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THE WHITE HOUSE

WASHINGTON

September 25, 1975

MEETING WITH CONGRESSIONAL PROPONENTS OF TOBACCO BILL

Thursday, September 25, 1975

5:00-6:00 p.m. (60 minutes)

The Cabinet Room

From: Max L. Friedersdorf *M.L.F.*

I. PURPOSE

To permit Congressional proponents of a bill increasing tobacco price supports to present their views to the President.

ii. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background:

1. Both the House and Senate have passed without a recorded vote a measure (H.R. 9497) increasing price supports for tobacco.
2. A number of Congressmen and Senators, notably Strom Thurmond, Walter Jones, Carl Perkins and Tim Lee Carter, have phoned and written the White House urging the President to either sign the bill or allow it to become law without signature.
3. The appeals in behalf of the bill have been highly political in nature with dire predictions of election consequences if the bill is vetoed.
4. On the other side, the President has received a joint letter from Senators Brooke, Bellmon, Garn, Hatfield, Javits, Roth, Hugh Scott, Stafford, Percy, Case and Buckley urging a veto because of an alleged \$240 million cost over the next five years. (The President also plans to meet with a small representation from the opponents of the bill.)
5. Both Secretary Butz and Jim Lynn indicate they will recommend a veto. John Rhodes and Hugh Scott also recommend a veto on the grounds that it will stimulate new price support demands on dairy products, wheat, corn, soy beans, rice, etc.

B. Participants: See Tab A

C. Press Plan:

Press Office to announce the meeting; White House photographers only.

III. AGENDA See Tab B

IV. TALKING POINTS See Tab C

(Arguments against the bill supplied by the Department of Agriculture and Domestic Council)

1. I am pleased to have the opportunity to discuss the tobacco bill with members of the House and Senate.
2. There are a number of Senators and Congressmen opposed to the bill and I will be meeting with a delegation of this group before I take action on the measure because I want to have both sides presented.
3. I have until midnight, Wednesday, October 1, to act. Before that time I plan to study all the pros and cons of the legislation before making a decision.
4. Both Secretary Butz and OMB Director Jim Lynn are here today. I would like to have the Congressmen and Senators give me their views and then perhaps Earl and Jim can express themselves.
5. Tom Foley, Chairman of the House Agriculture Committee, is here. Why don't we lead off with Tom, and then hear from the others. Tom.....

## PARTICIPANTS

The President  
The Vice President  
Secretary Butz

### SENATE

Walter Huddleston  
Wendell Ford  
Howard Baker  
Jesse Helms  
Bob Morgan  
Strom Thurmond  
Fritz Hollings  
Sam Nunn  
Dick Stone  
Bob Dole

### HOUSE

Walter Jones  
Tim Lee Carter  
Bill Wampler  
Tom Foley  
Carl Perkins  
Bob Poage  
John Breckinridge

### STAFF

Don Rumsfeld  
Jack Marsh  
Phil Buchen  
Bill Seidman  
Alan Greenspan  
Max Friedersdorf  
Jim Lynn  
Jim Cannon  
Dick Cheney  
Vern Loen  
Bill Kendall  
John Carlson  
Jack Calkins

### REGRETS

Sen. Harry Byrd  
Sen. Bill Scott  
Sen. Brock  
Sen. Talmadge  
Sen. Chiles



## Tobacco Legislation -- Political Connotations

1. Congressmen from the six major tobacco States (Virginia, North Carolina, South Carolina, Georgia, Kentucky, Tennessee) have supported the President 46 percent of the time in attempted veto overrides.
2. These Congressmen are essentially conservative, would probably support the President regardless of the President's action on this bill.
3. This bill would raise prices received by farmers on tobacco sold from the date of enactment forward benefited only about 50 percent of the farmers in that half the tobacco has already been sold. It would seem you could have one mad bunch--those that had already sold.
4. Senator Huddleston's AA reports that Kentucky has 165,000 tobacco growers and that 35 percent of the farm income depends on tobacco sales. Congressman Perkins (Ky.) has 20,000 tobacco growers in his district and it is reported to be one of the poorest in the country from a farming standpoint.
5. Health enthusiasts have been mysteriously silent in commenting on the manner in which this bill was passed through both Houses. In an open debate, such as attempting an override, they will probably be quite vocal. They will applaud a veto.
6. Senate has cancelled hearings on proposed rice legislation reportedly holding rice in hostage for Presidential approval of tobacco legislation. They will likely change this posture if and when the tobacco bill is disapproved.
7. The great majority of tobacco farmers also raise other crops, and have good incomes for the total season.
8. The bill could never have passed either House on a record vote. If vetoed, it is highly unlikely that a vote to override will occur. The issue will quickly subside.

## Tobacco Legislation

Factors to be considered regarding current tobacco legislation:

Farm Policy - This legislation which makes no change in the tobacco program except to increase prices is totally inconsistent with the Administration's farm policy. In the long run, it is a far worse piece of legislation than the Agriculture and Consumer Act of 1975 which was summarily vetoed.

Economic - It would adversely affect three significant economic areas --

1. Government expenditures - The bill would require added government outlays for the loan program this year to the tune of an estimated \$70 million. Over a five year period, the cumulative increased outlay would be an estimated \$250 million.
2. Balance of Trade - It would reduce U.S. tobacco exports and increase tobacco imports. The U.S. is now the world's largest tobacco exporter and the third largest importer. This bill could reverse these roles to third largest exporter and largest importer. U.S. tobacco exports in fiscal year 1975 were \$1.2 billion and imports something over \$200 million.
3. Producer Income - This bill would sacrifice long time producer income for short time gain. The trend of dropping consumption and exports would be accelerated by this legislation. Subsequent increased loan stocks under price support would force a sharp reduction in tobacco quotas and production. This would adversely affect producer income in the years ahead.

### Attitude of Affected Groups

1. Buyers - This group is already reacting to U.S. tobacco prices by turning to cheaper imported tobacco. However, one major U.S. company is reported to support the legislation.
2. Exporters - This group views the legislation as an increasing threat to their business which has not kept pace with the increase in world tobacco trade.
3. Warehousemen - This group has a certain self-interest in that they receive a 3 percent commission on sales.
4. Producers - In contrast to other segments of agriculture, tobacco producers do not object to reduced production. If they fully understood the impact of this legislation, they might be less inclined to support it, however their leadership which does favor it, is in a position to shut off effective communications.

Conclusion - The fate of this bill should be decided on the basis of agriculture as a whole and not solely on the basis of the tobacco segment.

## Talking Points and Questions

### 1. IS THE PRESENT SYSTEM OF PRICE SUPPORT SUFFICIENT?

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.

### 2. WHAT WILL BE THE EFFECT OF THIS LEGISLATION ON TOBACCO EXPORTS AND IMPORTS?

The U.S. leads the world in tobacco exports, and ranks third in tobacco imports under the present program. During fiscal year 1975, our net tobacco exports 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.

### 3. WILL THIS LEGISLATION INCREASE OR DECREASE THE INCOMES OF TOBACCO FARMERS?

To keep market prices above the higher support prices and to prevent excessive accumulations of tobacco by the U.S. Government, USDA and OMB argue that marketing quotas (i.e., the acres of tobacco under cultivation) in 1976 and subsequent years would have to be reduced. Despite increases in prices, USDA feels that these required reductions in quotas would result in lower incomes for tobacco farmers.

### 4. DOES THIS LEGISLATION PROVIDE EQUAL BENEFITS TO ALL TOBACCO FARMERS THIS YEAR?

Since almost 50 percent of all flue-cured tobacco produced in 1975 has already been marketed, H.R. 9497 discriminates against some tobacco producers who would not benefit from this change in the support price system because they have already sold their 1975 crop.

### 5. WHICH INTEREST GROUPS OPPOSE THIS LEGISLATION?

Groups, such as consumerists, environmentalists, and health interests, do not favor the legislation, but the intensity of the opposition probably does not equal the intensity of support.



THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 372

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:

- |   |   |
|---|---|
| <input type="checkbox"/> For Necessary Action         | <input type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief     | <input type="checkbox"/> Draft Reply              |
| <input checked="" type="checkbox"/> For Your Comments | <input type="checkbox"/> 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.



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.

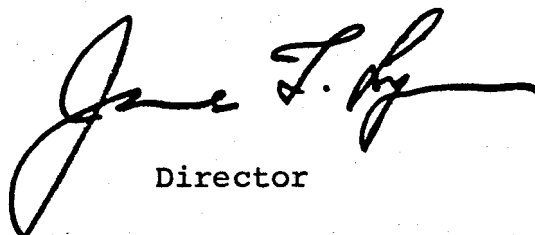
The Congress did not respond to Agriculture's concerns, as the enrolled bill was passed in both the House and Senate on a voice vote without being reported out of committee in either body. In fact, the Senate did not even hold hearings on H.R. 9497 or any related bills.

#### 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.

A handwritten signature in black ink, appearing to read "Jane L. By". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

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



DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

WASHINGTON, D.C. 20250

SEP 18

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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

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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,

A handwritten signature in cursive script, appearing to read "Earl H. Betsy".

Secretary

Enclosure



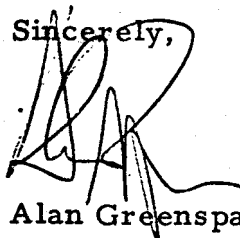
THE CHAIRMAN OF THE  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

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

