The original documents are located in Box C52, folder "Presidential Handwriting, 11/18/1976" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

November 18, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: BILL SEIDMAN

FROM: JIM CONNOR JEC

SUBJECT: Poultry/Cognac Problems

Confirming phone call to your office last evening, the President reviewed your memorandum of November 13 on the above subject and approved the following option:

Option 2 - Roll back the price-break on bottled brandy from $17 to $13 and on bulk brandy from $17 to $9 per gallon increasing the duties on these products to $3 per gallon

In addition, the President made the following notation:

"Because I selected Option 2 the Proclamation must be amended before I sign."

The original of the proclamation is returned to you herewith for review by STR for necessary changes to implement the above decision.

cc: Dick Cheney
Robert Linder

THE WHITE HOUSE
WASHINGTON

Bill Seidman

Because 2 selected Option 2 the Proclamation must be amended before 2 sign.

Informed Roger. Porter 6:55 PM
1/17/76

THE WHITE HOUSE

WASHINGTON

November 13, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Poultry/Cognac Problems

In July 1974, the United States unilaterally decreased the tariff on certain brandy imports into the United States. The Presidential Proclamation implementing this decision stated that this action was to "encourage the resolution of outstanding trade disputes between the United States and the EEC, including the removal of unreasonable import restrictions on poultry." (Tab A) This action primarily benefits the French. At that time we made clear that our commitment to maintain the reduced tariff was for two years and its continuation would depend on the resolution of outstanding trade problems, particularly those affecting U.S. poultry exports.

Although no specific commitments were made to the poultry industry in 1974, they clearly viewed the action on cognac as linked to achieving improved access for U.S. poultry in the EC market. However, despite extensive U.S. efforts to obtain improved access for U.S. poultry, including meetings with top level EC and French officials, at the end of the two year U.S. commitment period, restrictions on U.S. poultry exports to the EC (particularly turkeys and turkey parts) were substantially more of a burden to U.S. trade than those in effect prior to the tariff reduction. As a result, the domestic poultry industry has strongly urged increasing the duty on cognac to its previous level.

This memorandum seeks your decision regarding the tariff on cognac.

1974 Tariff Reduction

The 1974 tariff reduction increased the "price break" at which higher rates of duty ($5 per gallon) applied. Prior to the action, brandy at $9 per gallon or less qualified for the lower duty rates. Since 1974, brandy valued at $17 per gallon or less qualifies for the lower rates of duty ($1.00 or $1.25 per gallon).

The issue requiring your decision is whether to roll back the price break from the current $17 level to the previous $9 level thereby increasing the duty on brandy in this price range.

Efforts to Reach an Agreement

While the two year U.S. commitment to maintain the reduced rate expired on June 30, 1976, a decision has been held in abeyance to permit intensified efforts with EC and French Government officials to seek a resolution of this problem.

A memorandum from Ambassador Dent on this issue, which is attached at Tab B, contains a full account of his efforts to resolve the problem. Briefly, following public hearings in September where poultry industry representatives urged decisive action, EC and French officials were informed that a roll back in the price break was inevitable unless the EC acted in accordance with our requests by October 8. A minimum U.S. request was developed by an interagency task force and presented by Ambassador Dent to the Head of the EC Delegation and the Ambassadors of France and the Netherlands the week of October 4. The initial European response fell far short of our request but a decision was deferred at the request of the EC Delegation Head to permit "political level" consideration during the US/EC bilateral consultations.

On October 21, Ambassador Dent discussed this question with EC Commissioner Gundelach informing him that without a substantial improvement in the EC offer that the United States would have no alternative but to proceed to a roll back decision. Subsequently, in what they termed a final offer, the EC has indicated that they were prepared to make modest improvements in their former offer, but the revised offer still falls far short of the U.S. request and would not result in improved market access for U.S. poultry in the EC market.

Options

This issue has been reviewed by the interagency Trade Policy Committee. Ambassador Dent's memorandum has also been staffed to the appropriate White House offices not represented on the Trade Policy Committee. Three options are outlined for your consideration.

Option 1: Roll back the price-break on bottled brandy from $17 to $13 and on bulk brandy from $17 to $9 per gallon restoring duties on these products to the previous level of $5 per gallon.

This action would impact mainly on French cognac which now enters at prices above $13 per gallon. If approved, this action will take effect on December 10, permitting entry of goods in transit and not affecting brandy already entered in bond or in foreign trade zones.

Advantages:

- o A roll back would maintain U.S. credibility since we have repeatedly told the EC that we would be forced to roll back the price break for cognac unless meaningful concessions for poultry were obtained.

- o The domestic poultry industry strongly supports a roll back.

- o A roll back would maintain pressure on the EC for early resolution of the poultry problem in the MTN.

Disadvantages:

- o A roll back could adversely affect U.S. relations with the EC and France.

- o A roll back could lead to retaliation by the EC through increased poultry restrictions reducing U.S. access to the EC poultry market.

- o A roll back would penalize U.S. importers and consumers of French cognac.

- o A roll back could harm the negotiating climate for the liberalization of agricultural trade in the MTNs.

Option 2: Roll back the price-break on bottled brandy from $17 to $13 and on bulk brandy from $17 to $9 per gallon increasing the duties on these products to $3 per gallon.

This option is similar to Option 1 in rolling back the price break, but raises the duty to $3 rather than $5 per gallon.

Advantages:

- o The smaller increase in the duty maintains our credibility while moderating the French reaction.

- o A smaller increase in the duty would still maintain pressure on the EC for early resolution of the poultry problem in the MTNs.

Disadvantages:

- A roll back could adversely affect relations with the EC and France.
- The EC may retaliate through increased poultry restrictions.
- U.S. importers and consumers of French cognac would be penalized.

Option 3: Announce that we do not believe the EC offer is satisfactory, but accept it reluctantly, and with certain conditions (that EC restraint will be continued and that reasonable amounts of U.S. turkey exports to the EC will take place). Also announce that the U.S. regards the EC offer as an interim measure only and intends to pursue concessions in other commodities and to pursue the poultry issue forcefully in the MTNs.

This option was recommended by the NSC in response to Ambassador Dent's memorandum in a memorandum attached at Tab C.

Advantages:

- U.S. relations with the EC and France would not be adversely affected.
- Acceptance of the EC offer would not penalize U.S. importers and consumers of French cognac.
- Acceptance of the EC offer would maintain the current EC market for U.S. poultry of about $30 million annually.

Disadvantages:

- Failure to roll back the price break after repeated assurances that we would calls into question U.S. credibility.
- Failure to roll back the price break would be strongly opposed by the U.S. poultry industry which has indicated its willingness to accept the risk of retaliation by the EC in order to further its long term objectives in the EC market.

Decision

Option 1 ________ Roll back the price-break on bottled brandy from $17 to $13 and on bulk brandy from $17 to $9 per gallon restoring duties on these products to the previous level of $5 per gallon.

Supported by: STR, Agriculture, Commerce, Labor, Marsh, Friedersdorf (defers to Marsh), Cannon, Buchen[2]

Option 2 DR7 Roll back the price-break on bottled brandy from $17 to $13 and on bulk brandy from $17 to $9 per gallon increasing the duties on these products to $3 per gallon.

Supported by: Treasury

Option 3 ________ Announce that we do not believe the EC offer is satisfactory, but accept it reluctantly, and with certain conditions (that EC restraint will be continued and that reasonable amounts of U.S. turkey exports to the EC will take place). Also announce that the U.S. regards the EC offer as an interim measure only and intends to pursue concessions in other commodities and to pursue the poultry issue forcefully in the MTNs.

Supported by: NSC, CEA, State[1]

1 A memorandum from Secretary Kissinger, opposing Options 1 or 2 and recommending further discussions with the Europeans to explore concessions on other commodities, is attached at Tab D.

2 Philip Buchen has no objection to Ambassador Dent's recommendation.

Implementation

If you approve Option 1 a proclamation implementing your decision is attached at Tab E.

This proclamation has been approved as to form and legality by the Department of Justice.