ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA
8:30 a.m.
Roosevelt Room

November 19, 1975

1.	Report of Interagency Fertilizer Task Force	Ahalt
2.	Economic effects of marketing orders for agricultural production	MacAvoy
3.	Grain export arrangement with Poland	MacAvoy
4.	Tax bill alternatives	Treasury

DEPARTMENT OF AG[illegible]ICULTURE
OFFICE OF THE SE[illegible]ETARY
WASHINGTON, D. C. 20250

November 14, 1975

MEMORANDUM FOR: EXECUTIVE COMMITTEE -- EPB

SUBJECT: Fertilizer -- Status Report

Attached is a status report from the Interagency Fertilizer Task Force.

TAB A (pages 1-3)
Current Fertilizer Situation

TAB B (pages 4-7)
U.S. Fertilizer Trade

TAB C (page 8)
Ammonia Plant Capacity

TAB D (page 9)
Fertilizer Statistics

J. DAWSON AHALT
Chairman, Interagency
Fertilizer Task Force

Enclosure

TAB A

TAB A

Current Fertilizer Situation

The current fertilizer picture is dominated by declining usage, rising inventories, and falling prices.

For the 1974/75 year, total consumption of fertilizer materials dropped a tenth from 1973/74 and 2 percent below 1972/73. Use of primary nutrients was down 9 percent from 1973/74; nitrogen consumption fell 6 percent to 8.6 million tons; phosphate usage dropped 12 percent to 4.5 million tons; and potash was down 13 percent to 4.4 million tons. The widespread falloff in use was in response to high fertilizer prices coupled with planned cutbacks in application of phosphates and potash due to concern over buildup in soils.

With the reduction in consumption occurring in the face of expanding output, inventories of nitrogen are running at near record levels for this time of year. As of August 1, inventories of nitrogen at producer levels totaled 1,480 million tons, nearly double a year earlier. Phosphate stocks on August 1 were 90 percent larger than a year ago. Inventory accumulation in piplines between producers and farmers reflect similar increases.

In response to the buildup in inventories, fertilizer prices have dropped sharply since last spring. The farm price of anhydrous ammonia in mid-October was $219 per ton, down 17 percent from mid-April and also slightly below levels of last fall. Prices for TSP averaged $179 per ton in mid-October, down 16 percent from mid-April. Prices for most other materials show similar trends.

With larger inventories of ammonia and 500 thousand tons of added capacity, domestic supply (assuming operating rates of 90 percent) could exceed 11 million tons for 1975/76, a tenth larger than last season. The anticipated loss in production due to expected curtailments of natural gas is not expected to be sufficient to bring supply in balance with demand at current prices. However, gas curtailments could create substantial problems in particular regions due to difficulties in transportation.

Present price levels are contributing to reduced fertilizer usage so far in 1975/76. During July and August consumption was down 18 percent from the corresponding period in 1974 and 29 percent below the same period in 1973. Dry weather in major winter wheat areas has also been a factor. With this resistance in the face of expanding supplies, some further price declines for nitrogen and phosphate materials are expected, unless crop price expectation strengthens significantly in coming months.

Average prices paid by farmers per ton for selected fertilizers, United States, 1969-75

April 15 of year	Anhydrous ammonia	Superphosphate 46 percent P_2O_5	Superphosphate 20 percent P_2O_5	DAP 18-46-0	Potash 60 percent K_2O	Mixed fertilizer 6-24-24
	Dollars					
1967	113.00	84.10	42.10	113.00	1/58.50	85.70
1969	75.60	74.00	43.80	94.10	47.80	73.20
1970	75.00	75.10	45.40	94.40	50.90	75.00
1971	79.30	76.60	47.80	95.70	58.20	80.30
1972	80.00	78.00	49.90	97.40	58.80	81.60
1973	87.60	87.50	53.70	109.00	61.50	88.00
1974: Apr. 15	183.00	150.00	91.40	181.00	81.30	139.00
Sept. 15	229.00	188.00	104.00	228.00	91.00	164.00
1975: Apr. 15	265.00	214.00	118.00	263.00	102.00	186.00
Oct. 15	219.00	179.00	103.00	216.00	94.30	158.00

1/ Based on equivalent price for 55 percent K_2O reported by SRS.
Source: "Agricultural Prices," Pr 1 (4-75), Statis. Rptg. Serv., U.S. Dept. Agr., April 30, Oct. 30, 1975, and earlier issues.

Fertilizer Summary, United States

	1971/72	1972/73	1973/74	1974/75
Nitrogen				
Domestic Supply 2/	8,971	9,447	10,252	10,033
Imports	843	882	1,068	1,198
Exports	1,032	1,508	1,270	1,119
Net Supply	8,782	8,821	10,050	10,112
Consumption 3/	8,022	8,295	9,157	8,593
Unexplained Disappearance	760	526	893	1,519
Phosphate (P_2O_5)				
Domestic Supply 2/	6,150	6,387	6,786	6,940
Imports	326	312	314	275
Exports	1,102	1,424	1,582	1,888
Net Supply	5,374	5,275	5,518	5,327
Consumption 3/	4,684	5,085	5,099	4,494
Unexplained Disappearance	510	190	419	833
Potash				
Domestic Supply 2/	2,432	2,680	2,605	2,304
Imports	3,088	3,117	4,212	3,944
Exports	657	922	947	848
Net Supply	4,863	4,875	5,870	5,400
Consumption 3/	4,327	4,649	5,083	4,415
Unexplained Disappearance	536	226	787	985

1/ Preliminary.
2/ Adjusted for Producer Inventory Change
3/ Material produced that is not accounted for as manufacture Inventories or recorded as consumption by (SRS).

TAB B

TAB B

U.S. Fertilizer Trade, July-September 1975

Trade in nitrogenous and phosphatic fertilizers for the first quarter of crop year 1976 shows substantial increases in both imports and exports of nitrogen and a major increase in phosphate fertilizer exports over the same quarter of 1975 crop year. Imports of nitrogen for the July-September 1975 period were 265,600 content tons, while the total for 1974 was 232,000 tons. Exports of nitrogen were about 319,000 tons for the first quarter of 1975 compared with 252,000 tons for this same period last year.

Although fertilizer exports are substantially higher so far this crop year, the contracts for fertilizer exports indicate that there will be a decrease in nitrogen exports and that the total for the first half of the crop year may be less than a year ago. Phosphate fertilizer materials for the first half will be about equal to the first half of last year, according to the contract information.

For the first three months of the crop year, the U.S. has a net export surplus of about 55,000 content tons of nitrogen. More than half of the total nitrogen exports are in the form of the compound fertilizers diammonium or monoammonium phosphates. Exports of ammonium phosphates are 30 percent higher than the first quarter figure for last year.

Production of anhydrous ammonia is running about 5.4 percent higher than last year for the first two months of the 1976 crop year, while production of phosphoric acid is down about 12 percent. Anhydrous ammonia production is running at high operating rates, while phosphoric acid production is dropping off due to the inventory levels and slow sales.

Table 1
U.S. Trade in Nitrogen and Phosphate Fertilizer, January, 1974 - September, 1975
Export Contracts for October 1975 - June 1976
(In Content Tons)

Commodity	Jan-June 1974	July-Dec 1974	Jan-June 1975	July-Sept 1974	July-Sept 1975	Contracts Oct-Dec 1975	Contracts Jan-Mar 1976	Contracts Apr-June 1976	Contracts July-Sept 1976
Imports									
N and P_2O_5 Content Tons 1/									
Nitrogen Fertilizer	636,818	490,425	709,545	232,062	265,601				
Phosphate Fertilizer	191,931	124,476	145,653	51,538	23,666				
Exports									
N and P_2O_5 Content Tons									
Nitrogen Fertilizer	514,387R	503,682	601,859	251,952	319,469	154,682	14,896	9,031	-
Phosphate Fertilizer 2/	699,111R	985,993R	897,180	492,347	639,105	350,633	92,521	41,406	15,000

R - Revised
1/- N and P_2O_5 content tons include items not listed on accompanying tables.
2/- Does not include phosphate rock.

Source: Bureau of Census and Office of Export Administration

Table 2

Fertilizer Exports, January, 1974-September 1975
Export Contracts for October 1975-June 1976
(Short Tons, Except as Noted)

Commodity	Jan-June 1974	July-Dec 1974	Jan-June 1975	July-Sept 1974	July-Sept 1975	Contracts Oct-Dec 1975	Contracts Jan-Mar 1976	Contracts Apr-June 1976	Contracts July-Sept 1976
Nitrogenous:									
Anhydrous Ammonia 1/	238,042	159,878	200,936	74,324	44,896	28,600	-	-	-
Urea	137,981	177,525	272,457	75,144	150,857	26,220	-	-	-
Ammonium Nitrate	9,940	8,160	14,189	1,532	9,406	84	-	-	-
Ammonium Sulfate	258,188	272,093	288,242	169,996	149,615	189,777	-	-	-
Phosphatic:									
Phosphoric Acid 2/	74,031	145,169R	141,158	65,590R	70,464	69,718	25,334	25,334	15,000
Phosphate Rock (000) (Fla. only)	6,631R	6,778	5,613	3,372	2,906	3,299	616	622	92
Concentrated Superphosphate	384,815R	687,947R	416,340	325,484R	280,285	179,186	64,740	24,251	-
Ammonium Phosphate	916,206	1,075,559	1,167,979	576,320	968,021	443,086	83,683	11,000	-
Mixed Fertilizer	222,536	251,841	245,055	112,184	40,469	2,485	-	-	-

R - Revised
1/- Includes fertilizer and other grades of anhydrous ammonia
2/- Includes phosphoric acid, fertilizer grade and N.E.C. (100% APA)
Source: Bureau of Census and Office of Export Administration.

Table 3
Fertilizer Imports, January, 1974 - September, 1975
(Short Tons)

Commodity	Jan-June 1974	July-Dec 1974	Jan-June 1975	July-Sept 1974	July-Sept 1975
Nitrogenous:					
Anhydrous Ammonia	273,007	182,359	415,936	102,070	222,300
Urea	339,894	377,317	434,525	158,134	77,173
Ammonium Nitrate	193,946	175,267	140,960	58,066	43,473
Ammonium Sulfate	149,368	108,329	139,903	48,342	25,383
Ammonium Nitrate Limestone	198,776	134,087	55,858	107,058	-
Phosphatic					
Phosphoric Acid	44,953	72,102	65,947	30,344	154
Concentrated Superphosphate	56,773	28,613	32,669	17,870	4,366
Ammonium Phosphate	238,486	105,917	141,100	41,739	41,944

Source: Bureau of Census

TAB C

TAB C

Ammonia Plant Capacity

The capacity for anhydrous ammonia production has not changed since the last report. Hooker Chemical Company, a subsidiary of Occidental Petroleum has scheduled the beginning of production of a 300 ton per day ammonia plant at Taft, Louisiana on Thursday, November 13. The feedstock is byproduct hydrocarbon from chlorine production. This is the only remaining major plant addition which is expected this crop year. The annual production capacity is rated at 100,000 tons. The other plant which was expected to add to production was Good Hope Industries in Corpus Christi, Texas. This plant will not be completed this year because of financing problems faced by the present owners.

The Columbia Nitrogen plant in Georgia has been cancelled due to the decision of the Federal Power Commission judge not to allow new gas for a new plant.

There have been no new announcements of new ammonia plants to be built. There are no cancellations of those plants already announced.

Total ammonia capacity is currently estimated at 14.6 million tons.

TAB D

TAB D

Fertilizer Statistics

The following findings have been identified by the subgroup on fertilizer statistics:

(1) Inventory data are needed at retail and wholesale levels.

(2) Data are needed on ammonia for industrial and feed grade purposes.

(3) A detailed breakdown would be desirable on end uses of nitrogen.

(4) Phosphoric acid data should be included in Census shipment statistics.

(5) Retail prices paid by farmers for fertilizer should be made available more than twice a year.

(6) The series on monthly fertilizer consumption statistics should be continuously broadened to include additional States.

(7) U.S. trade data on fertilizer are in reasonably good shape and no major changes are needed.

(8) The current fertilizer data and intelligence system needs to be carefully documented and evaluated.

Efforts are presently underway in documenting the present information system. The objective of this exercise is to try to develop a more effective system of pulling together the output from all the various agencies.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

November 17, 1975

MEMORANDUM FOR: ECONOMIC POLICY BOARD

FROM: Food Deputies Group PWMacAvoy

SUBJECT: Grain Export Arrangement with Poland

On September 29, Secretary of Agriculture Butz agreed with Polish Minister of Agriculture Barcikowski to exchange letters during the Secretary's visit to Poland in late November. The letters would (1) reaffirm the principles set forth in the U.S.-Polish Joint Statement of Development of Agricultural Trade of October 8, 1974, (2) indicate Poland's intention to purchase 2.5 million metric tons of grains in the United States annually for the next five years and (3) contain assurances that the United States would endeavor to supply grains in these quantities.

No agreement along the lines of the Soviet model was or is contemplated by USDA and, although the Poles were looking for the strongest possible assurances, they left Washington with an understanding that no quarantees of supplies could be given.

The formal memo by which the assurances are given to the Poles by Secretary Butz will affect somewhat the strength of the assurances themselves. The possibilities for format are (1) a joint press release, (2) a joint communique or (3) an exchange of letters. State and USDA agree that a joint press release would be preferable. However, Minister Barcikowski made clear in September that he would not be satisfied with a press release. State and USDA agree that the Secretary should attempt to hold the exchange of assurances to a press release, but should not resist an exchange of letters unreasonably.

Although the form has varied from country to country, the assurances to be given Poland during the Secretary's visit are the same as those which have already been given Japan, Iran, and Romania. They reiterate assurances

AMERICAN REVOLUTION BICENTENNIAL 1776-1976 given Poland in the U.S.-Polish Joint Statement of October 8, 1974. The Secretary plans to extend similar assurances to Israel (in the form of a joint press release) during his current trip. He may be pressed by Saudi Arabia for a similar understanding at some time in the near future.

Since those understandings are increasing in number, it is important to specify what they imply. To date, these assurances are binding on neither party. Their purpose is to permit the supplier (the United States) to plan production on the basis of the best information available on demand. The buyer uses the information in the letter or press release to plan on his supply; to what extent "best endeavor" is conceived by him to imply priority rights to U.S. supplies in a poor crop year is unknown (certainly the letters to date have not specifically exempted the buyer from export controls).

<u>Conclusions</u>:

(1) There is no specific issue of content raised by the Polish discussions to date. This is not a Soviet style agreement in which binding commitments to "take" and "supply" have been made between countries.

(2) The non-binding assurances of availability in the proposed Polish letter are similar to those given Japan, Iran and Romania. There are other countries in line waiting for these assurances.

(3) So far, the benefits and costs of the assurances seem to be small.

<u>Query</u>: What is the sum total commitment from all of these letter or assurances, and how many more of them make up the appropriate number?

THE WHITE HOUSE

WASHINGTON

November 18, 1975

FOR EPB EXECUTIVE COMMITTEE MEMBERS

The attached papers regarding the Economic Effects of Marketing Orders for Agricultural Production will also be discussed at the Wednesday, November 19 EPB Executive Committee meeting.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

November 10, 1975

MEMORANDUM FOR: ECONOMIC POLICY BOARD

FROM: Paul W. MacAvoy Paul MacAvoy

SUBJECT: Policy for Reform of Marketing Orders

The following is a series of reform proposals by staff in the Department of Justice responsible for analyzing marketing orders. These proposals have not been reviewed by the Food Deputies Group since they were received subsequent to our last meeting.

III. Possible Legislative Proposals for Comprehensive Reform

A. Fruits, Vegetables and Other Commodities

1. Eliminate the marketing order program entirely because:

a. It is wasteful as a device for increasing farm incomes.

b. It has helped maintain the market conditions which initially necessitated the regulation.

c. Cooperatives are now often big enough to bargain effectively for adequate farm prices.

2. To support farm incomes, provide a lump sum subsidy to existing farmers.

B. Milk

Adopts the same approach as for fruits, vegetables, etc., except provides for the marketing orders to be phased out over time.

IV. Principal Proposals for Limited Administrative or Statutory Reform

A. Legal Constraints

The Agricultural Marketing Agreement Act of 1937 seems to contemplate that any authorized provision necessary to achieve the parity price (for fruits, vegetables, etc.) or a specified percentage of the parity price (for milk) may be included in a marketing order by the Secretary of Agriculture.

B. Possible Administrative Changes

1. Review all existing marketing orders for possible anticompetitive effects and remove provisions in such orders if within the Secretary of Agriculture's discretion as authorized by statute. The review could be conducted by Agriculture personnel. DOJ and the FTC could be members of an advisory committee to comment on the methods and results of the initial review.

2. Appoint a marketing committee not controlled by producers for each order.

3. Invite comment by FTC, DOJ or public on proposed orders and amendments to existing orders.

4. Establish smaller marketing order areas for certain commodities.

C. Major Items for Limited Legislative Reform

1. Fruits, Vegetables, etc.

    a. Eliminate the parity price goal. Rather, the goal should be to avoid an unduly low price level.

    b. Require the Secretary of Agriculture to preserve and to protect the benefits of competition by establishing only such provisions in orders as are necessary to avoid an unduly low price level.

    c. Eliminate producer control over adoption, administration, amendment and termination of orders.

    d. Eliminate restraints on entry in producer allotment plans.

2. Milk. The suggestions regarding fruits and vegetables apply equally to milk marketing orders. The milk provisions might also be amended by:

   a. Lowering the differential in price between milk used for fluid purposes and milk used for other purposes to an economically justified level.

   b. Lowering the price of milk used for other than fluid purposes to account for the greater instability of production levels of processors of such milk not located in the northern production areas.

V. Evaluation of Proposed Approaches to Marketing Order Reform

The proposal for comprehensive legislative reform clearly offers the best hope for large consumer savings. However, we defer to others on the political feasibility of enacting such legislation in the near future.

Lacking intimate knowledge of the details of marketing orders and their practical effects, we are unable to provide any reasonably certain estimate as to the magnitude of consumer savings that might be achieved through the proposed administrative reforms. We suspect, however, that the savings could be of some consequence if Department of Agriculture personnel scrupulously reviewed existing marketing orders to eliminate anticompetitive provisions.

Executive Offices

Milk Industry Foundation • International Assn. of Ice Cream Mfrs.

Suite 1105

910 Seventeenth St., N.W., Washington, D.C. 20006

A.C. 202 296-4250

Robert H. North
Executive Vice President

November 7, 1975

Mr. Kenneth E. Frick
Administrator, Agricultural Stabilization & Conservation Service
United States Department of Agriculture
Room 206-W, Administration Building
Washington, D.C. 20250

Dear Mr. Frick:

We were more than surprised to learn that the nonfat dry milk price was revised in the November CCC sales list.

Earlier this fall, you told us that the USDA's policy was to apply a 15 percent markup to the CCC purchase price of nonfat milk powder so as to provide an incentive for the industry to store adequate reserves.

After learning that the CCC had about 185 million pounds of nonfat dry milk powder which was purchased at 56.6¢ per pound, we called you back and requested the release of that powder at a 15 percent markup over the purchase price. Whereupon, you then told us that the CCC's policy was to apply a 15 percent markup to the current CCC purchase price even though the product may have been purchased at a lower price.

We objected to such a position suggesting that the 15 percent markup when applied to the actual purchase price would result in a resale price of 65.1¢ which was even then above the commercial market price but well below the then CCC resell price of 69.75 cents per pound. You responded by telling us that there was to be no variance from the CCC's policy of selling surplus commodities back to the trade at 15 percent above the current CCC purchase price. However, the new resale price for nonfat dry milk is 17.3 percent above the current CCC purchase price.

At a time when our nation's economic policies are directed toward restraining unnecessary price increases, it seems incredible that the Department of Agriculture would deliberately force the price of milk to unprecedented levels and far above those which would result from competitive market forces. Current prices to farmers will most assuredly result in increased production and decreased consumption, thus causing additional CCC purchases in early 1976. The Minnesota-Wisconsin price for 3.5% milk was $8.60 for the month of October. This is $1.78 or 26 percent above the October 1974 price.

The CCC policy of reselling nonfat dry milk at prices 15 percent above the current purchase price has resulted in market prices being over 10¢ per pound above the level which would have prevailed otherwise. This means that all milk prices, i.e., both fluid and manufacturing milk, are about 80¢ per hundredweight (6.8¢ per gallon) higher than would prevail without a CCC markup policy.

Stated another way, your refusal to apply the 15 percent markup to the actual purchase price has resulted in an 8¢ increase in the market price of powder and probably accounts for about 60 to 65¢ of the increase in the Minnesota-Wisconsin price. We urged you to establish a CCC resale price at about 65¢ per pound when the CCC purchase price was 60.6¢ and the market price was about 63¢ per pound. The market price is now equal to the CCC resale price announced in early October (71.5¢ to 72.0¢ per pound) and will probably increase at least in the eastern part of the U.S. to the new level announced last Friday.

It was obvious in September that there had been a major misjudgment in market demand resulting in a shortage of nonfat dry milk in the commercial market. There was no shortage in total production since U.S. government stocks amounted to about 480 million pounds. In short, too much powder had been sold to the CCC and not enough held in commercial channels to meet current demand. Since imports were restricted, there was no alternative but to repurchase powder from the CCC.

We contended then and actual experience has confirmed our judgment that users would purchase only minimal quantities at these unnecessarily high prices. Since repurchasing from the CCC was the only viable alternative, it was clear that USDA policies would force the entire nonfat dry milk market to the CCC resale price and furthermore that it would remain there until current production of powder was sufficient to meet current demand. It appears to us that this may happen some time in December or early January.

In addition to the Department's decision to maintain the 15 percent markup on current purchase prices, it decided to offer for resale only that powder which was produced prior to September 1, 1974; in other words, that which was over a year old.

All of this powder had been purchased at a CCC purchase price of 56.6¢. Thus, the actual markup was initially 23% instead of 15%. When the support price was raised in October 1975 and the resale price of powder was increased, the markup on this powder became 26% and now for that powder produced during the period of September 1 through December 31, 1974, the markup is 29%.

This is one of the most unnecessary inflationary policies one can imagine. These high powder prices, in spite of a tremendously burdensome surplus of CCC stocks and very, very large world surpluses (the European Community has about 2 billion pounds of surplus and world powder prices are about 20-25¢ per pound), are in addition to high butter prices and cheese prices. However, in the case of butter and cheese, the high prices are not caused by an overt and conscious policy of the USDA. They are reflecting market conditions.

We understand that CCC costs of purchasing and storing the powder now being offered for resale amount to about 1.17¢ per pound for the first month and about .53¢ per pound for each month thereafter. Thus, the cost of storage for one full year would be about 7¢ per pound. When this cost is added to the 56.6¢ purchase price, it would suggest a resale price after one year of storage of about 63.3¢ per pound. We do not know the average age of CCC's powder inventories, but it appears that a 15% markup applied to the actual purchase price would have been a reasonable course of action. However, with this most recent action, the CCC is in fact applying a 29% markup over the actual purchase price.

We were particularly dismayed to learn of the most recent decision to increase the resale price of powder produced during the period of September 1, 1974 through December 31, 1974, since you had so emphatically told us that there was to be no deflection from the 15% markup policy when we discussed the issue with you in September. Apparently, you are now following a policy of never selling below the 15% markup, but using a higher markup even above commercial market prices when you wish to do so.

In our earlier discussions, you maintained that the industry should have the right to know in advance and rely on CCC resale policies. You cited this as the primary reason for not offering even "old powder" at less than 15% of the current purchase price. However, apparently, the policy works only one way. It doesn't apply when the effect is to force market prices up.

We again request a review of the CCC markup policy and would urge that it be made to apply to the actual purchase price of the powder held in stock.

Sincerely,

Robert H. North
Executive Vice President

RHN:to

cc: Paul MacAvoy, Member, Council of Economic Advisers
Michael Moskow, Director, Council on Wage & Price Stability
Members of the Board of Directors and Officers, Commodity Credit Corporation