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Keep me posted
on this. I am opposed

~~To Export controls~~
JR 9

THE PRESIDENT HAS SEEN *dy*

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

HERBERT STEIN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

August 16, 1974

MEMORANDUM FOR THE PRESIDENT

THROUGH: Kenneth Rush, Chairman *K R.*
Cabinet Committee on Food

SUBJECT: The Crop Situation

As you know the August 12 crop report brought some bad economic news. The drought has cut back the production of major crops (wheat, feed grains and soybeans) 15 percent or more from earlier expectations. Feed grain and soybean production is now expected to be well below 1973; wheat production will be up 8 percent. On top of reduced overall production, the Nation's stocks are down as we start the new crop year. The crop situation in this country is quite serious. (See Tab A for details)

In the rest of the world grain production is holding up better. Production probably will hold at about the record output in 1973. However, because of the US shortfall world grain production will be down 2-3 percent this year instead of being up 2-3 as expected three months ago. This is about the same magnitude as the now-famous 1972 crop failures. The difference is that this time it is mainly in feed grains (not wheat and rice), it is occurring in the US (rather than Asia or other parts of the world), and grain reserves are much lower than in 1972. Unlike 1972, the impact will first hit livestock and poultry producers and this will delay the impact on consumers and direct it more to the consumption of animal products (i.e., to the high-income countries like the US).



Food Price Impact

We estimate that the US crop shortfall will add an extra 10 percent to consumer food prices over the next 12-18 months. The drought itself will bring more cattle to market for awhile, but this will be more than offset by higher priced pork, poultry, eggs, dairy products and bakery products. Coupled with food price increases from other sources, it seems clear that food will remain a thorn in the battle against inflation.

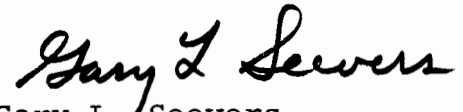
Implications for Export Policy

The Cabinet Committee on Food met August 16 and considered the implications of the crop shortfall for our export policy. There is a reluctance to consider export controls. The unfortunate experience with soybeans in 1973 demonstrated how counterproductive controls can be. To impose controls this year would have serious foreign policy costs and probably would not be very effective in reducing inflation caused by the crop shortfall. (Tab B gives arguments against export controls.)

For these reasons, and because the full dimensions of the crop shortfall and world production won't be known for several weeks, the Committee recommends a wait-and-see approach coupled with a program of intense and urgent consultations with other countries. The objective of the consultations will be to seek agreement with the principle that they (mainly Europe, Japan, Canada, USSR and Australia) should share the burden of adjustment to lower feed supplies. Otherwise, we may be forced into export controls.

There are risks of delaying a decision on export controls. They center on the fact that the Government's weekly reports on exports are almost certain to show a sharp stepup in orders. There may not be panic buying, but rather precautionary purchases in anticipation of U.S. export controls. In any case, within a few weeks orders may reach high levels. This will accentuate already widespread pressures calling for "imposition of controls as the only reasonable course of action to protect consumers and American livestock producers from the ravages of the world market". To be forced to controls after orders exceed tolerable export levels could be much more disruptive than going to controls now before orders are high. (Tab C spells out these risks in greater detail.)

The US crop shortfall also has adverse implications for PL 480 programming in fiscal year 1975, and beyond, as well as this country's position at the World Food Conference in November. These issues are being prepared for your consideration.

A handwritten signature in cursive script that reads "Gary L. Seevers".

Gary L. Seevers
Member

Domestic Crop Outlook

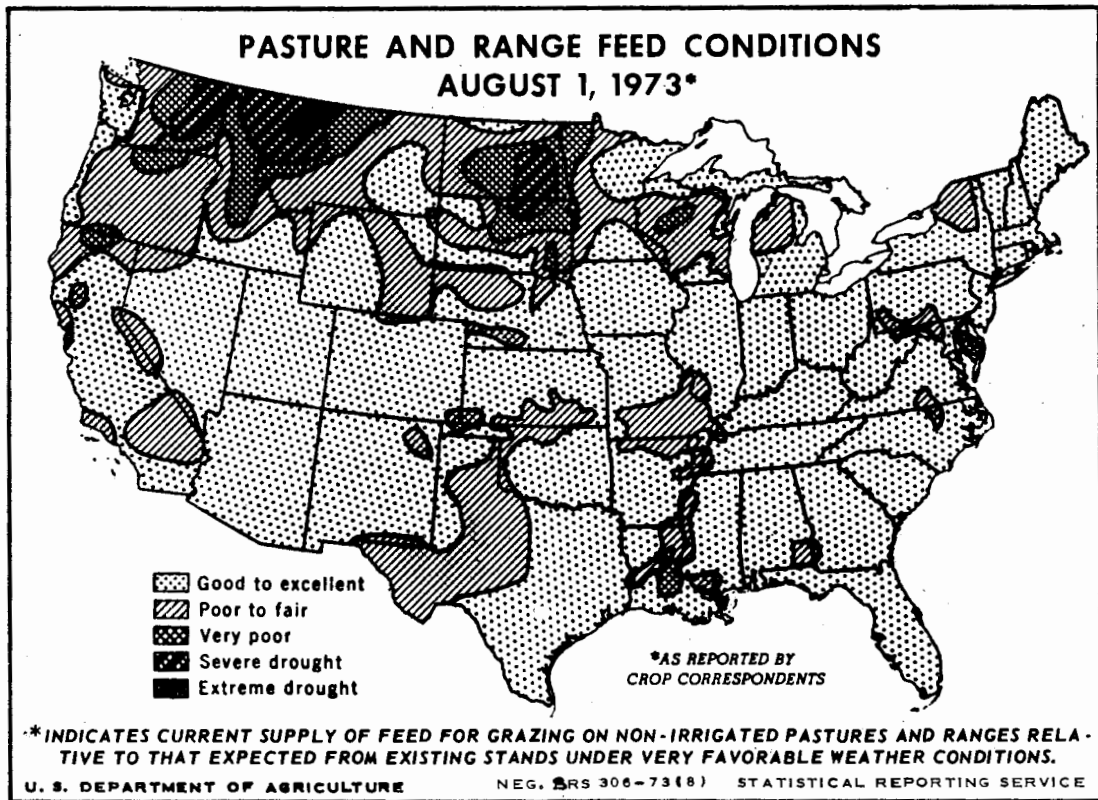
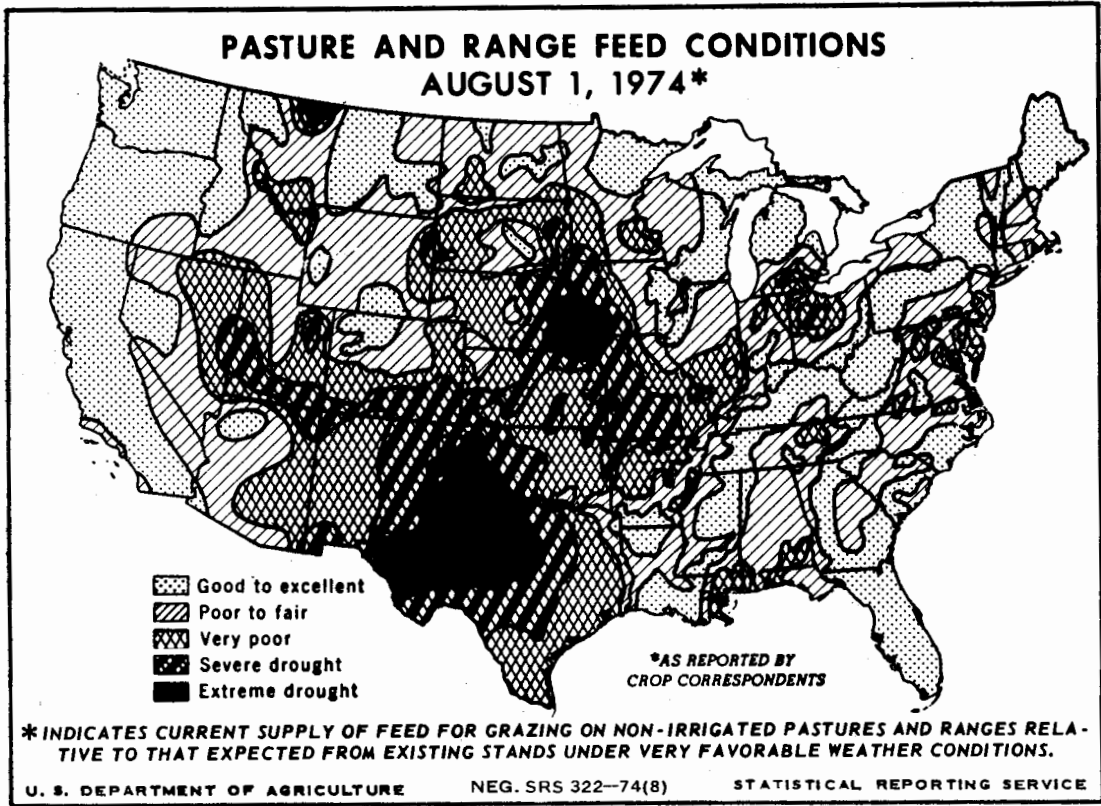
In the tables attached the most recent official forecasts of the 1974 crop are compared with earlier years, and with earlier 1974 forecasts. Grain and soybean production is forecast to be down 15 percent from expectations as recently as a month ago, and will (except for wheat) be substantially below 1973. There is a common expectation that actual production will be above the August 1 forecast: for feed grains the adjustment will be minor and will not change the present position; for soybeans, the adjustment could be significant; for both, early frosts would bring additional damage because they were planted late in many areas.

Wheat supplies will remain tight for another year. Production is up but beginning stocks are down. Export demand has been relatively weak to date. On the whole, wheat is in better shape than feed grains. (Table 1.)

Corn and feed grains are extremely tight. Both exports and domestic consumption will have to decline. This will mean a significant contraction in our livestock feeding industry. The contraction will be less severe the more livestock feeding abroad shares in the reduction of feed consumption. (Table 2.)

The soybean situation is about the same as feed grains, perhaps not quite as tight because the improved weather since August 1 will have more beneficial effect. (Table 3.)

Export orders have been running well behind 1973 when there was panic buying. A concern is that the shortfall and possibility of export controls will generate speculative buying. (Table 4.)



Corn progressed slowly as limited soil moisture supplies and hot, dry weather particularly in the western Corn Belt through much of July continued to put stress on this year's crop. The adverse weather condition has ruined many corn fields in the western areas of Iowa and pollination has been very poor. Other areas of the State have also been hurt but to a lesser degree. Drought in Missouri caused many fields to deteriorate to the point where some will be abandoned, and many have been or will be cut for silage, particularly in the northwest part where conditions are the poorest. Corn conditions in the major producing areas of South Dakota range from very poor to fairly good. Pollination was extremely poor and corn slow to mature in Nebraska and condition is varied. Irrigated corn is reported fair to good in most counties and over 80 percent silked. However, dryland corn was reported poor in nearly 80 percent of the counties, tasseling very short and only 50% silked. In Kansas reported condition on August 1 was the lowest for the past 20 years as the State received less than one-fourth the normal rainfall. Sharp losses in acreage for grain are expected for non-irrigated corn in the important eastern counties. The Minnesota crop was generally in only fair condition on August 1 as hot, dry weather during most of July put considerable stress on the crop. Rains late in July and early August should improve prospects.

Dry July weather in the eastern Corn Belt faded prospects that were dimmed earlier by the slow planting season and heavy rains in Indiana and Illinois. Excessive May and June precipitation in these two States drowned out some acreage and stunted growth in the early planted fields. Yield per acre prospects are 13 percent below last year for the region with the largest declines in Indiana and Illinois. Development of the crop is slightly behind normal in Ohio and Wisconsin with about 70 percent silked compared with an average of 75 percent. Half of the acreage is silking in Indiana compared with the average of 80 percent, and 70 percent of the Illinois acreage is silking, well below the average 92 percent.

Southern corn crop prospects have been diminished by hot, dry weather during July. Generally, the early planted fields fared better than later plantings. Later fields were in the critical tasseling and silking stage. In Kentucky, corn is generally in fair condition and progress is ahead of last year. The hot, dry weather during July caused poor pollination in some late planted fields. Hot, dry weather hit the North Carolina crop as it was tasseling and silking. Moisture was short as of August 1 and put some corn under considerable stress.

SORGHUM: Sorghum for grain production is forecast at 619.0 million bushels, down 34 percent from last year's record 936.6 million bushel production and 24 percent less than the 1972 production of 809.3 million bushels.

Sorghum to be harvested for grain, at 13.6 million acres, is 15 percent less than last year but 2 percent above the 1972 acreage. Yield per harvested acre is expected to average 45.6 bushels, down sharply from last year's 58.8 bushels and the lowest since 1964. Changes in production forecasts from August 1 to the final estimate have averaged 36.8 million bushels over the past decade, ranging from 3.7 million to 127.6 million bushels.

All major producing States are expecting lower yields this year. Texas, the largest sorghum for grain producing State, is expecting a 10-bushel reduction from last year. Yields in Kansas and Nebraska, the second and third largest States, are expected to be 21 and 23 bushels less than last year, respectively.

Harvest of the sorghum crop in Texas is 40 percent complete, nearly double last year's progress. Kansas sorghum is 20 percent headed, the same as 1973 but 5 points less than normal. Nebraska's crop development is later than normal and is 40 percent headed.

OATS: Production of oats is now forecast at 638.0 million bushels, 4 percent less than 1973 and 8 percent less than 1972. Yield per harvested acre is forecast at 47.0 bushels, the same as last year but below the 51.2 bushel average in 1972. During July prospects declined in all North Central States except Michigan, Nebraska and Iowa. Hot, dry and windy weather reduced North and South Dakota yields 5 bushels from a month earlier.

Acreage to be harvested for grain at 13.6 million acres is 4 percent less than last year but slightly more than 1972. Changes between the August 1 production forecast and the final estimate for the U. S. have averaged 28 million bushels for the past 10 years, ranging from 4 to 58 million bushels. The August 1 estimate has been above the final estimate 7 times by an average of 35 million bushels, and below the final estimate 3 times by an average of 12 million bushels.

ALL WHEAT: Production of all wheat is forecast at a record 1,840 million bushels, 8 percent more than last year's record crop and 19 percent above the 1972 crop. Changes between the August 1 forecast and final estimates have averaged 17.9 million bushels during the past decade - ranging from 2 million to 60 million bushels. In 7 of the ten years, the August 1 forecast was above the final by an average of 20 million and 3 times it was below by an average of 13 million bushels.

Acreage of all wheat for harvest, at 64.1 million acres, is 19 percent above last year and the largest since 1953 when 67.8 million acres were harvested. The indicated yield of 28.7 bushels per acre is below both the 1973 average of 31.8 and the 1972 average yield of 32.7 bushels.

Table 1

Wheat
(Million Bushels)

Crop Year	Production	Supply	Exports	Domestic Use	Carryover
1970	1,352	2,237	737	769	731
1971	1,618	2,349	631	855	863
1972	1,545	2,409	1,184	785	439
1973	1,711	2,154	1,147	757	249
1974 forecasts:					
March	2,073	---	---	---	---
July	1,925	---	---	---	---
August	1,840	2,090	*950	*783	*357

*Mid-point of range.

Table 2

Corn
(Million Bushels)

Crop Year	Production	Supply	Exports	Domestic	Carryover
1970	4,152	5,161	517	3,977	667
1971	5,641	6,309	796	4,387	1,126
1972	5,573	6,700	1,258	4,733	709
1973	5,643	6,353	1,225	4,700	428
1974 fore- casts:					
March	6,674	---	---	---	---
July	*6,150	---	---	---	---
August	4,966	5,395	*825	*4,220	*350

All Feed Grains
(Million short tons)

1970	160.1	209.1	20.7	155.2	33.2
1971	207.7	241.4	27.3	165.7	48.4
1972	199.9	248.7	43.1	173.2	32.4
1973	205.0	237.7	43.7	173.4	20.6
1974 fore- casts:					
March	233.9	---	---	---	---
July	*215.3	---	---	---	---
August	174.6	195.6	*26.8	*154.6	*14.3

*Mid-point of range.

Table 3

Soybeans
(Million Bushels)

Crop Year	Production	Supply	Exports	Domestic Use	Carryover
1970	1,127	1,357	434	82	99
1971	1,176	1,275	417	786	72
1972	1,271	1,343	480	803	60
1973	1,567	1,627	550	917	160
1974 forecasts:					
March	1,540	---	---	---	---
July	*1,430	---	---	---	---
August	1,314	1,474	*525	*874	*75

*Mid-point of range.

Table 4

Reported Undelivered Export Sales

	<u>August 3, 1973</u>	<u>August 4, 1974</u>	<u>7/28/74</u>
	(million bushels)		
<u>New Crop Sales</u>			
Corn			
Known destination	796	310	
Unknown destination	320	163	
Total	<u>1,116</u>	<u>473</u>	330
Wheat			
Known destination	809	300	
Unknown destination	302	9	
Total	<u>1,111</u>	<u>309</u>	345
Soybeans			
Known destination	496	264	
Unknown destination	130	99	
Total	<u>626</u>	<u>363</u>	275
Soybean Meal (1,000 m.t.)			
Known destination	4,032	1,568	
Unknown destination	2,064	1,920	
Total	<u>6,096</u>	<u>3,489</u>	1,872

B

Arguments Against Export Controls

1. Controls would be bad foreign policy; specifically
 - a) USG has objected to export controls on oil; and other products; since controls on grains are the same in principle, USG would be subject to severe and justified criticisms. A year ago was different. We could have instituted a controls program and increased our exports; this year our exports will decline even without controls.
 - b) USG is trying to get more open and equitable trading system; controls run the opposite way.
 - c) Would put USG in unfavorable light for upcoming World Food Conference.
2. Controls would be bad economics.
 - a) Cannot control only feed grains, or even all grains; demand will spill over to other nonfood commodities, processed grains and even to consumer foods. It is conceivable that tight controls on feeds would lead to controls on exports of broilers and other feed-intensive foods.
 - b) Controls probably would depreciate the value of the dollar, thus making imports more expensive; thus, they are not really as anti-inflationary as they seem on the surface.

- c) Controls would be harmful to established export markets; in most years it is strongly in our interest to have open access to markets abroad. USG policy has for many years worked to develop these markets -- do we want to now start to throw away these efforts?
3. Controls would make it difficult to have a PL 480 program because of legislation requirement that PL 480 commodities must be declared in excess supply.

Risks In Agriculture's Proposed Program

First, Agriculture's program gives U.S. animal feeders no assurance of needed feed supplies at any minimum level. It thus does not allay the concern the crop figures have caused.

Second, if we take Agriculture's present estimates of exports as a target level, they are not realistic.

(1) Agriculture's program means a 15% annual rate of inflation on food prices during 1974/75.

(2) It means substantial distress liquidation of herds and flocks this fall.

Thus, we are almost certain to have to change policies, probably this fall. In the meantime, speculative pressures would have built up. Outstanding export contracts -- which are already close to or above the total amount of corn available for export without reducing U.S. use -- would be well above even the reduced export levels expected under the recommended program. We would find ourselves forced into another soybean-type crisis. Export contracts would need to be cut back. Our trading partners would, once again, be told that they can not depend on the U.S. to supply needed supplies which they had thought assured to them by the statements we will make now.

Third, if we were to try to use the recommended program to cut exports further than Agriculture now proposes, it would not work. It supposes voluntary agreements by major grain trading countries to share the burden of adjusting to the short U.S. corn crop. Past experience has repeatedly shown that such sharing of adversity is unlikely. This is especially unlikely as the partition of the burden would be shared unequally by U.S., Japanese and European livestock producers. The scheme would be perceived to be unfair by those at home and abroad whose cooperation is needed to make it work.

Specifically, the program would require:

(1) That the Japanese adopt a policy to reduce livestock numbers and hence production so as to share the "necessary livestock adjustment" with the U.S.

(2) That the EC, on the other hand, agree to subsidize feeding of wheat to their livestock so as to decrease European demand for U.S. corn without requiring that European farmers share adjustment in livestock numbers with U.S. and Japanese livestock producers.

(3) That the USSR agree to forego imports of feedgrains this year and perhaps even become an exporter. The USSR would also be expected to supply India with several million tons of wheat.

(4) That grain marketing boards in Canada, Australia, the Union of South Africa and Argentina forego the temptation to hold back exports of feedgrains so as to push up prices and maximize returns.

It is too much to expect that all of the above would take place. Without a policing mechanism in our hands we could only hope that foreign traders would agree to cooperate in such a situation. Countries which are most cooperative would stand to suffer the most hardships, while those which do not cooperate would stand to gain. The burden of the short crop would not be equally shared, and the U.S. consumer would bear too much of it.

THE WHITE HOUSE
WASHINGTON

September 3, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: KENNETH RUSH
 GARY L. SEEVERS

FROM: JERRY H. JONES

SUBJECT: The Crop Situation

Your memorandum to the President of August 16 on the above subject has been reviewed and the following notation was made:

-- Keep me posted on this. I am opposed to export controls.

Please follow-up with the appropriate action.

Thank you.

cc: Al Haig