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THE WHITE HOUSE

WASHINGTON

March 11, 1976

MEMORANDUM FOR:

Max Friedersdorf
Jack Marsh
Rogers Morton
Brent Scowcroft

FROM:

Jim Connor *JEC*

SUBJECT:

Trade Issue: EC Mixing
Regulation

The attached memorandum has been forwarded to the President.
The attached copy is for your information.

Attachment:

Ambassador Dent's memorandum of 3/9/76
re Trade Issue: EC Mixing Regulation

THE WHITE HOUSE

WASHINGTON

March 10, 1976

MEMORANDUM FOR JAMES CONNOR

FROM: WILLIAM GOROG *WJG*

Ambassador Dent has requested that his attached memorandum on "Non-Fat Dry Milk Mixing Regulation" be sent to the President. I suggest that this memorandum be reviewed by Messrs. Marsh, Morton, and Friedersdorf before submission to the President. If I can be of further assistance, please let me know.

Attachment

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THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

9 MAR 1976

MEMORANDUM FOR THE PRESIDENT

FROM: Ambassador Frederick B. Dent 

SUBJECT: Trade Issue: EC Mixing Regulation

On April 1, the European Community (EC) will implement a mixing regulation to require the compulsory use of 400,000 metric tons of Non Fat Dry Milk (NFDM) in animal feed. This use of NFDM will displace an equivalent quantity of protein meals in feed rations and have a significant impact on U.S. exports of soybeans, soybean meal and cake to the EC. Preliminary estimates are that NFDM could displace up to 480,000 metric tons (17.6 million bushels) in exports of U.S. soybeans to the EC. At current prices this would be about \$90 million.

The mixing scheme was adopted by the EC despite strong U.S. opposition. It is designed to reduce EC stocks of NFDM now estimated at a record 1.4 million metric tons. This quantity is equal to total NFDM consumption in the EC in 1975.

EC officials have indicated that the scheme is temporary and will not be extended beyond next year. At the same time, however, they admit that the measures at best will maintain NFDM stocks at the current level. No measures have been proposed to get at the fundamental problems of surplus dairy production in Europe. Paradoxically the EC Council of Ministers also agreed this past week to increase support prices for milk by 7.5% in the next six months.

In an effort to moderate U.S. opposition to the NFDM mixing scheme the EC has also implemented a temporary subsidy to provide storage incentives for 250,000 tons of protein. While this may have some dampening effect on the adverse impact of the mixing regulation on our soybean sales this year, it is by no means clear at this time how much of the total 250,000 metric tons will be constituted with soybeans. In addition it does not appear that the Community intends to hold this increased stock for more than one year, which means that the sale of the stock a year from now would have an adverse impact on our soybean marketings at that time.

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In strong representations both in Brussels and Member State capitals, we have pointed out that the mixing scheme is inconsistent with the General Agreement on Tariffs and Trade (GATT), discriminates against U.S. soybean imports and impairs U.S. duty free access for soybeans, cake and meal which is bound in GATT. U.S. exports of the products covered by GATT bindings are \$2 billion annually.

Initial soybean industry and grower reaction to the EC action has been extremely negative. This could become an important issue in the soybean producing areas of the mid-west and south. It is also likely that the industry will ask for retaliatory U.S. action under Section 301 of the Trade Act of 1974.

We are requesting our Ambassador at the U.S. Mission to the EC in Brussels to lodge an immediate protest at the highest levels of the EC Commission and to notify the Commission of our intention to pursue this matter vigorously in the GATT.

Talking Points

1) The EC's mixing scheme for NFDM is inconsistent with GATT and impairs U.S. duty-free bindings on soybeans, cake and meal. U.S. trade in these products with the Community is \$2 billion annually.

2) In representations both in Brussels and Member State capitals, we have warned the Community that if the mixing scheme were implemented we would seek redress in the GATT. We intend to do this at the earliest opportunity.

3) The EC has not taken definitive action to prevent the further accumulation of non-fat dry milk surpluses. On the contrary EC officials have agreed to a 7.5% increase in the milk support price for 1976 which could lead to a substantial worsening of the problem a year from now. Instead of biting the bullet and solving their dairy problem the EC is exporting that problem to the United States.