce tax liabilities by about $8 billion.

Option B ____________ Increase those items that affect the withholding schedules to match the current withholding rates. This would reduce tax liabilities by about $12 billion.

Supported by: Labor, Commerce

Option C ____________ Propose reductions in individual tax liabilities of $12 billion but redistribute the benefits over a wider range of income classes than is implicit in a simple extension of the 1975 reductions.

Supported by: CEA

Issue #3 - Tax Reductions for Corporations

The increase in the Investment Tax Credit does not expire until the end of 1976. The increase in the ITC provides for a reduction in tax liabilities for corporations of approximately $3.3 billion.

Option A: Propose extending the changes in corporate surtax and rates which will expire at the end of 1975. This would reduce tax liabilities by approximately $1.5 billion.

This option is supported by the Labor-Management Committee.

Pros:

- Is consistent with the Administration's goals of lowering the tax burden on capital.
- Particularly lowers the relative tax burden for small business.

Cons:

- Moderately increases the deficit.

Option B: Propose an indefinite extension of the increase in the Investment Tax Credit which is scheduled to lapse at the end of 1976.

This option is supported by the Labor-Management Committee.

Pros:

- Reduces uncertainty for businesses which must plan investment far in advance.
- Is a tax benefit proposal which does not increase the FY 1976 budget deficit.

Cons:

- We do not have to make a decision now and a delay would allow the issue to be considered with our corporate tax reform proposals.
- Postponing proposing a further extension allows time to determine whether economic conditions in 1977 are likely to warrant an extension.

Option C: Propose extending the changes in corporate surtax and rates which would cost about $1.5 billion. (Identical to option A). Propose a $2.5 billion one year reduction in corporate rates with the $2.5 billion earmarked for commencement of corporate integration in 1977 or broadening stock ownership.

Pros:

- May enhance the political chances of corporate tax reform.
- "Tilts" tax cut more in favor of capital formation.

Cons:

- Further increases the deficit.
- May encourage movement in Congress for larger reductions for individuals.

Option D: Do not propose any additional tax reductions for corporations.

Pros:

- Avoids additional increase in budget deficits.

Cons:

- Imposes a significant relative tax increase on small corporations.
- Is inconsistent with our efforts to stimulate capital formation.

Decision

Option A __________ Propose extending the changes in corporate surtax and rates which will expire at the end of 1975. This would reduce tax liabilities by approximately $1.5 billion.

Supported by: CEA, Labor

Option B __________ Propose an indefinite extension of the increase in the Investment Tax Credit which is scheduled to lapse at the end of 1976.

Supported by: CEA, Labor

Option C ____________ Propose extending the changes in corporate surtax and rates which would cost about $1.5 billion. (Identical to option A.) Propose a $2.5 billion one year reduction in corporate rates with the $2.5 billion earmarked for commencement of corporate integration in 1977 or broadening stock ownership.

Supported by: Commerce

Option D ____________ Do not propose any additional tax reductions for corporations.

September 17, 1975

The President's Labor Management Committee

Without further action by the Congress, withholding tax rates will increase on January 1, 1976. Action should now be taken to maintain the present withholding tax rates and investment tax credit without limit of time.

These recommendations reflect the views of the committee in its statement of December 30, 1974 to spur recovery.

The committee also reiterates its view that this tax action be enacted "independently of tax reform which should be studied and implemented at a later date."

In order to do this, in view of the tax action of the Congress earlier this year, the following should now be enacted with regard to personal taxes:

1. Continue the increased low income allowance
2. Continue the increased percentage standard deduction
3. Continue the current refundable tax credit
4. Increase the tax credit per exemption from the current $30 to a new level of $45

The committee is of the view there should be no tax rebates as in 1975.

The surtax exemption, which primarily benefits small business should also be continued.

C

AMOUNT OF AGGREGATE TAX REDUCTION BY INCOME CLASS

Income (AGI) Class ($000)	1974 Law Tax Liabilities	Option A 1975 Act $8 Billion	Option B Magnified 1975 Act $12 Billion	Option C:1 Reduces marginal rates to 53% bracket	Option C:2 Reduces marginal rates to 36% bracket	Option C:3 Widens all tax brackets by 30%
To 0	283	--	--	--	--	--
0 - 5	1779	-800	-1086	-690	-691	-540
5 - 10	4092	-2252	-3389	-2415	-2540	-1582
10 - 15	9251	-1879	-2899	-2415	-2893	-1461
15 - 20	21239	-1606	-2334	-2527	-2886	-1868
20 - 30	20910	-1064	-1646	-2462	-2492	-2366
30 - 50	38417	-303	-466	-1301	-959	-1929
50 - 100	11875	-83	-127	-883	-291	-1452
100 +	10952	-16	-24	-237	-64	-581
TOTAL	116799	-8003	-11970	-12929	-12817	-11779

Office of the Secretary of the Treasury
Office of Tax Analysis

September 29, 1975

D

September 29, 1975

DISC REPEAL

The Ways and Means Committee is scheduled to vote in the next two days on the repeal or substantial limitation of the DISC export tax deferral incentive.

I. Prior Action.

The 1975 Tax Reduction Act significantly limited DISC exports by eliminating as qualified exports all unprocessed mineral exports and timber and all products subject to government export controls because they are in short supply.

II. Policy.

It is Treasury policy to resist further inroads on DISC for short-term revenue gains at the expense of export promotion, particularly where there would be a failure to shift the revenue gains to U.S. industry and capital requirements.

III. Reasons for Retaining DISC:

A. DISC remains a continued inducement for exports. While the U.S. export picture has improved, there is no evidence that we can be assured of a continuing favorable export position.

B. The fact that apparent revenue losses appear large is primarily due to the vast increase in exports since enactment; as DISC increases exports, it creates feedback for additional U.S. revenues and jobs.

C. Other developed countries with more favorable tax benefits for exports (*e.g.*, tax haven selling subsidiaries) create competitive disadvantages. This is related to alignment of U.S. direct taxes with foreign border tax rebates, a subject for future multilateral GATT discussions. We have the possibility of negotiating uniform rules on

taxation of exports, including the possible opportunity to gain revenues through our own border tax adjustments for direct taxes.

D. Repeal (which is equivalent to a 3.25 percent increase in the corporate tax rate) will have a substantial dislocation effect on companies that have relied since 1971 on DISC export structures. In particular, DISC is a major financing vehicle for exports and this source of capital will be eliminated.

IV. Fall Back Options:

(a) Phase-In of Income

DISC would not be eliminated, but previously deferred revenues would begin to be taken into income after five years in the amount of 1/10th for each ten succeeding years. This provides an incentive to continue exporting, a limited deferral period, and continued benefits to companies that are expanding exports. It does not raise significant revenue in the early years (raising $35 million in 1977 and $335 million by 1980.) (Helstoski proposal).

(b) Limiting Qualified Products

The Ways and Means Committee in 1974 voted to eliminate DISC for unprocessed agricultural products. This would raise approximately $25 - $50 million in revenue in 1976. This position could cost some DISC support.

(c) Incremental Sales

If a reasonable base period for exports were adopted (*e.g.*, 1972), and DISC applied hereafter only to incremental exports, a number of companies would apparently live with an incremental rule. This would mean highly undesirable administrative complexity to deal with identifying base period exports in consolidated groups, the effect of mergers, etc., and would tend to take business away from independent exporters as manufacturers exported directly. A 1972 base period would raise about $640 million annually.

E

THE WHITE HOUSE

WASHINGTON

September 29, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: Grain Export Policy During Negotiations with the Soviet Union on a Long-Term Agreement

The Economic Policy Board/NSC Food Committee has reviewed the issue of additional grain sales to Poland. Secretary Butz has strongly urged in a memorandum attached at Tab A that the suspension of sales to Poland be lifted and that you announce this in Omaha this Wednesday.

This memorandum briefly reviews the effects of the hold on Soviet and Polish purchases and the options available with respect to extending or dropping the hold on sales to Poland.

Effects of the Suspension of Sales to the Soviet Union

When large Soviet grain purchases first occurred in early July, grain prices rose immediately and dramatically. Between July 7 and August 7 the price of December wheat in Chicago rose 28 percent and the price of December corn rose 26 percent. These price increases, if continued, would have had potentially strong adverse effects on consumer prices next year. The price increases were especially serious in view of their possible consequences for livestock production in 1976.

The August 11 suspension on sales to the Soviet Union was effective in dampening the run-up of grain and soybean prices. It is questionable whether the hold on the Soviet Union can stabalize grain prices much longer. The Soviets already have cut off most of their grain exports to Eastern Europe. This has shifted East European import demands to other countries, predominantly the United States. Between July and September, the USDA increased its estimate of East European grain imports from Western sources by 3.1 million metric tons, 3.0 of which was projected from the United States. For the embargo on grain exports to be effective in preventing grain price increases in future months it will have to be extended to other countries besides the USSR.

The halt to further grain sales to Poland in response to their request for 0.8 million metric tons helped to keep the Russian sales ban effective. It was also useful in preserving bargaining leverage for the US-USSR grain discussions. However, it has not been accepted well by the grain farmers. They had been ready to accept limitations on sales to the Soviets with the understanding that we would supply the market demands of all other customers. This understanding has been thrown into question by the extension of the moratorium to include additional sales to Poland.

The CIA now estimates total Soviet grain purchases at 20 million metric tons, with an increase of three million tons last week. The additional purchases were all quite small, mainly of coarse grains, from Argentina, Brazil, Canada, Spain, and the EC. These sales are probably all that the Soviets can obtain at this time.

The next possible stage of development is further Soviet purchases elsewhere that divert other suppliers' customers to the United States. The Soviets could soon begin to "crowd out" other buyers in Argentina or elsewhere so that these other buyers have to come to the United States for normal supplies. CIA indicates that these countries are not diverting grain from their regular customers to the Soviets. Nor are sales by international grain firms with unspecified source showing any increase over their normal percentage of about ten percent. Nonetheless, it would be only a matter of time before the Soviet demands are shifted indirectly to the U.S. export market. This seems unavoidable as long as we maintain a policy of open markets to any sizeable group of countries.

Decision

That grain sales to Poland be resumed and that the resumption be announced in Omaha on Wednesday as proposed in Secretary Butz's memorandum. (Tab A)

Approve __________ Disapprove ____________

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

September 29, 1975

Mr. Roger Porter
The White House
Washington, D. C. 20500

Dear Mr. Porter:

Poland has been a long time consistent buyer of U. S. Agriculture commodities. We have known in advance their approximate needs before harvest time and in the marketing year 1974-75 they purchased from the U. S. 868,000 metric tons of grain. A portion of their purchases has been traditionally made with CCC credit. We have excellent commercial relations with the Poles and have a good exchange of information program working.

At the first meeting of the U. S.-Poland joint working group, April 28, 1975, we were informed by the Poles that they expected to buy from the U. S. 950,000 to 1,400,000 metric tons of grain in the years 1975-76, 1976-77 and 1977-78 respectively. Because of the drought conditions in Poland this summer the Poles have let us know that they need to import from us additional grain this year. Ambassador Trampczynski indicated to Assistant Secretary Bell a need for an additional 800,000 to 1,000,000 metric tons. Minister of Agriculture Barcikowski has met with me and indicated the Poles are very much interested in a long term purchase agreement of 2,500,000 metric tons. We have told them of our interest in them as a long time valued customer and that we plan to supply their import needs. To date the Poles have purchased 898,000 metric tons of wheat and 1,088,000 metric tons of other grains for a total of 1,981,000 metric tons. The question of a hold on additional sales to Poland was discussed on September 8, 1975. Sometime shortly thereafter there was a call made to the Polish Embassy requesting them not to buy in our grain market until mid October. The news of this embargo hit the press on September 22, 1975. Farmers are very interested to know when this embargo was placed on Poland. The question on this will certainly be raised in Omaha on October 1.

It is possible that you will be asked if the telephone call from State to the Polish Embassy occurred prior to your meeting with the Farm Bureau leadership on September 15, and if it did, why no mention of this was made during the conference. In this event we

think you should indicate that sales to Poland prior to September 8 were in excess of normal annual sales to Poland and that additional anticipated sales to Poland would be roughly equivalent to the shortfall of Soviet sales to Poland. Therefore, this temporary suspension was put in place during the time of discussion with the Soviets relative to a long term grain agreement. Not to have done so would have partially eroded our bargaining position in negotiations with the Soviets.

RECOMMENDATION: It is my feeling that the negatives on the suspension of sales to Poland substantially outweigh the positives. It can be argued to the extent that had we continued our normal sales to Poland, the remaining supply from which Russia could make purchases would be lessened and therefore, pressure on the Soviets would have been greater. It is obvious that the Soviets would not make up the deficit of shipments to Poland regardless of our sales or lack of sales to Poland.

The temporary suspension of sales to Poland serve to further erode our credibility in the grain belt after you had pretty much neutralized that through your conference with the Farm Bureau personnel on September 15. I think our action was rather a severe jolt to the Poles, especially in view of your amity reached with First Secretary Gierck. Indeed, when Polish Minister of Agriculture Barcikowski and Ambassador Trampczynski were in my office on September 22, the Minister of Agriculture mentioned this very point. We assured them that the suspension would be lifted shortly and they would be able to receive 800 to 1,000,000 tons of grain. At that point, they mentioned since the Soviets would also be buying in our market they would have to pay higher prices than if the transaction had not been delayed. I doubt that this is substantially true, but no one will ever convince the Poles. They will always feel this cost them an additional $30 million.

I think it would be well to quietly phone the Polish Ambassador prior to the Omaha conference and tell him that our supply situation is now such that the temporary suspension is ended and that they can continue active negotiations to purchase their requirements. It might be desirable to request them to purchase only a part of it -- perhaps one-half in the next month or so. It would be welcome news in the grain belt if you could make such an announcement Wednesday afternoon in Omaha in response to the inevitable question that will arise.

Sincerely,

EARL L. BUTZ