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*Vetoed  
9/30/75  
Delivered to House of  
Representatives - 10/1/75 (3:45pm)*

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

SEP 25 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 9497 - Increase tobacco price support  
Sponsors - Rep. Jones (D) North Carolina, Rep. Wampler (R) Virginia and Rep. Rose (D) North Carolina

Last Day for Action

October 1, 1975 - Wednesday

Purpose

Amends the formula used for calculating the level of price support for tobacco in a manner that could increase Federal outlays an estimated total of \$240 million over the next 5 years.

Agency Recommendations

Office of Management and Budget	Disapproval (Veto Message attached)
Department of Agriculture	Disapproval (Veto Message attached)
Council of Economic Advisers	Disapproval

Discussion

Under existing law, the Secretary of Agriculture proclaims marketing quotas on an acreage or poundage basis for each tobacco crop in order to balance supply and demand. If two-thirds of the tobacco growers endorse the Secretary's quota in a referendum prior to the normal planting time, then that specific type of tobacco qualifies for Federal price support. The level of price support is calculated by multiplying the appropriate 1959 tobacco crop support level by the ratio of (a) the average index of prices paid by farmers





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

SEP 18 3 51 PM '75  
OFFICE OF  
MANAGEMENT & BUDGET

September 18, 1975

Honorable James T. Lynn  
Director, Office of  
Management and Budget:

Dear Mr. Lynn:

In response to the request of your office, the following report is submitted on the enrolled enactment H.R. 9497, "To amend the computation of the level of price support for tobacco." The bill provides for the use of the preceding three marketing years instead of the preceding three calendar years in computing the level of price support for tobacco.

This Department recommends that the President disapprove the bill.

Over 50 percent of the entire 1975 flue-cured tobacco has already been marketed. Therefore, many growers who have already sold their crop will not get the benefit of this price increase.

Present legislation provides that the level of price support for any crop of tobacco (for which producers have not disapproved marketing quotas) shall be the 1959 crop support level multiplied by the ratio of (1) the average of the index of prices paid by farmers for the preceding three calendar years and (2) the average index of prices paid by farmers in 1959. The bill provides for the use of the three preceding marketing years instead of calendar years. The marketing year for flue-cured tobacco is July 1-June 30, and for other kinds of tobacco October 1-September 30. By changing from calendar years to marketing years, the bill increases the level of support for the 1975 crop of flue-cured tobacco by seven percent and ten percent for other kinds of tobacco.

The United States leads the world in tobacco exports, and ranks third in tobacco imports under the present program. During fiscal year 1975, our tobacco exports were valued at \$1.2 billion and our imports at \$.2 billion.

The approval of H.R. 9497 would stimulate the production of tobacco in foreign countries, would reduce our tobacco exports, and increase our tobacco imports. Under the marketing quota program which is in effect for most U.S. tobacco, reduced exports and increased imports would necessitate reductions in marketing quotas in subsequent years.



Honorable James T. Lynn

2

It is estimated that the increase in the level of price support provided in H.R. 9497 would increase program outlays an average of about \$48 million annually during the 1976 and four subsequent fiscal years.

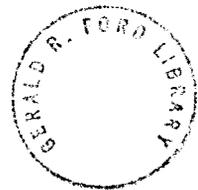
A veto message is enclosed.

Sincerely,



Secretary

Enclosure



To the House of Representatives:

I return herewith without my approval H.R. 9497, a bill "To amend the computation of the level of price support for tobacco." This bill, if signed, would:

1. Increase government outlays;
2. Treat some tobacco producers unfairly as they have already sold their 1975 crop;
3. Reduce our cash dollar exports;
4. Increase our net imports, thus harm our balance of payments;
5. Cause the government to accumulate a surplus; and
6. Reduce grower income because individual acreages would be cut in following years.

The level of price support for the 1975 crop of tobacco under present legislation is already 12 percent higher than the 1974 crop support. H.R. 9497 would, if approved, increase the 1975 crop support for flue-cured tobacco an additional seven percent, and an additional ten percent for other kinds of tobacco--making a total increase of 19 percent over the 1974 crop. The bill would increase the 1976 crop supports an additional five percent in the case of flue-cured tobacco, and seven percent for other kinds of tobacco. Such increases would not only increase government loan stocks but would stimulate the production of tobacco in foreign countries,

While the United States leads the world in tobacco exports and ranks second in production, our share of the world market has declined in recent years. During the five years 1960-64, world production of flue-cured tobacco averaged 3.3 billion pounds annually, of which 40 percent was produced in the U.S. This has dropped to only 26 percent of the world's production in 1974. During 1960-64, 80 percent of the world's production of burley tobacco was produced in the United States, while reports indicate now that only about 53 percent of the world's production of burley tobacco in 1974 was produced in the U.S. In summary, the U.S. share of the world export market which stood at 35 percent during the 1965-69 period has plummeted to 24 percent in 1974.

During the 1975 fiscal year, U.S. exports of unmanufactured tobacco and manufactured tobacco products were valued at \$1,231 million and our tobacco imports for consumption (duty paid) were valued at \$209 million. The Census Bureau reports "general imports" of foreign grown flue-cured and burley tobacco into the U.S. during the 1975 fiscal year of 82 million pounds, declared weight, an increase of 85 percent over the previous year. "Imports for consumption:, duty paid, were reported as 42 million



pounds during fiscal year 1975, an increase of 239 percent over the previous year. Reports submitted by manufacturers and dealers pursuant to the Tobacco Stocks and Standards Act show that they had in their inventories in the U.S. on July 1, 1975, 215 million pounds, farm-weight basis, of foreign grown flue-cured and burley tobacco. THIS WAS AN INCREASE OF 89 PERCENT OVER THE INVENTORIES REPORTED A YEAR EARLIER!

Marketing quotas are in effect for most kinds of tobacco. Quotas are designed to maintain supplies in balance with demand. Under the quota legislation, any reduction in our tobacco exports or increase in our tobacco imports would necessitate reductions in farm marketing quotas. Despite increases in prices, REDUCTIONS IN QUOTAS WOULD RESULT IN REDUCED FARM INCOME. Reductions in tobacco exports or increases in imports would adversely affect tobacco's contribution to our balance-of-payment position.

This bill would raise the support level for tobacco and thus would increase government outlays by \$71 million for the remainder of the 1975 crop. Over a five-year period, nearly a quarter billion additional tax dollars would be spent on tobacco programs because of this bill.

The worst kind of inequity or discrimination would be committed if this bill were to become law in that nearly 50 percent of all the flue-cured tobacco has already been marketed. Therefore, many growers who have already sold their crop could not get the benefit of this price increase.



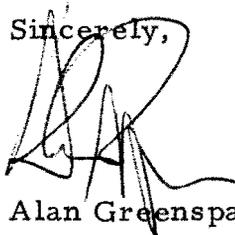
THE CHAIRMAN OF THE  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

September 18, 1975

Dear Mr. Frey:

This is in response to your request for our views on Enrolled Bill H. R. 9497, an amendment to the Agricultural Act of 1949. We recommend that the President veto this legislation. The bill would have the effect of increasing the price support level for tobacco, requiring either that the government buy more of the crop to clear the market at the higher support price or that tobacco quotas be reduced to restrict supply at the higher price. In either case, enactment of the bill would move us away from this Administration's goal of a more market-oriented agricultural sector of the economy.

Sincerely,



Alan Greenspan

Mr. James Frey  
Assistant Director for Legislative Reference  
Office of Management and Budget  
Washington, D. C. 20503



## THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 372

Date: September 25

Time: 130pm

FOR ACTION: Paul Leach  
 Bill Seidman *sign*  
 Max Friedersdorf *sign*  
 Ken Lazarus *veto*  
 Paul Theis

cc (for information): Jim Cavanaugh  
 Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: September 26

Time: 500pm

SUBJECT:

H.R. 9497 - Increase tobacco price support

## ACTION REQUESTED:

 For Necessary Action For Your Recommendations Prepare Agenda and Brief Draft Reply For Your Comments Draft Remarks

## REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

\_\_\_\_\_  
 K. R. COLE, JR.  
 For the President

BOB HARTMAN

Only a veto is consistent with our other farm production in free market philosophy, it also seems silly for the U.S. Government to subsidy cancer.



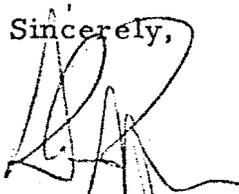
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Sincerely,



Alan Greenspan

Mr. James Frey  
Assistant Director for Legislative Reference  
Office of Management and Budget  
Washington, D. C. 20503



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OFFICE OF THE SECRETARY  
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September 18, 1975

Honorable James T. Lynn  
Director, Office of  
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This Department recommends that the President disapprove the bill.

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Present legislation provides that the level of price support for any crop of tobacco (for which producers have not disapproved marketing quotas) shall be the 1959 crop support level multiplied by the ratio of (1) the average of the index of prices paid by farmers for the preceding three calendar years and (2) the average index of prices paid by farmers in 1959. The bill provides for the use of the three preceding marketing years instead of calendar years. The marketing year for flue-cured tobacco is July 1-June 30, and for other kinds of tobacco October 1-September 30. By changing from calendar years to marketing years, the bill increases the level of support for the 1975 crop of flue-cured tobacco by seven percent and ten percent for other kinds of tobacco.

The United States leads the world in tobacco exports, and ranks third in tobacco imports under the present program. During fiscal year 1975, our tobacco exports were valued at \$1.2 billion and our imports at \$.2 billion.

The approval of H.R. 9497 would stimulate the production of tobacco in foreign countries, would reduce our tobacco exports, and increase our tobacco imports. Under the marketing quota program which is in effect for most U.S. tobacco, reduced exports and increased imports would necessitate reductions in marketing quotas in subsequent years.

THE WHITE HOUSE

WASHINGTON

September 26, 1975

MEMORANDUM FOR: JIM CAVANAUGH  
FROM: MAX L. FRIEDERSDORF *M.L.F.*  
SUBJECT: H.R. 9497 - Increase tobacco price support

The Office of Legislative Affairs concurs with the agencies that the bill be signed. Department of Agriculture figures indicate a cost of \$55 million over 5 years, NOT \$240 million.

Attachments



THE WHITE HOUSE  
WASHINGTON

September 27, 1975

MEMORANDUM FOR: JIM CANNON  
FROM: MAX FRIEDERSDORF *mf*  
SUBJECT: Tobacco Bill

Jim, as an addendum to my recommendation that the President sign the tobacco bill, I would further recommend that if signed, the President announce the new support prices would be effective for the 1976 crops only. The reason for this is that the 1975 crops are mostly in by now, and the growers already paid.



Date: September 25

Time: 130pm

FOR ACTION: Paul Leach  
Bill Seidman  
Max Friedersdorf  
Ken Lazarus  
Paul Theis

cc (for information): Jim Cavanaugh  
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: September 26

Time: 100

SUBJECT:

H.R. 9497 - Increase tobacco price support

ACTION REQUESTED:

For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

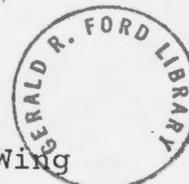
Draft Reply

For Your Comments

Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing



*This is a fair way  
to index price supports, if  
we are against price supports  
we should move to repeal them,  
not make the present system  
unfair.*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

*Sign Approval  
JWS*

Date: September 25

Time: 130pm

FOR ACTION: Paul Leach  
Bill Seidman  
Max Friedersdorf  
Ken Lazarus  
Paul Theis

cc (for information): Jim Cavanaugh  
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: September 26

Time: 400pm

SUBJECT:

H.R. 9497 - Increase tobacco price support

## ACTION REQUESTED:

 For Necessary Action For Your Recommendations Prepare Agenda and Brief Draft Reply For Your Comments Draft Remarks

## REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

Recommend veto. Ken Lazarus 9/25/75



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

7/10  
central files

~~W. B. W.~~

NOT Sent

THE WHITE HOUSE

DECISION

WASHINGTON

September 30, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON *Jimi*  
SUBJECT: Enrolled Bill H.R. 9497: Tobacco  
Price Support Change

The purpose of this memorandum is to obtain your decision on whether to sign or veto this bill.

A decision must be made by Wednesday, October 1.

THE BILL

This bill makes a technical change in the method of computing the level of price support for tobacco and results in additional increases in the support levels. The bill, if approved, will increase the 1975 crop supports 7 to 10 percent for the various types of tobacco. In 1976 crop supports would be raised 5 to 7 percent. The bill is more fully discussed in the Enrolled Bill Memorandum at Tab A.

This bill was passed--after very little debate--by voice votes in both the House and Senate. The legislation is strongly supported by Representatives and Senators from the major tobacco-growing states; i.e., Virginia, Georgia, North and South Carolina, Tennessee, and Kentucky.

USDA's revised estimates show that the increase in support price levels resulting from this legislation would raise program outlays about \$157 million for the remainder of fiscal 1976 and the transition quarter. In subsequent years, if tobacco production is cut back substantially, much of this outlay would be recouped. On the other hand, if production is not cut back substantially, additional outlays for the tobacco support program could be anticipated. A memorandum from Jim Lynn discussing the revised estimates is at Tab B.



## DISCUSSION

Present legislation provides substantial price support for tobacco: Under the support price computation formula already in effect, the level of price support for the 1975 crop is 12 percent higher than in 1974 and support levels in the next few years will continue to rise substantially. However, tobacco producers and their Congressional representatives argue that this current support system is not able to offset sharply rising farm production costs.

The U.S. leads the world in tobacco exports. During fiscal year 1975, our net tobacco exports (i.e., exports less imports) were valued at \$1 billion. However, the present system of price support has already resulted in a decline in the U.S. share of the world export market from 35 percent in the 1965-1969 period to 24 percent in 1974. USDA argues that approval of H.R. 9497 would stimulate the production of tobacco in foreign countries, reduce our tobacco exports and increase our tobacco imports. Congressman Perkins argues that there will be no adverse effect on tobacco exports.

To maintain market prices above the higher support prices in order to prevent excessive accumulations of tobacco by the U.S. government, USDA indicates that marketing quotas (i.e., the pounds or acres of tobacco under cultivation) in 1976 and subsequent years would have to be reduced. Despite increased tobacco prices, USDA feels that these required reductions in tobacco production would result in lower incomes for tobacco farmers.

Since some tobacco produced in 1975 has already been marketed (e.g., over 50 percent of this year's crop of flue-cured tobacco), H.R. 9497 may discriminate against those tobacco producers who have already sold their 1975 crop and thus would not benefit from this change in the support price system. Supporters of this bill, however, argue that there is little concern about this alleged inequity among producers.



SIGN OR VETO ARGUMENTS

A. Arguments in Favor of Signing H.R. 9497.

1. There is strong support for this legislation among tobacco-state Congressmen and Senators.
2. Farmers favor an increase in the level of support so that tobacco prices can catch up with the costs of production.
3. "This is a fair way to index price supports. If we are against price supports, we should move to repeal them, not make the present system unfair." (Bill Seidman)
4. The Congressional supporters argue that this legislation is vital to the economic health of their states and the well-being of the approximately 500,000 tobacco farmers in the nation.
5. If production is cut substantially in 1976 and future years, the \$157 million short run cost of this legislation could be largely recouped.

B. Arguments in Favor of Veto of H.R. 9497.

1. The passage of the bill through Congress occurred with little debate and in a way which has been described as irregular.
2. The bill increases Federal government outlays by an estimated \$157 million in fiscal 1976 and the transition quarter.
3. "The bill would move us away from this Administration's goal of a more market-oriented agricultural sector of the economy." (Alan Greenspan)
4. "Approval of H.R. 9497 would be inconsistent with your veto of the farm commodity price support bill in May, and would very likely lead to new Congressional attempts to increase other farm commodity price supports." (Jim Lynn)
5. H.R. 9497 treats unfairly some tobacco producers who have already sold their 1975 crops.



6. It would reduce net exports of tobacco, harm our balance of payments and lower tobacco grower income if production were restricted to support prices and reduce government-held tobacco surpluses.
7. It would add to the accumulation of surplus tobacco by the government unless substantial production restrictions were imposed in fiscal 1977 and subsequent years.

PRESIDENTIAL DECISION

\_\_\_\_\_ Sign H.R. 9497. (Proposed statement at Tab C.)

Favored by: Bill Seidman  
Max Friedersdorf

\_\_\_\_\_ Veto H.R. 9497. (Proposed statement at Tab D.)

Favored by: Department of Agriculture (Butz)  
Jim Lynn  
Alan Greenspan  
Counsel's Office  
Robert T. Hartmann







EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

SEP 25 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 9497 - Increase tobacco  
price support  
Sponsors - Rep. Jones (D) North Carolina,  
Rep. Wampler (R) Virginia and Rep. Rose (D)  
North Carolina

Last Day for Action

October 1, 1975 - Wednesday

Purpose

Amends the formula used for calculating the level of price support for tobacco in a manner that could increase Federal outlays an estimated total of \$240 million over the next 5 years.

Agency Recommendations

Office of Management and Budget	Disapproval (Veto Message attached)
Department of Agriculture	Disapproval (Veto Message attached)
Council of Economic Advisers	Disapproval

Discussion

Under existing law, the Secretary of Agriculture proclaims marketing quotas on an acreage or poundage basis for each tobacco crop in order to balance supply and demand. If two-thirds of the tobacco growers endorse the Secretary's quota in a referendum prior to the normal planting time, then that specific type of tobacco qualifies for Federal price support. The level of price support is calculated by multiplying the appropriate 1959 tobacco crop support level by the ratio of (a) the average index of prices paid by farmers



for the preceding three calendar years (numerator) and (b) the average index of prices paid by farmers in 1959 (denominator).

Largely in response to growing foreign demand for American tobacco, Agriculture has raised tobacco marketing quotas by 10, 10, and 15 percent, respectively, for the 1973, 1974, and 1975 marketing years. However, worldwide recession, the Communist takeover in Southeast Asia, and the imposition of significantly higher import duties by Britain (usually our largest foreign consumer of flue-cured tobacco) have all combined to seriously inhibit the strong growth in foreign demand and thus put downward pressure on prices. Furthermore, poor weather in key tobacco growing States has yielded an inferior-quality crop, depressing prices even more.

H.R.9497 would revise the tobacco price support formula explained above by stipulating that the price index numerator use the three preceding marketing years instead of calendar years. Since the marketing year is (a) July 1 - June 30 for flue-cured tobacco and (b) October 1 - September 30 for other kinds of tobacco, the effect of the enrolled bill would be to push the escalator deeper into a period of higher costs. With respect to the 1975 crop, this translates into increases in the price support level (a) of 7 percent for flue-cured tobacco (from 93.2 to 99.3 cents/lb.) and (b) of 10 percent for other kinds of tobacco (from 96.1 to 105.8 cents/lb).

Agriculture estimates that H.R.9497 would increase Federal outlays (a) by \$71 million in fiscal year 1976 and (b) by about a total of \$240 million for the 5 years ending in 1979 (this assumes no reduction in marketing quotas).

In reporting to the House Agriculture Committee on a substantively identical bill (H.R.9000), Agriculture opposed enactment of the legislation on the basis that it would: (a) reduce our competitive position in world markets and thus endanger a net trade surplus of some \$1 billion in tobacco products; (b) require lower marketing quotas in future years, thereby reducing tobacco growers' income; (c) increase Federal outlays significantly; and, (d) be inequitable because nearly 50 percent of all flue-cured tobacco has already been marketed and the increase in price could not benefit those growers who have already sold their crop.

The Congress did not respond to Agriculture's concerns, as the enrolled bill was passed in both the House and Senate on a voice vote without being reported out of committee in either body. In fact, the Senate did not even hold hearings on H.R. 9497 or any related bills.

Agency views

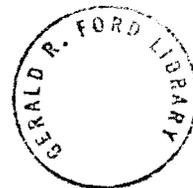
Both Agriculture and the Council of Economic Advisers strongly recommend veto. Agriculture reiterates the concerns it expressed in reporting to the House Agriculture Committee while CEA notes that the enrolled bill "would move us away from this Administration's goal of a more market-oriented agricultural sector of the economy."

We concur in Agriculture's analysis and veto recommendation. The adverse impact on our tobacco exports, the reduction in tobacco growers' income over the long term, the increase in outlays, and the discriminatory nature of the enrolled bill are all objectionable features. In addition, and probably most important of all, approval of H.R. 9497 would be inconsistent with your veto of the farm commodity price support bill (H.R.4296) in May, and would very likely lead to new congressional attempts to increase other farm commodity price supports. In this regard, there are already indications that milk price support legislation is beginning to move in the Senate.

We have prepared, for your consideration, a veto message representing a revision of the draft message submitted by Agriculture.



Director



*B*

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: Agriculture's Revised Tobacco Estimates

Ag's lowered estimate of the increased costs attributed to H.R. 9497 result from the following:

1. Later and higher estimates of production for this year's crop:

<u>Original Estimate</u>	<u>Revised Estimate</u>
(Million Pounds)*	
2,061	2,205

2. A change in the assumptions under H.R. 9497. Earlier the Department assumed that for comparison purposes production would be the same under both present and proposed legislation. For the latest estimate USDA assumes that even tighter planting restrictions would be imposed, as follows:

<u>Fiscal Year</u>	<u>Original Estimate</u>	<u>Revised Estimate</u>
(Million Pounds)*		
1976	2,061	2,205
1977	2,269	2,060
1978	2,268	2,050
1979	2,235	2,040
1980	2,218	2,040

\* Flue-cured and burley only



3. With the reduced production, the amount of surplus and CCC loan outlays would decline:

Net Outlays

(Million Dollars)

<u>Fiscal Year</u>	<u>Original Estimate</u>			<u>Revised Estimate</u>		
	<u>Current Law</u>	<u>H.R. 9497</u>	<u>Difference</u>	<u>Current Law</u>	<u>H.R. 9497</u>	<u>Difference</u>
1976	39	110	71	319	442	123
TQ	----not computed ----			105	139	34
1977	60	109	49	24	-34	-58
1978	66	99	33	5	-12	-17
1979	102	150	48	-14	-34	-20
1980	68	106	38	-25	-31	-6

(5 yr. average  
is \$48 mil.)

(5 yr. average  
is \$11.2 mil.)

4. In thinking about the prospect of lowering the acreage/poundage allotments by the 10%-15% as in the revised estimates, one should keep in mind

- there may be some political pressure in the future against such decrease (although the pressure to date has all been for such a decrease)
- the consequent increase in price will further erode the U.S. position in the world market, and exports will continue to decline
- the imposition of further production restrictions is directly contrary to the Administration's "full production" policy underlying the Farm Bill veto earlier this year.





oll  
D.D.

DRAFT: APPROVAL MESSAGE

I am today signing <sup>H.R.</sup> ~~HR~~ 9497, an Act "To amend the computation of the level of price support for tobacco."

This bill makes a ~~technical~~ change <sup>from calendar year to crop year</sup> in the ~~method~~ of computing <sup>period</sup> the level of price support for tobacco, ~~from~~ <sup>although</sup> ~~calendar year to crop year~~. The present formula has been in effect since 1956, ~~and~~ <sup>since then demonstrate that need to change</sup> developments in the tobacco industry ~~during this period~~ indicate this 19-year-old formula ~~should be changed~~.

~~F~~

*D*

DRAFT: VETO MESSAGE

b 12  
AT

I return herewith, without my approval, H.R. 9497, an Act "To amend the computation of the level of price support for tobacco."

*(about am concerned the hardships)*

Although I ~~am concerned~~ that many U.S. tobacco growers have encountered ~~hardships~~ this year due to adverse weather conditions and lower-than-expected export markets, the long-range interests of the grower will best be served by a vigorous domestic tobacco ~~industry~~ <sup>industry</sup> which can compete successfully in international markets. ~~Productivity~~ H.R. 9497 would be an obstacle <sup>in</sup> toward achieving this goal. In the face of slackening world demand for U.S. tobacco, higher prices would make our product less competitive, thus endangering the \$1 billion net trade surplus we now enjoy in this commodity.

420

At a time when we are attempting to reduce inflationary pressures in the economy by holding down the size of federal deficits, H.R. 9497 would increase budget outlays during this fiscal year and the transition period by <sup>an estimated</sup> \$157 million.



In summary, I believe this bill would adversely affect our tobacco exports, lower farm income in the long run, and increase federal spending at a critical time in our economic recovery.





EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

SEP 25 1975

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Council of Economic Advisers	Disapproval

Discussion

Under existing law, the Secretary of Agriculture proclaims marketing quotas on an acreage or poundage basis for each tobacco crop in order to balance supply and demand. If two-thirds of the tobacco growers endorse the Secretary's quota in a referendum prior to the normal planting time, then that specific type of tobacco qualifies for Federal price support. The level of price support is calculated by multiplying the appropriate 1959 tobacco crop support level by the ratio of (a) the average index of prices paid by farmers

To  
J. Conroy  
9-25-75  
1:30 p.m.



for the preceding three calendar years (numerator) and (b) the average index of prices paid by farmers in 1959 (denominator).

Largely in response to growing foreign demand for American tobacco, Agriculture has raised tobacco marketing quotas by 10, 10, and 15 percent, respectively, for the 1973, 1974, and 1975 marketing years. However, worldwide recession, the Communist takeover in Southeast Asia, and the imposition of significantly higher import duties by Britain (usually our largest foreign consumer of flue-cured tobacco) have all combined to seriously inhibit the strong growth in foreign demand and thus put downward pressure on prices. Furthermore, poor weather in key tobacco growing States has yielded an inferior-quality crop, depressing prices even more.

H.R.9497 would revise the tobacco price support formula explained above by stipulating that the price index numerator use the three preceding marketing years instead of calendar years. Since the marketing year is (a) July 1 - June 30 for flue-cured tobacco and (b) October 1 - September 30 for other kinds of tobacco, the effect of the enrolled bill would be to push the escalator deeper into a period of higher costs. With respect to the 1975 crop, this translates into increases in the price support level (a) of 7 percent for flue-cured tobacco (from 93.2 to 99.3 cents/lb.) and (b) of 10 percent for other kinds of tobacco (from 96.1 to 105.8 cents/lb).

Agriculture estimates that H.R.9497 would increase Federal outlays (a) by \$71 million in fiscal year 1976 and (b) by about a total of \$240 million for the 5 years ending in 1979 (this assumes no reduction in marketing quotas).

In reporting to the House Agriculture Committee on a substantively identical bill (H.R.9000), Agriculture opposed enactment of the legislation on the basis that it would: (a) reduce our competitive position in world markets and thus endanger a net trade surplus of some \$1 billion in tobacco products; (b) require lower marketing quotas in future years, thereby reducing tobacco growers' income; (c) increase Federal outlays significantly; and, (d) be inequitable because nearly 50 percent of all flue-cured tobacco has already been marketed and the increase in price could not benefit those growers who have already sold their crop.



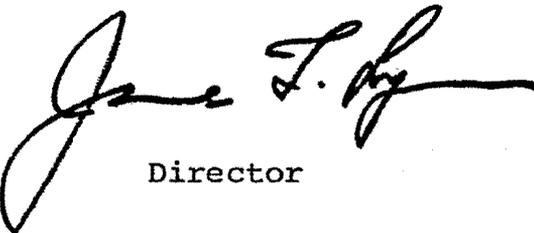
The Congress did not respond to Agriculture's concerns, as the enrolled bill was passed in both the House and Senate on a voice vote without being reported out of committee in either body. In fact, the Senate did not even hold hearings on H.R. 9497 or any related bills.

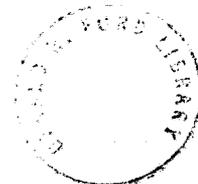
Agency views

Both Agriculture and the Council of Economic Advisers strongly recommend veto. Agriculture reiterates the concerns it expressed in reporting to the House Agriculture Committee while CEA notes that the enrolled bill "would move us away from this Administration's goal of a more market-oriented agricultural sector of the economy."

We concur in Agriculture's analysis and veto recommendation. The adverse impact on our tobacco exports, the reduction in tobacco growers' income over the long term, the increase in outlays, and the discriminatory nature of the enrolled bill are all objectionable features. In addition, and probably most important of all, approval of H.R. 9497 would be inconsistent with your veto of the farm commodity price support bill (H.R.4296) in May, and would very likely lead to new congressional attempts to increase other farm commodity price supports. In this regard, there are already indications that milk price support legislation is beginning to move in the Senate.

We have prepared, for your consideration, a veto message representing a revision of the draft message submitted by Agriculture.

  
Director



TO THE HOUSE OF REPRESENTATIVES

I return herewith, without my approval, H.R. 9497, an Act "To amend the computation of the level of price support for tobacco."

Although I fully appreciate that many U.S. tobacco growers have encountered hardships this year due to sub-par weather and lower than expected export markets, I am also mindful that government price supports for the 1975 crop are already 12% higher than in the previous year. H.R. 9497 would not only serve to raise this differential to about 20%, but would result in higher price support levels in subsequent years.

The interests of the grower and, ultimately, the American people will be best served by a vigorous domestic tobacco sector which can compete successfully in international markets. Unfortunately, H.R. 9497 does not contribute to, but conversely would be counter-productive to achievement of this objective:

-- In the face of slackening world demand for U.S. tobacco, higher prices would make our tobacco less competitive, thus endangering the \$1 billion net trade surplus we enjoy in that commodity.



- In subsequent years, growers' income could very well be reduced by the combination of higher support prices and shrinking export opportunities which would force the government to impose stringent marketing quotas on growers to keep supply from exceeding demand. A higher price per pound does not help a grower when he sells less and less tobacco.
  
- Many growers would not benefit from higher support prices even in the short-run since they have already sold their 1975 crop. For example, over 50% of this year's crop of flue-cured tobacco has already been purchased.
  
- At a time when we are attempting to reduce inflationary pressures in the economy by restraining the size of the Federal budget deficits, H.R. 9497 would increase government outlays by an estimated \$71 million this fiscal year, and by as much as nearly a quarter of a billion dollars over the next five years.

In summary, I am not prepared to accept a bill that would adversely affect our tobacco exports, lower farm income in the long run, create serious inequities between growers, and increase Federal spending at such a critical time in our economic recovery. Accordingly, I have withheld my approval of H.R. 9497.



THE WHITE HOUSE

September , 1975

THE WHITE HOUSE  
WASHINGTON

October 1, 1975



Bob Linder -

To keep you up-to-date on  
what happened on this --

Jim Connor had a copy  
of the veto message dexed to Ron Nessen  
with the notation that it was not to be  
released until Max Friedersdorf gave  
the OK signal.

Tom Jones was here at the  
time and he said he was going to tell  
Larry Speakes in the Press Office about  
the Lid that was on the Veto Message.  
He also checked with Jim Connor about  
the dating -- they agreed it would have  
to be dated yesterday (the day signed)  
but release to be later today when  
approved by Friedersdorf.

Trudy

*Delivered at 3:00 pm. per Friedersdorf.*  
*RD*  
*10.1.75*

THE WHITE HOUSE

WASHINGTON

September 30, 1975

MR PRESIDENT

Attached (Tab A) is the Tobacco Support Bill and a brief signing statement. Attached (Tab B) is a veto message should you wish to veto the bill.

Jim Connor



STATEMENT BY THE PRESIDENT

I am today signing H.R. 9497, an Act "To amend the computation of the level of price support for tobacco."

This bill changes from calendar year to crop year the computing period of price supports for tobacco. Although the present formula has been in effect since 1956, developments in the tobacco industry since then demonstrate the need to change this 19-year-old formula.

TO THE HOUSE OF REPRESENTATIVES:

I return herewith, without my approval, H.R. 9497, an Act "To amend the computation of the level of price support for tobacco."

Although I am concerned about the hardships that many U.S. tobacco growers have encountered this year due to adverse weather conditions and lower-than-expected export markets, the long-range interests of the grower will be best served by a vigorous domestic tobacco industry which can compete successfully in international markets. H.R. 9497 would be an obstacle in achieving this goal. In the face of slackening world demand for U.S. tobacco, higher prices would make our product less competitive, thus endangering the \$1 billion net trade surplus we now enjoy in this commodity.

At a time when we are attempting to reduce inflationary pressures in the economy by holding down the size of federal deficits, H.R. 9497 would increase budget outlays during this fiscal year and the transition period by an estimated \$157 million.

In summary, I believe this bill would adversely affect our tobacco exports, lower farm income in the long run and increase federal spending at a critical time in our economic recovery.

*Ronald R. Ford*

THE WHITE HOUSE,  
September 30, 1975



OCTOBER 1, 1975

Office of the White House Press Secretary

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THE WHITE HOUSE

TO THE HOUSE OF REPRESENTATIVES:

I return herewith, without my approval, of H. R. 9497, an Act "To amend the computation of the level of price support for tobacco."

Although I am concerned about the hardships that many United States tobacco growers have encountered this year due to adverse weather conditions and lower-than-expected export markets, the long-range interests of the grower will be best served by a vigorous domestic tobacco industry which can compete successfully in international markets. H. R. 9497 would be an obstacle in achieving this goal. In the face of slackening world demand for United States tobacco, higher prices would make our product less competitive, thus endangering the \$1 billion net trade surplus we now enjoy in this commodity.

At a time when we are attempting to reduce inflationary pressures in the economy by holding down the size of federal deficits, H. R. 9497 would increase budget outlays during this fiscal year and the transition period by an estimated \$157 million.

In summary, I believe this bill would adversely affect our tobacco exports, lower farm income in the long run and increase federal spending at a critical time in our economic recovery.

GERALD R. FORD

THE WHITE HOUSE,  
September 30, 1975

# # #



THE WHITE HOUSE  
WASHINGTON

10.3.75

TO: Tom Jones

For Your Information: \_\_\_\_\_

For Appropriate Handling: \_\_\_\_\_

For your files.  
These approved texts.

RDZ.  
Robert D. Linder

DRAFT: VETO MESSAGE

6 12  
11/11

I return herewith, without my approval, H.R. 9497, an Act "To amend the computation of the level of price support for tobacco."

*am concerned about the hardships*

Although I ~~am concerned~~ that many U.S. tobacco growers have encountered ~~hardships~~ this year due to adverse weather conditions and lower-than-expected export markets, the long-range interests of the grower will best be served by a vigorous domestic tobacco ~~industry~~ <sup>industry</sup> which can compete successfully in international markets. ~~Industry~~

25

H.R. 9497 would be an obstacle ~~toward~~ <sup>in</sup> achieving this goal. In the face of slackening world demand for U.S. tobacco, higher prices would make our product less competitive, thus endangering the \$1 billion net trade surplus we now enjoy in this commodity.

At a time when we are attempting to reduce inflationary pressures in the economy by holding down the size of federal deficits, H.R. 9497 would increase budget outlays during this fiscal year and the transition period by \$157 million.



In summary, I believe this bill would adversely affect our tobacco exports, lower farm income in the long run, and increase federal spending at a critical time in our economic recovery.



OK [initials]

DRAFT: APPROVAL MESSAGE

I am today signing <sup>H.R.</sup> ~~9497~~ 9497, an Act "To amend the computation of the level of price support for tobacco."

This bill makes a technical change <sup>from calendar year to crop year</sup> in the ~~method~~ of computing <sup>period</sup> the level of price support for tobacco. ~~calendar year~~ <sup>although</sup> The present formula has been in effect since 1956. ~~and~~ <sup>since then demonstrate that need to change</sup> developments in the tobacco industry during this ~~period~~ indicate this 19-year-old formula ~~should be changed~~.

#



*Early draft - Not used*

TO THE HOUSE OF REPRESENTATIVES

I return herewith, without my approval, H.R. 9497, an Act "To amend the computation of the level of price support for tobacco."

Although I fully appreciate that many U.S. tobacco growers have encountered hardships this year due to adverse weather conditions and lower-than-expected export markets, I am also mindful that current government price supports for the 1975 crop are already 12 percent higher than last year. Estimated support payments will total \$424 million in fiscal year 1976 and the so-called transition quarter. H.R. 9497 would raise this support price differential to about 20 percent and would cost the taxpayer another \$157 million by September 30, 1976. In addition, higher price support levels would be required in subsequent years.

The interests of the grower and, ultimately, the American people will be best served by a vigorous domestic tobacco sector which can compete successfully in international markets. Unfortunately, H.R. 9497 would be an obstacle toward achieving this goal. In the face of slackening world demand for U.S. tobacco, higher prices would make our product less competitive, thus endangering the \$1 billion net trade surplus we now enjoy in this commodity.



There are other reasons why I cannot support this bill:

- In the 1976 crop year and subsequent years, growers' income very well could be reduced by the combination of higher support prices and shrinking export opportunities which would force the government to impose stringent marketing quotas on growers to keep supply from exceeding demand. A higher price per pound does not help a grower when he sells less and less tobacco.
- Many growers would not benefit from higher support prices even in the short-run, since they have already sold their 1975 crop. For example, more than 50 percent of this year's crop of flue-cured tobacco has already been sold.
- At a time when we are attempting to reduce inflationary pressures in the economy by holding down the size of Federal deficits, H.R. 9497 would increase budget outlays during this fiscal year and the so-called transition period by \$157 million. Unless further Federal restrictions were placed on tobacco production-- which almost surely would occur if this bill became law--these increased outlays would continue in future years.



In summary, I am not prepared to accept a bill that adversely affects our tobacco exports, lowers farm income in the long run, creates serious inequities between growers and increases Federal spending at such a critical time in our economic recovery. Accordingly, I have withheld my approval of H.R. 9497.



# Ninety-fourth Congress of the United States of America

AT THE FIRST SESSION

*Begun and held at the City of Washington on Tuesday, the fourteenth day of January,  
one thousand nine hundred and seventy-five*

## An Act

To amend the computation of the level of price support for tobacco.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (b) of section 106 of the Agricultural Act of 1949, as amended, is further amended by striking the words "three calendar years immediately preceding the calendar year in which the marketing year begins for the crop" and insert in lieu thereof the words "three marketing years immediately preceding the marketing year".*

*Speaker of the House of Representatives.*

*Vice President of the United States and  
President of the Senate.*

TO THE HOUSE OF REPRESENTATIVES

I return herewith, without my approval, H.R. 9497, an Act "To amend the computation of the level of price support for tobacco."

Although I fully appreciate that many U.S. tobacco growers have encountered hardships this year due to sub-par weather and lower than expected export markets, I am also mindful that government price supports for the 1975 crop are already 12% higher than in the previous year. H.R. 9497 would not only serve to raise this differential to about 20%, but would result in higher price support levels in subsequent years.

The interests of the grower and, ultimately, the American people will be best served by a vigorous domestic tobacco sector which can compete successfully in international markets. Unfortunately, H.R. 9497 does not contribute to, but conversely would be counter-productive to achievement of this objective:

-- In the face of slackening world demand for U.S. tobacco, higher prices would make our tobacco less competitive, thus endangering the \$1 billion net trade surplus we enjoy in that commodity.



- In subsequent years, growers' income could very well be reduced by the combination of higher support prices and shrinking export opportunities which would force the government to impose stringent marketing quotas on growers to keep supply from exceeding demand. A higher price per pound does not help a grower when he sells less and less tobacco.
  
- Many growers would not benefit from higher support prices even in the short-run since they have already sold their 1975 crop. For example, over 50% of this year's crop of flue-cured tobacco has already been purchased.
  
- At a time when we are attempting to reduce inflationary pressures in the economy by restraining the size of the Federal budget deficits, H.R. 9497 would increase government outlays by an estimated \$71 million this fiscal year, and by as much as nearly a quarter of a billion dollars over the next five years.



In summary, I am not prepared to accept a bill that would adversely affect our tobacco exports, lower farm income in the long run, create serious inequities between growers, and increase Federal spending at such a critical time in our economic recovery. Accordingly, I have withheld my approval of H.R. 9497.

THE WHITE HOUSE

September , 1975

September 19, 1975

Dear Mr. Director:

The following bill was received at the White House on September 19th:

H.R. 9497

Please let the President have reports and recommendations as to the approval of this bill as soon as possible.

Sincerely,

Robert D. Linder  
Chief Executive Clerk

The Honorable James T. Lynn  
Director  
Office of Management and Budget  
Washington, D. C.

